



REPORT OF

THE

STATE AUDITOR

Homeland Security Grant Program

Performance Audit
October 2005

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This report contains the results of a performance audit of the Homeland Security Grant Program. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Departments of Local Affairs and Public Safety.

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**Homeland Security Grant Program
Performance Audit
October 2005**

Authority, Purpose, and Scope

This performance audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit work was conducted from December 2004 through October 2005 in accordance with generally accepted government auditing standards. During this audit we evaluated the State's administration of the Homeland Security Grant Program for compliance with relevant federal grant requirements. This included evaluating program activities such as planning, allocating grant funding, disbursing grant funds to subrecipients, monitoring subrecipients, and managing grant data and information.

Background

The Homeland Security Grant Program (Program) is a federal assistance grant program administered by the U.S. Department of Homeland Security, Office for Domestic Preparedness. The Program provides federal funding to help states and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism. State governors appoint a State Administrative Agency (SAA) responsible for managing and administering homeland security grant funds in accordance with established federal guidelines. The SAA also serves as the pass-through entity for funds subgranted to local, regional, or other state government agencies. The Office of Preparedness, Security, and Fire Safety within the Department of Public Safety (DPS) served as the SAA from September 2002 through the end of State Fiscal Year 2004. Effective July 1, 2004, the Division of Emergency Management within the Department of Local Affairs (DOLA) became the SAA for Colorado. To date, Colorado has received a total of approximately \$138 million in federal homeland security grant funds and awarded grants to about 350 state and local agencies. As of the end of our audit, about \$132 million (96 percent) of these funds had been obligated and about \$66 million (48 percent) had been expended.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Summary of Audit Findings

Grant Awards

According to the 2002 National Strategy for Homeland Security, the strategic objectives of homeland security, in order of priority, are to prevent terrorist attacks within the United States; reduce America's vulnerability to terrorism; and minimize the damage and recover from any potential attacks. The Homeland Security Grant Program was designed to accomplish these objectives by delivering substantial resources to state and local governments quickly and strategically. We reviewed the State's processes for strategic planning, soliciting and reviewing grant applications, and awarding federal homeland security grant funds and found:

- **The State's Homeland Security Strategy and fund allocation methodology need to address the State's risks, needs, and priorities more effectively.** The Homeland Security Grant Program guidelines provide that states are to allocate grant funds in accordance with their State Homeland Security Strategy. We found that for the 2003 and 2004 grant cycles, the State lacks reliable data to evaluate whether \$71.5 million in homeland security grant funds were allocated in accordance with corresponding state strategies. For the 2005 awards, we found that certain important homeland security needs identified in the 2005 State Strategy received minimal funding. For example, although the 2005 State Strategy indicates that infrastructure protection should be a priority in any funding plan, only \$300,000, or 1.2 percent of the \$24.5 million awarded to local and state agencies in 2005, was awarded for critical infrastructure protection. Further, only two of the nine All-Hazards regions and none of the state agencies requested funding for critical infrastructure protection. We also found that funding allocations generally were not correlated with available risk assessment data. With the exception of the North Central Region (including the Denver Metropolitan Area), there was no relationship between the 2004 and 2005 funding allocations and risk scores for the other eight regions in the State. Finally, although available risk assessment data identified physical security enhancement equipment as a category of significant need statewide, only \$700,000, or 2 percent of the \$43 million awarded in 2004 and 2005 for equipment purposes, was for physical security enhancement equipment.
- **Practices for soliciting and awarding funds need improvement.** We found that clearly defined criteria were not used to evaluate grant applications, and that grant applicants were not required to support their funding requests with analysis of available risk and needs assessment data. We also found that in the 2005 grant cycle, each All-Hazards region received guaranteed base funding of \$750,000, regardless of identified risks or needs, and that most regions received automatic funding for all items requested from the guaranteed base amount. Total base funding represented more than one-third of the approximately \$19.6 million available to the regions in 2005. Finally, we found that there is disagreement and confusion over the role and responsibility of Grant Advisory Committees used in the

funding process, and that conflict of interest and other standards were neither adhered to nor consistently enforced.

Grant Expenditures

The rapid influx of homeland security grant funds distributed to multiple subrecipients over a relatively short period of time presents risks that homeland security monies will not be spent appropriately. We reviewed internal controls over grant expenditures and found controls need to be improved at both state and local levels:

- **Detailed grant information should be more easily accessible, accurate, and complete.** We reviewed grant files, staff-maintained spreadsheets, and the State's accounting system (COFRS) for the 2002, 2003, and 2004 grants and found grant information and files were in disarray. We identified discrepancies totaling \$250,000 between various data sources. We also found that not all grant award letters were on file, and that grant data were maintained in multiple systems, requiring duplicate data entry.
- **Controls over purchases and payments need to be improved.** Of the \$15.8 million in grant expenditures we reviewed during our audit, we identified about \$2 million in questioned costs (i.e., costs that appeared to be unallowable, unreasonable, or that lacked sufficient supporting documentation at the time of the audit). Questioned costs related to purchases included: a \$1.6 million grant award provided in exchange for state building space; \$236,000 in administrative expenses; \$98,000 for unallowable items including a passenger bus, general-use computer software, indirect cost recoveries, and facility renovation; and \$7,000 for items that could not be tied to approved grant budgets. Questioned costs related to payments included \$88,000 in grant expenditures for which subrecipients lacked vendor invoices, proof of vendor payment, or both. Finally, we found that nearly \$1.7 million in homeland security grant funds were not spent in accordance with federal cash management guidelines, resulting in a potential interest liability for the State.
- **Proper controls are needed to ensure that equipment purchased with homeland security grant funds is maintained and ready for deployment in the event of an incident, and that exercises funded with grant funds are completed.** We conducted site visits to 20 subrecipient agencies and identified 6 subrecipients (30 percent) with equipment that was not ready for deployment. Equipment was still in storage and awaiting distribution for several months after receipt at four locations, and communications equipment was damaged at two locations. We also identified three subrecipients who reverted a total of about \$85,500 in exercise funds to the State after the funds sat idle for several months.

Statewide Coordination

In 2003 DOLA began planning a State Multi-Agency Coordination Center (MACC) to address the State's infrastructure and capacity for coordinating prevention and response to emergencies and acts of terrorism. In December 2004 DOLA moved its Emergency Operations Center and Division of Emergency Management from "The Bunker" at Camp George West in Golden, Colorado, to the second floor of South Metro Fire Rescue District's (South Metro) administrative office building in the Denver Tech Center. To finance the acquisition and build out of the MACC, DOLA awarded \$5.9 million in federal and state grants to South Metro. We reviewed the substance of these grant awards and found:

- **DOLA used \$5.9 million in grant funds, funneled through South Metro, to pay for a state building project.** On paper, DOLA granted funds to South Metro. Substantively, DOLA used these funds for its own purposes to further the acquisition, improvement, and security of the State's MACC office space. The \$5.9 million in grant funding awarded to South Metro included: (1) \$1.6 million in 2004 State Homeland Security Grant funds to make a significant advance payment toward the purchase price of the second floor of South Metro's administrative building; (2) \$1.6 million in 2003 Part II State Homeland Security Grant funds to finance the State's structural security enhancements to the MACC building; (3) \$1.7 million in 2004 and 2005 Energy and Mineral Impact Assistance Grants for the design and build out of the State's office space at the MACC; (4) \$933,000 in 2003–2005 Chemical Stockpile Emergency Preparedness Program Grants for equipping the State's Emergency Operations Center and Colorado Information Analysis Center. DOLA's actions lacked transparency, reduced the availability of funds for local governments' homeland security and mineral impact needs, and bypassed federal and state laws and regulations.
- **DOLA did not comply with state statute and fiscal controls.** Substantively, DOLA prepaid all 20 years of its base rent obligations to South Metro (i.e., made a significant advance payment toward the purchase price of the MACC office space) without complete review and approval by authoritative bodies of state government. First, DOLA used an award of homeland security grant funds to make a \$1.5 million advance payment toward the purchase price of its office space without first having the facilities appraised as required by state statute. Second, DOLA's acquisition and equipping of the MACC was not reviewed or approved by the Joint Budget Committee prior to DOLA executing a sublease with South Metro and awarding all grant funds. Third, DOLA did not inform the State Controller's Office when, prior to signing the sublease, the federal Office of Justice Programs disallowed the use of homeland security grant funds to prepay its long-term lease. Finally, a number of legal issues surrounding the sublease are in question and need to be resolved to ensure the State's interests are fully protected.
- **Controls over furniture and equipment inventories purchased with grant funds are lacking.** Grant funds were awarded to South Metro to purchase equipment for use in the

State's Emergency Operations Center and office space. As a result, there was confusion between DOLA and South Metro as to who owned the approximately \$1.5 million in furniture and equipment purchased for the MACC. As of the end of our audit, neither DOLA nor South Metro had a complete inventory of all furniture or equipment purchased with the grant funds.

- **Security and cost-benefit issues were not fully considered before spending \$5.9 million to move the State Emergency Operations Center to the MACC.** DOLA signed an agreement to acquire space for the MACC before it completed a security analysis of the above ground, nearly all-glass structure. Additionally, DOLA did not perform a cost-benefit analysis comparing the estimated cost of renovating its Camp George West facilities with the cost of obtaining and equipping the space in South Metro's building, or other potential locations for the MACC.

Our recommendations and the responses of the Departments of Local Affairs and Public Safety can be found in the Recommendation Locator.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	21	More effectively utilize the State Homeland Security Strategy as the basis for allocating grant funding. This should include analyzing risk and needs assessment data to establish and communicate statewide funding priorities; assessing regional priorities against statewide priorities; continually updating and validating risk and needs data; and implementing a plan to monitor progress and to adapt the State Homeland Security Strategy and funding distribution mechanisms as risks, needs, and priorities change.	Department of Local Affairs	Agree	Implemented and Ongoing
			Department of Public Safety	Agree	Ongoing
2	25	(a) Establish and communicate clearer evaluation and review criteria to potential applicants; (b) require grant applicants to use risk and needs assessment data to support funding requests; (c) eliminate the use of base funding amounts; (d) develop standard scoring tools for evaluating grant applications; and (e) ensure that applications from state agencies receive sufficient exposure during review of regional grant applications.	Department of Local Affairs	a. Agree	a. Implemented and Ongoing
				b. Agree	b. June 2006 and Ongoing
				c. Disagree	c. —
				d. Partially Agree	d. June 2006
				e. Agree	e. June 2006
3	29	Determine the reasonableness and appropriateness of cost estimates contained in proposed budgets. Establish policies and procedures for reallocating surplus grant funds to the next highest unfunded priority.	Department of Local Affairs	Agree	Implemented and Ongoing
4	32	Work with relevant stakeholders to better define the role and responsibilities of the Grant Advisory Committee. Establish and adhere to written guidelines addressing the composition and conduct of the Grant Advisory Committee.	Department of Local Affairs	Agree	June 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	36	Capture the data necessary to facilitate analysis and reporting on grant awards and expenditures, and measure overall progress toward achieving goals in the State Homeland Security Strategy. Ensure that grant information is reconciled on a regular basis; eliminate duplicate tracking of grant award data; and strengthen controls over hard copy grant file documentation.	Department of Local Affairs	Agree	Implemented and Ongoing
6	43	Review grant applications and awards for unallowable or unreasonable activities; modify grant budget and reimbursement request forms to link reimbursements to budget line items; improve review of reimbursement requests and payments to subrecipients; establish controls over the use of administrative funds; and strengthen supervisor review of reimbursement requests.	Department of Local Affairs	Agree	Implemented and Ongoing
7	44	Develop standard monitoring tools and checklists to monitor subrecipients through regular site visits and desk reviews. Develop standard procedures for follow-up and corrective action.	Department of Local Affairs	Agree	Implemented and Ongoing
8	46	Establish policies and procedures for the appropriate storage, use, maintenance, repair, and overall readiness of equipment purchased with homeland security grant funds.	Department of Local Affairs	Agree	Implemented and Ongoing
9	48	Establish clear written cash management policies and procedures; test for compliance with cash management requirements in subrecipient monitoring programs; and ensure the availability of federal funds for drawdown prior to reimbursing subrecipients.	Department of Local Affairs	Agree	Implemented and Ongoing

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
10	50	Require subrecipients to provide more detailed planning information for exercise funds; provide more direct logistical support to subrecipients awarded exercise funds; and improve monitoring and oversight of exercise awards.	Department of Local Affairs	Agree	Implemented and Ongoing
11	58	Work with the appropriate federal and state oversight agencies to evaluate questioned costs associated with the State's MACC and determine whether repayment of grant funds used to finance the MACC is necessary.	Department of Local Affairs	Agree	January 2006
12	58	Consider statutory revisions to formalize grant processes and strengthen controls over DOLA's discretionary grant programs. Options include prescribing more formal grant review processes and changing advisory committees to decision-making bodies with increased authority over funding decisions.	Department of Local Affairs General Assembly	Disagree -	- -
13	61	Work with the State Controller's Office, the Joint Budget Committee, and the Attorney General's Office to seek review and approval of the sublease, resolution, and its acceptance by DOLA, and take additional steps, as needed, to ensure the State's interests are protected. Complete development of a formal agreement for the Department of Public Safety's occupancy of the space. Ensure accountability for and transparency in grant administration processes.	Department of Local Affairs	a. Partially Agree b. Agree c. Agree	a. Implemented and Ongoing b. December 2005 c. Implemented and Ongoing

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
14	66	Review all South Metro grant expenditures to date, and reclassify expenditures as necessary to ensure that expenditures are paid from the appropriate grant award. Work with South Metro to inventory equipment.	Department of Local Affairs	a. Agree b. Agree	a. Implemented and Ongoing b. December 2005
15	68	Ensure that large-scale decisions involving public funds include a full assessment of the costs and benefits and are fully vetted through the appropriate state and federal oversight agencies. Consider working on an agreement that provides the State with input or control over the types of tenants that could occupy South Metro's building in the future.	Department of Local Affairs	a. Agree b. Agree	a. Ongoing b. December 2005

Overview of the Homeland Security Grant Program

Background

Spurred by the events of September 11, 2001, Congress, state and local politicians, first responders, and the general public have become increasingly aware of the need to enhance the Nation's security and improve preparedness for terrorist incidents. In July 2002 the President issued the National Strategy for Homeland Security. The National Strategy states that Homeland Security is a concerted effort to prevent terrorist attacks within the United States and reduce America's vulnerability to terrorism, as well as to recover from attacks that do occur. Financing to support this effort has come primarily through federal assistance grants to the states. The Homeland Security Grant Program (Program) is the primary source of funding provided by the federal government to help enhance state and local jurisdictions' capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism.

Prior to the events of September 11, a number of federal agencies, including the U.S. Departments of Defense and Justice, offered and managed first responder preparedness and equipment grants to states. In March 2003 these various preparedness grant programs were transferred to and consolidated within the U.S. Department of Homeland Security, Office for Domestic Preparedness (ODP). ODP is the federal awarding agency for the Homeland Security Grant Program, providing programmatic guidance and oversight. During our audit the Office of Justice Programs (OJP) within the U.S. Department of Justice was the financial comptroller, providing fiscal guidance and oversight for the homeland security grants. As of October 1, 2005, the Office of Grant Operations within the U.S. Department of Homeland Security assumed many of the functions previously performed by OJP.

Through the years, the various grant programs expanded from primarily funding equipment to also include funding for prevention, training, planning, preparedness exercises, and administration. Allowable program activities include purchasing specialized equipment for first responders or for protecting critical infrastructure; acquiring specialized training; conducting preparedness exercises; and planning and administration related to implementing state homeland security strategies.

State Administrative Agency

State governors appoint a State Administrative Agency (SAA) to administer the Homeland Security Grant Program. Each of the different homeland security grants has its own set of federal guidelines that instruct states how grant funds can and cannot be used. The SAA is responsible for managing these grants in accordance with established federal guidelines. The SAA is also the pass-through agency for funds subgranted to local, regional, and other state government agencies. This means the SAA is responsible for allocating the State's federal award to state and local agencies and overseeing grant expenditures to ensure compliance with the appropriate federal grant guidelines.

Two state agencies have served as the SAA for Colorado. From September 2002 through the end of State Fiscal Year 2004, the Office of Preparedness, Security, and Fire Safety within the Department of Public Safety (DPS) served as the SAA for Colorado. Effective July 1, 2004, the Division of Emergency Management within the Department of Local Affairs (DOLA) became the SAA for Colorado. Under the terms of the transfer, DPS maintains responsibility for administration of the 2002 grants and DOLA is responsible for the 2003, 2004, 2005, and future grants. The Department of Local Affairs currently has five full-time positions that administer the Homeland Security Grant Program.

Fiscal Overview

The Homeland Security Grant Program comprises several different federal grants flowing to the State. In general, these federal grants are awarded on the basis of the State's population. Unlike some other federal grant programs, the Homeland Security Grant Program does not require matching funds from state or local governments. Each year, the federal government has combined additional prevention and preparedness grants into the Homeland Security Grant Program in an effort to streamline state application processes and eliminate duplicity of funding efforts. As shown in the following table, to date Colorado has received nearly \$138 million in federal awards through the Homeland Security Grant Program.

Homeland Security Grant Program Federal Grant Awards and Expenditures <i>2002 Through 2005 Grant Cycles</i> (Dollars in Millions)				
Federal Grant Program	Total Federal Award	Grant Performance Period	Total Funds Expended (as of 9/17/05)	Percent of Award Expended
2002 State Domestic Preparedness Program	\$5.2	8/2002 – 7/2005	\$5.2	100%
2003 Homeland Security Grants ¹	\$50.2	4/2003 – 3/2006 ²	\$35.3	70%
2004 Homeland Security Grants ³	\$45.5	12/2003 – 11/2006	\$22.7	50%
2005 Homeland Security Grants ⁴	\$36.8	10/2004 – 3/2007	\$2.5	7%
Total Grant Funds	\$137.7		\$65.7	48%

Source: Office of the State Auditor’s compilation of grant data from federal grant award notices and expenditure data from the Colorado Financial Reporting System (COFRS).

¹ Includes funding provided through the 2003 State Homeland Security Grant Part I (\$9.5 million) and Part II (\$25.1 million), and the 2003 Urban Areas Security Initiative (\$15.6 million).

² Range represents the earliest starting and latest ending dates of the various performance periods for the 2003 grants.

³ Includes funding provided through the 2004 State Homeland Security Grant Program (\$28.0 million), Law Enforcement Terrorism Prevention Program (\$8.3 million), Citizen Corps Program (\$0.6 million), and Urban Areas Security Initiative (\$8.6 million).

⁴ Includes funding provided through the 2005 State Homeland Security Grant Program (\$17.8 million), Law Enforcement Terrorism Prevention Program (\$6.5 million), Citizen Corps Program (\$0.2 million), Urban Areas Security Initiative (\$8.7 million), Emergency Management Performance Grant Program (\$2.9 million), and Metropolitan Medical Response System Program (\$0.7 million).

Awards to State and Local Agencies

Most of the federal funding provided through the Homeland Security Grant Program is earmarked for use by local governments. Grant guidelines typically require the State to pass through about 80 percent of the total funding to local government agencies. The remaining balance of funds may be retained for use by state government agencies. Grant guidelines also permit the State to use a portion of its funds, typically about 3 percent (depending on the grant), for administrative costs.

Once ODP awards grant funds to the State, the SAA solicits applications from local, regional, and state government agencies interested in receiving subrecipient awards. The grant application and approval processes have changed significantly since the first grants were awarded in 2002. Under the 2002 and 2003 grant cycles, local government units applied to the State directly. In most cases, applications from local governments were independent of one another. In July 2003 the Governor issued an

The table below shows a breakdown of \$118.5 million in funding awarded under the 2002–2005 homeland security grants by type of program activity (e.g., equipment, exercises, training, planning, and administration). This table does not include \$19.2 million of the approximately \$138 million in total funding awarded to the State due to unavailable data and inconsistent reporting categories on some of the grants. Of the \$118.5 million awarded for which we have data allowing a consistent comparison, about \$94.9 million (80 percent) was for the purchase of equipment. Homeland security planning efforts received the next highest level of funding (about 11 percent of the funds awarded).

Homeland Security Grant Program Grant Funds Awarded by Program Activities <i>2002 Through 2005 Grant Cycles</i> (Dollars in Millions)		
	Total Funds Awarded	Percent of Total Funds Awarded
Equipment	\$94.9	80%
Planning	\$13.4	11%
Training	\$3.5	3%
Exercises	\$3.4	3%
Management and Administration	\$3.3	3%
Total	\$118.5	100%
Source: Office of the State Auditor’s compilation of COFRS data, as well as data prepared and reported by the Department of Local Affairs in the 2004 and 2005 Initial Strategy Implementation Plan report to the U.S. Department of Homeland Security. Note: Figures do not reflect \$15.6 million in funding through the 2003 Urban Areas Security Initiative, \$2.9 million in funding through the 2005 Emergency Management Performance Grant, or \$0.7 million in funding through the 2005 Metropolitan Medical Response System due to unavailable data and inconsistent reporting categories on these grants.		

Audit Scope and Methodology

During our audit we reviewed the State’s administration of the Homeland Security Grant Program for compliance with relevant federal grant requirements. This included evaluating program activities such as planning, allocating grant funding, making payments to subrecipients, monitoring subrecipients, and managing grant data and information. We analyzed data, reviewed documentation, and interviewed

program staff at the Departments of Local Affairs and Public Safety. We observed the 2005 Grant Advisory Committee proceedings and interviewed Committee members. We also conducted a survey of six other states' homeland security grant programs.

We reviewed documentation at the state level for a sample of 79 reimbursements paid to subrecipients—46 from DPS paid during State Fiscal Year 2004 and 33 from DOLA paid during State Fiscal Year 2005. These 79 reimbursements had a total value of about \$15.8 million and, at the time we drew our sample in February 2005, represented 55 percent of the approximately \$28.9 million in total expenditures made under the Homeland Security Grant Program. The reimbursements selected often included multiple transactions and purchases from vendors. An additional \$36.8 million in homeland security grant funds were expended between the time we drew our sample and September 17, 2005. These funds will be tested for compliance as part of our 2005 and 2006 Statewide Single Audits.

In addition, we conducted site visits to 20 state and local agency subrecipients to interview project directors and fiscal agents. We reviewed supporting documentation at the subrecipient level for 35 of the 79 reimbursements we sampled totaling \$9.8 million. Our site visits to local agencies took place in six of the nine All-Hazards regions. We interviewed the Regional Coordinator in each of the nine regions.

Finally, we reviewed transactions related to the financing and build out of the new State Multi-Agency Coordination Center (MACC). According to DOLA, the MACC brings together federal, state, and local agencies in one location to support a coordinated homeland security and all-hazards emergency management operation.

Grant Awards

Chapter 1

Overview

According to the President's 2002 National Strategy for Homeland Security, the strategic objectives of homeland security, in order of priority, are to prevent terrorist attacks within the United States; reduce America's vulnerability to terrorism; and minimize the damage and recover from potential attacks. The Homeland Security Grant Program (Program) was established to finance these strategic objectives. The Program was implemented quickly at both the federal and state levels and was designed to rapidly deliver substantial resources at the local level, while holding states accountable for distributing and managing funds effectively.

Since September 2002, Colorado has received nearly \$138 million in federal homeland security grant funds to apply toward achieving the President's objectives. These funds are intended to be used strategically since no state can prepare for every possible terrorist attack, disaster, or major emergency. Additionally, homeland security funds are limited, and there is no guarantee that the federal government will continue to fund these grants at current levels. Therefore, it is crucial that the State have mechanisms in place to ensure that homeland security dollars are allocated effectively.

During our audit we reviewed the State's processes for strategic planning, soliciting and reviewing grant applications, and awarding federal homeland security grant funds. Although Colorado has made significant progress in its homeland security planning and preparedness efforts, as we describe in this chapter, we found that the State could do more to identify the State's most critical risks, needs, and priorities and to ensure that funds are directed effectively to address them.

Fund Allocations

According to federal guidance provided to the states, "Ours is a nation that must manage risk . . . we cannot prepare for every eventuality; thus, we must strategically locate and apply limited resources. . . . Understanding our risks and capabilities, and applying our resources effectively to manage those risks is critical to our national preparedness." To that end, Homeland Security Grant Program guidelines provide that states are to allocate grant funds in accordance with their State Homeland

Security Strategy. The purpose of the State Homeland Security Assessment and Strategy process as prescribed by the federal Office for Domestic Preparedness (ODP) is to assess risk and provide a blueprint to guide states' planning and preparedness efforts and to promote the effective use of resources before, during, and after terrorist attacks, major disasters, and other emergencies.

Colorado released its first State Homeland Security Strategy in April 2003. An updated State Strategy was completed in January 2004, but this document was never made public. Finally, Colorado released its current, and substantially revised, 2005 State Homeland Security Strategy in December 2004, with 11 goals related to prevention, response, and recovery as three key areas for terrorism preparedness.

We reviewed Colorado's three State Homeland Security Strategies as well as its processes for allocating homeland security grant funds. We found that grant funds have not been allocated as effectively as they could be and that the State needs to develop a basis for allocating funds that better targets limited homeland security grant funds toward statewide risks and needs.

State Strategic Goals

As stated above, federal grant guidelines provide that each state is to allocate homeland security grant funds in accordance with its State Strategy. We reviewed grant allocations for the 2003 and 2004 grant cycles and found that the State lacks data categorizing grant awards against state strategic goals for both grant cycle years. As a result, reliable data are not available to evaluate whether \$71.5 million in homeland security grant funds awarded during the 2003 and 2004 grant cycles has been allocated in accordance with corresponding State Strategies, or how allocations addressed homeland security goals.

We also found that time limits imposed at the federal level and grant allocation practices used at the state level contributed to the fund allocation problems we observed. For example, a March 2004 audit by the U.S. Department of Homeland Security, Office of the Inspector General, determined that federal grant award timelines put pressure on states to allocate and award grant funds quickly, without allowing sufficient time for state and local planning processes to take place. In fact, during the 2004 grant cycle, Colorado was completing its State Strategy concurrently with its grant application and award process. Further, DPS (the State Administrative Agency prior to July 1, 2004) did not require grant applicants to tie their funding requests to any specific goal or initiative in the State Strategy or any other planning document applicable at the time. Finally, 2003 and 2004 funding allocations did not identify any specific strategic goals or initiative targeted by the grant award.

For the 2005 grant cycle, DOLA (the State Administrative Agency effective July 1, 2004) required grant applicants to tie their funding requests directly to one or more of the 11 goals set forth in the 2005 State Strategy. For the purpose of requesting funds, all 11 goals were of equal importance. Each of the nine All-Hazards regions was required to submit a single, comprehensive regional grant application to DOLA for review and funding approval. However, before submitting the regional application to DOLA, a regional review process took place. Representatives of various emergency management and law enforcement disciplines convened at the local and regional levels to develop a set of prioritized grant projects that were the basis for each region's funding request. With few exceptions, the State awarded funds in accordance with each region's prioritization of proposed grant projects.

We reviewed the State's funding allocations for the 2005 grant cycle and found that although grant requests and allocations were aligned with one or more of the 11 strategic goals, it was not clear how these goals and the associated funding tied to available risk data (discussed in the next section). In addition, certain important homeland security needs identified in the 2005 State Strategy received substantially less funding than others. For example, interoperable communications, emergency responder preparedness, and critical infrastructure preparedness were all identified as areas of focus in the State Strategy. The State allocated about \$14.5 million, or 59 percent of the \$24.5 million awarded in the 2005 grant cycle, toward two of these focus areas: interoperable communications and emergency responder preparedness. In contrast, only \$300,000, or 1.2 percent of the total funds awarded, was specifically targeted toward critical infrastructure protection, even though the State Strategy clearly indicates that "infrastructure protection should be a priority in any funding plan." Further, only two of the nine All-Hazards regions and none of the state agencies requested funding for this goal. One of the regions that did request funds for critical infrastructure protection only received 45 percent of its request. (See Appendix B for a complete list of 2005 grant awards broken down by strategic goal.)

Risk Assessment

Federal requirements for the Homeland Security Grant Program are set up to ensure that risk is a primary factor driving both the State Strategy and funding decisions. The federal government developed a risk assessment tool and required all states to collect data on threats, vulnerabilities, and critical infrastructure during 2003. The Department of Public Safety awarded \$250,000 in homeland security grant funding to the Center for the Study and Prevention of Violence at the University of Colorado-Boulder to facilitate the data collection and validation for this statewide risk assessment. The State used and incorporated the 2003 Risk Assessment data into its 2005 State Strategy. The 2003 Risk Assessment data contain a threat and vulnerability rating for every county in the State and represent the best available data on statewide risks and vulnerabilities to date.

We obtained the 2003 Risk Assessment data and aggregated the threat and vulnerability ratings by region. The resulting risk score is higher in regions with more active potential threat elements (i.e., higher threat) and more exposed critical infrastructure sites (i.e., higher vulnerability). The State Strategy states that “risks . . . are concentrated in the parts of the state with higher population densities, particularly the urban areas of the North Central Region.” We compared risk scores and population figures by region with funding allocations for the 2004 and 2005 grant cycles. We found that about one-third of the funds awarded to the regions in 2004 and 2005 went to the North Central Region (including the Denver Metropolitan Area), the region with the highest population and risk score. For the remainder of the State, however, we found no relationship between the 2004 and 2005 funding allocations and risk scores. For example, two regions in the State each received between 7 and 8 percent of the total funds available to the regions in 2004 and 2005, yet one region had a considerably higher risk score than the other.

Needs Assessment

In addition to risk, the federal government required states to assess their needs as part of the 2003 Risk Assessment process. These data captured the difference between resources that currently exist and the resources needed to address a specific threat or vulnerability or to respond to a likely event. Identifying and understanding shortfalls and gaps in current preparedness and response capabilities is important for targeting limited grant funding toward risks and needs.

According to the 2003 needs data collected for all counties in the State, the State’s two greatest equipment needs are interoperable communications and physical security enhancement equipment (e.g., surveillance, alarm, and inspection/detection systems used to enhance the physical security of critical infrastructure). These two equipment categories represent about 79 percent of the \$4 billion in equipment needs identified by local agencies. Although local agencies self-reported these needs, and the \$4 billion figure may be overstated, these data clearly indicate that gaps are greater for certain types of equipment (e.g., interoperable communications and physical security enhancement equipment) than others.

We compared local agencies’ equipment needs against equipment funding awarded through the 2004 and 2005 grant cycles. We found that about \$24 million, or 56 percent of the \$43 million in funds awarded for equipment, was for interoperable communications. However, only \$700,000, or about 2 percent of total funds awarded for equipment, was allocated toward physical security enhancement equipment. Further, only four of the nine regions requested physical security enhancement equipment on their 2005 grant applications. These four regions requested about \$380,000 for physical security enhancement equipment, and about \$232,000 (61 percent) was funded.

Funding requests for the 2005 grant cycle were determined primarily through a regional, locally driven approach. A regional process is reasonable and in keeping with initiatives at the federal level. However, even this bottom-up approach must have clear guidance and direction from the top to ensure preparedness for the State as a whole. From a statewide perspective, top homeland security priorities from one region may not have the same weight as even mid- or low-level priorities from another region. The State needs to further improve its homeland security planning efforts to identify the State's most critical risks, needs, and priorities and modify the basis for allocating grant funding to ensure that limited dollars are targeted toward high-priority activities on a statewide basis. This will require the State to actively use data and information from multiple sources (e.g., data on risks, critical infrastructures, population concentrations, resource gaps, and past and current funding levels) to evaluate regional priorities and make difficult decisions regarding the priorities that must be addressed to ensure homeland security preparedness statewide. Since risk and needs change over time, the State needs to work within and expand upon federal initiatives to update and validate its risk and needs assessment data on an ongoing basis. Funding priorities should be modified and communicated to reflect new information and updated data. Continued input from regions is also critical. Once established, statewide funding priorities will need to be clearly communicated to the regions and incorporated in regions' homeland security planning efforts. These steps should help strengthen the connection between risk and needs data and funding allocations, thereby ensuring that limited resources are directed more effectively toward addressing the State's most critical homeland security needs.

Recommendation No. 1:

The Department of Local Affairs should work with the Department of Public Safety, the Homeland Security and All-Hazards Senior Advisory Committee, and other federal, state, and local agencies, as appropriate, to more effectively utilize the State Homeland Security Strategy as the basis for allocating grant funding. This should include relying on analysis of risk and needs assessment data to establish and communicate statewide funding priorities. Regional priorities should be assessed against statewide priorities. Risk and needs data should be continually updated and validated, and a plan should be in place for monitoring progress and adapting the State Strategy and funding distribution mechanisms as risks, needs, and priorities change on a regional and statewide basis.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing.

The Department of Local Affairs (DOLA) is working closely with the Department of Public Safety (DPS) on these goals and objectives. Regional priorities are assessed against statewide goals found in the State Strategy. Both departments work cooperatively, on a continual basis, to update and validate risks and needs. DOLA will adapt the State Strategy and funding mechanisms as risks, needs, and priorities change on a regional and statewide basis.

Department of Public Safety Response:

Agree. Implementation Date: Ongoing.

The Department of Public Safety (DPS) is working closely with the Department of Local Affairs (DOLA) on these goals and objectives. The DPS Executive Director chairs the All-Hazards Senior Advisory Committee and the OPSFS Director and the DEM Director are members. DOLA and DPS are collaborating and working towards achieving the recommendations outlined in Recommendation No.1.

Grant Awards

Once the State has clearly defined and communicated statewide funding priorities, the next step is to strengthen operational processes for soliciting and reviewing applications so that funds can be allocated in accordance with these priorities. For the 2002–2005 grant cycles, state and local agencies submitted applications requesting homeland security funds. Program staff at the State Administrative Agency (either DPS or DOLA) reviewed the applications and then forwarded them to the Grant Advisory Committee for discussion and evaluation. A Grant Advisory Committee was convened for each grant cycle and comprised representatives from various emergency management, law enforcement, fire, and state and local government agencies. The Grant Advisory Committee is charged with making funding recommendations to the executive director of the State Administrative Agency. After consideration of Committee and program staff recommendations, the executive director determined final funding allocations with approval from the Governor's Office.

We evaluated the State's practices for soliciting and reviewing grant applications and awarding homeland security grant funds for the 2002–2005 grant cycles. In addition, we physically observed the 2005 Grant Advisory Committee meetings. We identified the following concerns:

- **Defined review criteria.** Although the notice of available funds released with each grant cycle outlines the general purpose and objectives of the homeland security grants, we determined that the basis for reviewing and evaluating requests for funds is not clear. For example, we observed wide variations in standards used by Grant Advisory Committee members when reviewing regions' 2005 grant applications. Some members were most concerned with equitable distribution of funds among jurisdictions; others were most concerned with existing resources and capacities within jurisdictions; and still others were concerned with aligning requests with statewide goals and priorities. We conducted follow-up interviews with 9 of the 18 voting members on the 2005 Grant Advisory Committee. These Committee members reported having read the grant guidelines and other information on the grant program; however, they still pointed to a lack of specific instruction and direction on evaluation criteria as a significant weakness in the grant review process. Unclear funding criteria was also raised as a concern by subrecipients and Regional Coordinators during our site visits.
- **Use of data.** As discussed in the previous recommendation, our analysis showed a disconnect between risk scores and funding allocations for the 2004 and 2005 grants. One reason for this is that risk and needs data have not been systematically used in the grant application and review process. In February 2005 DOLA and DPS program staff met with regional coordinators to discuss the 2003 Risk Assessment data for jurisdictions in each region. However, regions were not required to rely on data identifying and documenting risks or needs when applying for grant funding. A subject matter expert on the Committee who was part of the research team that compiled the 2003 Risk Assessment data raised questions about the appropriateness of regions' requests for funding when they did not align with the risk data. However, these points generally were not taken up by the Committee. Discussion of regions' risk and needs assessment data occurred rarely during the 2005 Grant Advisory Committee deliberations. In addition to risk and needs data, program staff need to make better use of other available information to determine whether funding requests are reasonable or justified. For example, grant review processes do not specifically incorporate consideration of funding allocated in prior years' grant cycles. This type of information is important for understanding the historical basis for current funding requests. Also, grant applicants are not required to report

on the capacity of local jurisdictions to maintain and repair equipment purchased with homeland security funds. Since homeland security grant funds cannot be used for repair and maintenance, information on agencies' capacity to maintain equipment is important for reviewing requests for funding.

- **Guaranteed base funding.** We found that for the 2005 grants, all nine regions in the State were guaranteed minimum base funding of \$750,000 per region. In total, this base funding represented nearly \$6.8 million, or more than one-third of the approximately \$19.6 million available to the regions. In most cases, regions received automatic funding for all items requested from this guaranteed base amount. Although this approach may prove beneficial to one or all of the regions, it is not conducive to targeting limited grant funds in a manner that addresses the State's overall risks, needs, and priorities.
- **Separate process for state applications.** The Grant Advisory Committees used for the 2002, 2003, and 2004 grant cycles evaluated grant applications from both state and local agencies. However, applications from state agencies for 2005 grant funds did not go through the same review process as regional applications. During our site visits local agency subgrantees and regional coordinators regularly expressed concern that there is not sufficient exposure of the State's portion of federal homeland security funding. It is important to ensure that all requests for grant funding have an appropriate level of review. We recognize that routing the state agency applications through a different review process may provide for a more effective and coordinated evaluation of state agency needs. However, DOLA should at least reserve time during future Grant Advisory Committee meetings to brief the Committee on how the State's portion of homeland security funding will be allocated. Additionally, DOLA should inform regions and grant applicants of state-level allocations. It is reasonable to expect that projects proposed by state agencies would affect how regional applications are prepared and evaluated.

Federal grant guidelines provide that states are to allocate funding in accordance with their State Homeland Security Strategies; however, this process needs operational definition. Enhancing accountability and ensuring funding decisions have a reasonable basis requires that review and evaluation processes be improved. As the new State Administrative Agency for the Homeland Security Grant Program, DOLA should first take steps to establish and communicate clearer evaluation and review criteria. Criteria could include such factors as alignment of regional applications with statewide priorities, use of risk and needs assessment data to substantiate

funding requests, and consistency of the funding request with prior years' grant funding.

Second, the State needs to do more to incorporate data from risk and needs assessments into grant application and review processes. Grant applications should be revised to require more direct use of risk and needs assessment data to support funding requests and alignment with statewide goals and priorities. Applicants should also demonstrate their ability to maintain and repair any equipment purchased with grant funds. The use of base funding should also be eliminated unless the base funding is used to address risks and needs that are common across all regions and substantiated by available data.

Finally, DOLA should develop and use a standardized scorecard approach to evaluate grant applications and projects. The Committee members we interviewed and an external evaluator hired by DOLA reported a need to use a scorecard approach to evaluate grant applications and projects. Scoring forms are commonly used in the evaluation process for other state grant programs in Colorado and have a number of benefits including the use of clearly established evaluation criteria. Scoring criteria could include alignment of regional priorities with statewide priorities and clear justification of the need for and reasonableness of costs to support the funding request. In doing so, standardized scoring forms make the process more transparent and less subjective, and ensure that each application or project is evaluated on the same factors. Scorecards also provide for the efficient tallying of collective preferences and can make deliberations more focused and effective.

Recommendation No. 2:

The Department of Local Affairs should improve mechanisms for reviewing applications and awarding homeland security grant funds. More specifically, DOLA should:

- a. Establish and communicate clearer evaluation and review criteria to potential applicants in the solicitation for grant applications.
- b. Revise the grant application to require more direct use of risk and needs assessment data to support funding requests. Applicants should also be required to demonstrate their ability to maintain and repair any equipment purchased with grant funds.
- c. Eliminate the use of base funding amounts unless the base funding addresses identified risks and needs common across all regions. Common risks and needs should be substantiated by available data.

- d. Develop standard scoring forms for use in the review and evaluation of grant applications and proposed projects. Scoring forms should be based on predetermined evaluation criteria.
- e. Ensure that applications from state agencies receive sufficient exposure during the review and consideration of regional grant applications.

Department of Local Affairs Response:

- a. Agree. Implementation Date: Implemented and Ongoing. The process and eligibility for funding of homeland security grants is established in the Federal and State Guidance. The federal government publishes the guidance and criteria for eligibility prior to every grant cycle. The guidance was changed for the 2002, 2003 Part 1 and Part 2, 2004 and 2005 State Homeland Security Grants. The Department is anticipating yet even more changes for the 2006 State Homeland Security Grant. DOLA will persist in enhancing communication with all potential applicants.
- b. Agree. Implementation Date: June 2006 and Ongoing. DOLA will continually review the grant application for potential revisions after the federal government publishes the State Homeland Security Grant guidance.
- c. Disagree. The base funding does address identified needs across the specific region. Additionally, this is a statewide program; base funding allocations assure each region will receive funding, regardless of size, population or geographic location, to address their needs and priorities. The base funding allocation is for planning, training and exercising. The Department believes it is vital to the success of the State's homeland security program that each region is required to plan, train and exercise. Additionally, the State All Hazards Advisory Committee discussed the base funding allocation for every region and agreed with the allocation.

Auditor's Addendum:

Out of the \$750,000 in base funding awarded to each region, \$350,000 was specifically designated to fund training, exercises, and the regional coordinator position, and \$400,000 was discretionary and not tied to a specific risk or need. Base funding should not be part of the fund allocation plan unless the base funding directly correlates to a strategic need that exists at the same level and in the same amount in all regions.

- d. Partially Agree. Implementation Date: June 2006. DOLA follows the federal guidance for funding requests and determination of eligibility for specific projects and equipment. DOLA intends to work with a team of our local and state partners to review and update our grant application process. While the Department feels we have come a long way in the past year, we deem it necessary to gain input and guidance from our partners on improvements to the program. We will ask for consideration of “scoring card with evaluation criteria” but we are not going to predetermine changes to the program without our partners’ feedback.
- e. Agree. Implementation Date: June 2006. DOLA will ensure state agency applications receive sufficient exposure during the review of regional grant applications.

Grant Budgets

Grant applicants are responsible for including a proposed project budget and cost estimates in their applications for homeland security grant funding. During our audit we noted that procedures for reviewing cost estimates in proposed grant budgets and policies governing the use of excess funds on subrecipient awards may not maximize the limited grant dollars available to the State.

First, we found wide variations in costs estimates for similar items in regions’ 2005 grant applications. For example, unit costs for the same model of 800 MHz portable radio ranged from a low of about \$2,700 to a high of about \$3,800. Unit costs for a self-contained breathing apparatus ranged from a low of about \$3,500 to a high of about \$4,500. Although some variation in cost estimates is to be expected, wide variations in cost estimates create problems for assessing the appropriate level of funding to award to an agency. If cost estimates are too low, then subrecipients may be awarded insufficient grant funds to accomplish the proposed project. If cost estimates are too high, then subrecipients end up with surplus funding for projects. During our audit there was no systematic process for returning and reallocating surplus funds.

Second, we found that subrecipients do not need prior approval from the State to purchase additional quantities of items in their existing grant budgets. For example, we identified one subrecipient who was authorized and awarded about \$148,000 in grant funding to purchase 40 radios to be split evenly between its police and fire departments (estimated unit cost was about \$3,700). The subrecipient’s fire department subsequently used a separate grant to purchase its radio equipment. Instead of purchasing only 20 radios for the police department as originally

requested, the subrecipient expended about \$158,000 to purchase all 40 radios for its police department (actual cost per unit was about \$3,950). This subrecipient was not required to submit justification for purchasing and retaining the extra 20 radios at the higher cost. We identified a second subrecipient who was awarded about \$152,000 in funds to purchase one bomb robot, and ended up purchasing two bomb robots for about \$141,000. Although the subrecipient received approval to purchase the additional robot, the level of review by program staff was minimal. Finally, we found a third subrecipient who was awarded about \$1,800 to purchase one roof ventilation saw for a local fire department. The actual cost of the saw was only about \$1,500. Using these cost savings, as well as cost savings from other approved items, the fire department purchased a total of three roof ventilation saws. Although the purchase of additional items may add a level of functionality to an agency, this may not be the most effective use of excess grant funds. Excess funds resulting from cost savings may be used more effectively by addressing higher-priority needs elsewhere in the region or in the State. For example, the Public School Capital Construction Grant Program administered by the Colorado Department of Education requires subrecipients to revert to the State all funds not used for the approved grant project. The excess funds are then reallocated by the state grant administrator to other public school capital construction projects that are wait-listed during the subrecipient award process.

DOLA needs to improve procedures surrounding its review of grant budgets and subrecipients' use of surplus funds. Program staff should rely on appropriate benchmarks, such as compilations of cost data or standard price lists, to evaluate whether the cost estimates used in grant applications appear reasonable. Staff should also ensure that any deviation from the approved grant application, both in terms of items and quantities, is sufficiently reviewed for appropriateness and alignment with identified risks and needs. Finally, DOLA should establish processes and policies for reallocating surplus funds. Once DOLA has addressed the issues with statewide funding priorities and allocation methodologies discussed in Recommendation No. 1, either DOLA or the regions should be able to easily reallocate surplus funds to the next highest unfunded priority or project.

Recommendation No. 3:

The Department of Local Affairs should perform more analytical reviews of grant applications and budgets to determine the reasonableness and appropriateness of estimated costs for requested items. Additionally, DOLA should establish policies and procedures to ensure that surplus grant funds are reallocated to the next highest unfunded priority.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing. DOLA does perform a detailed review of every grant application. This recommendation is a validation of current practice by DOLA. Within the first nine months of having the Homeland Security Grant Program, DOLA completely revamped the Program. The reasonableness and appropriateness of estimated costs is determined at the grant contract process to the best of everyone's ability using the most current data the State and regions have for costs. Starting with the 2005 homeland security grants, there are no surplus grant funds. There is a procedure in place to ensure grant funds are expended in the category of funding as contracted. If the subrecipient wishes to revise the budget they are required to do a budget modification, at which time the program staff reviews the modification for appropriateness and concurrence of the region. Additionally, DOLA continues to review all of the previous grants awarded by DPS to ensure the grant file has complete and accurate information and the budget ties back directly to the awarded amount.

Grant Advisory Committee

As discussed previously, a Grant Advisory Committee was used in the 2002–2005 grant cycles to review and evaluate grant applications and make funding recommendations to the executive director of the State Administrative Agency. We observed the Grant Advisory Committee proceedings for the 2005 grant cycle and interviewed 9 of the 18 voting members subsequent to the end of the Committee proceedings. As discussed in the next two sections, we identified a number of areas where the State needs to improve its use of the Grant Advisory Committee, thereby enhancing the legitimacy and overall value of its funding recommendations.

Role

The Grant Advisory Committee plays an important part in the overall funding process for the Homeland Security Grant Program. However, our audit showed that there is confusion and disagreement over the Committee's role and responsibility in the funding process. During our interviews with the 2005 Grant Advisory Committee members, one member we interviewed stated she was unaware there was another step to the funding process beyond the Committee (i.e., review and approval by DOLA and the Governor's Office). Another member indicated an understanding that he was an observer, only to find out at the actual proceedings that he was a voting member. The Regional Coordinator for this region expressed a similar understanding that the region's representative was a nonvoting member. Finally, the Committee members we interviewed expressed frustration over their inability to question regional priorities as outlined in the grant applications. For example, during the 2005 grant award process, one region requested \$400,000 for a hazardous materials truck. When some Committee members questioned the \$400,000 request, the Committee was reminded that regions' priorities were not up for discussion, and ultimately, the Committee recommended funding the truck. One Committee member specifically questioned the appropriateness of funding this request because multiple hazmat teams exist within seven minutes of the location of the grant applicant. Our observations showed that Committee members were informed throughout the deliberations that they were not there to question regions' priorities. An external evaluator hired by DOLA similarly noted that prioritizing the regional requests over the goals of the State was an issue that "consistently presented itself in the discussions."

DOLA needs to ensure that Grant Advisory Committee members and other stakeholders have a clear understanding of the Committee's role and responsibilities. Moreover, DOLA should take steps to strengthen the Committee's role in the process. Considerable time and resources are used to convene the Grant Advisory Committee. Regional boards also spend substantial time and effort preparing their written grant applications and oral presentations for the Committee proceedings. Given the time and resources Committee members spend on reviewing funding requests, members should be providing input on whether the request is in alignment with priorities and is reasonable and appropriate. The State has at its disposal a body of approximately 50 individuals representing local governments, first responders, and subject matter experts. With clearly defined review and evaluation criteria (see Recommendation No. 2), the role of the Grant Advisory Committee could be enhanced considerably and its value more fully utilized in the funding process.

Standards

During the instruction period on the first day of the Committee proceedings, all members of the Committee signed nondisclosure and conflict-of-interest statements. The conflict-of-interest statement provided examples of conflicts of interest, including affiliation with an applicant institution (e.g., being an employee, volunteer, or a governing board member). Committee members were required to sign the conflict-of-interest statement signifying that regarding conflicts, they agreed to “excuse [themselves] from the review during the immediate consideration, discussion, and vote on the funding recommendation of the application.” However, conflict of interest and member conduct surrounding applications from their own regions remained an issue for Committee deliberations. In one instance, a member initially abstained from voting but was forced to vote in order to break a tie on her own region’s application. The Committee Chair should have been used to break the tie. One Committee member reported to us that subsequent to the Committee proceedings he was informed that his county would not be supported in future grant requests through the region because of the way he voted. Additionally, we found that some members of the Grant Advisory Committee were very vocal during deliberations about their own regions’ applications, and two of the nine voting members we interviewed stated that they personally observed other members lobbying and trading votes. An external evaluator hired by DOLA similarly noted that lobbying “undermined the objectivity of the Committee.” Finally, we found that Roberts Rules of Order were not consistently followed during the proceedings. Motions were often made but never seconded or voted on; the Committee frequently continued its business without resolving outstanding motions; and hand votes were not always taken or officially tallied and recorded.

The Grant Advisory Committee and its members need to operate under clearly communicated and consistently applied standards of behavior and rules of order. Each member should also disclose when he or she is a member of the regional board that developed his or her region’s application or when the member has ties to vendors that could provide services paid for with awarded funds. To avoid potential conflicts of interest, Grant Advisory Committee members should not be allowed to vote or participate in deliberations on their own regions’ applications. The Committee Chair, not abstaining members, should break all tie votes. Committee deliberation should follow a standard process that is enforced by the Committee Chair, and voting methods need to be consistent and recorded. Without clear rules about conflict of interest, lobbying, and deliberation and voting processes, the State cannot ensure the equitable treatment and consideration of grant funding requests.

Recommendation No. 4:

The Department of Local Affairs should strengthen the Grant Advisory Committee process by:

- a. Working with relevant stakeholders to revisit and better define the role and responsibilities of the Grant Advisory Committee. Once defined, DOLA should ensure this role is clearly communicated and understood by the Committee members and others involved in the grant application and award process.
- b. Establishing written procedures and guidelines that address Grant Advisory Committee composition, selection of members, rules of order, conflict of interest, and member conduct. Once established, these standards should be clearly communicated to Committee members and strictly adhered to during deliberations.

Department of Local Affairs Response:

Agree. Implementation Date: June 2006. DOLA intends on refining and continually improving the Advisory committee process. This recommendation is a validation of current practice by DOLA. The Department did establish guidelines and communicated them to the Committee within the state guidance, at the State All Hazards Advisory Committee, and at the work session prior to the regions presenting their funding requests.

Grant Expenditures

Chapter 2

Overview

Between September 2002 and September 2005, Colorado received nearly \$138 million in federal homeland security grant funds and awarded approximately 350 grants to state and local government subrecipients. As of September 17, 2005, about \$132 million (96 percent) in homeland security grant funds had been obligated and about \$66 million (48 percent) had been spent on homeland security–related projects. The rapid influx of significant dollars distributed to multiple subrecipients over a relatively short period presents risks that homeland security monies will not be spent appropriately for approved purposes. As a result, strong internal controls over expenditures are crucial.

Our audit reviewed internal controls over grant expenditures and found controls could be improved at both state and local levels. At the state level, we found that the State’s management of grant information and oversight of subrecipient awards and expenditures needs to be strengthened. At the subrecipient level, we found that of 49 subrecipient awards, 16 were not fully compliant with federal and state guidelines. In total, our audit identified about \$2 million in questioned costs (i.e., costs that appeared to be unallowable, unreasonable, or that lacked sufficient supporting documentation at the time of the audit) out of \$15.8 million reviewed. The federal government could require the State to repay any monies not expended in accordance with grant requirements. Additionally, noncompliance could place future homeland security grant funds at risk.

Grant Information

Effective stewardship of federal homeland security dollars and oversight of subrecipient grant awards is based largely on the State’s ability to capture, store, use, and report on grant data in a manner that ensures accountability for all dollars disbursed. Effective grant management systems (1) track data such as grant applications, awards, expenditures, budget modifications, and unobligated funds; and (2) support management oversight and accurate reporting.

The State’s accounting system (COFRS) contains a record of all encumbrances, expenditures, and unobligated funds related to each of the State’s federal homeland

security grants. However, COFRS does not allow for reporting of more detailed programmatic information, such as grant awards by region, state strategic goal, or type of equipment. As a result, in addition to COFRS, program staff maintain and track information related to homeland security grants through grant files, spreadsheets, and other electronic databases that are separate from COFRS. At the start of our audit, we requested a list of all subrecipient grant applications, projects funded, award amounts, unfunded projects, and other relevant detail information broken out by each federal grant award, as well as any electronic databases and spreadsheets used by grant program staff on a regular basis to track, summarize, monitor, and otherwise administer awards and reimbursements to subrecipients.

Our initial reviews of the information provided by DPS and DOLA revealed a number of discrepancies and inconsistencies across the various data sources for 2002, 2003, and 2004 grants; however, data problems were particularly significant for the 2003 grants. For example, grant file documentation and COFRS encumbrances did not always reconcile with spreadsheets prepared by program staff. Some of the information management problems we identified included:

- **Timing differences.** We identified more than \$250,000 in data discrepancies between grant files, staff-maintained spreadsheets, and COFRS. Program staff believe that these discrepancies were due primarily to timing differences in when grant data are entered into the various systems. This is troublesome because it means there is no assurance that grant information stored in these various systems agrees at a single point in time, thereby leaving program managers' view and understanding of the program to depend on the source of data they consult.
- **Documentation issues.** We found that grant award letters did not substantiate about \$68,000 in awards to subrecipients. DPS was missing grant award letters for six subrecipient awards totaling about \$12,000. DOLA was missing a grant award letter for one subrecipient award totaling about \$55,000. DOLA also issued a grant award to one subrecipient listing the grant amount as \$1,000 lower than it should have been listed. Finally, we noted that grant files frequently contained duplicate documentation and that there was no sign-out sheet to ensure that confidential grant files were accounted for at all times.

Although DOLA was designated as the new State Administrative Agency for the Homeland Security Grant Program about five months prior to the start of our audit, the Program itself was well into its third grant cycle and some of the same staff continued to administer the Program. Thus, data on the 2002, 2003, and 2004 grants and supporting documentation should have been more easily accessible, accurate, and complete. At the time of our audit, detailed award and expenditure information

for the 2002 and 2003 grants was not available in an automated format and could only be obtained by intensive manual review of hard copy files. Effective for the 2004 and 2005 grant awards, the federal government began requiring more detailed reporting from states on their grant awards and expenditures. The federal government developed an online data collection tool that requires states to report grant awards and expenditures by such categories as strategic goal and type of expenditure (e.g., planning, training, exercises, or equipment category). As a result of new federal requirements, more detailed reports on grant awards and expenditures are available for the 2004 and 2005 grants.

As the new State Administrative Agency for the Homeland Security Grant Program, DOLA began work in October 2004 to migrate homeland security grant data and information to an Oracle database system used to administer some of its other grant programs. Data entry began in January 2005 and was in progress during our audit. According to Department staff, the Oracle database system will be able to track and provide detailed reporting on grants from the point of the award through closeout. We did not perform detailed testing of DOLA's Oracle database because it was still in its implementation phase during our audit. However, in February 2005, we did review and test data in one report from the Oracle database. We identified six subrecipient awards in the database that were overstated by a total of about \$660,000 and three subrecipient awards that were understated by a total of nearly \$1.7 million. Additionally, we identified four subrecipient awards totaling \$339,000 that were attributed to the wrong All-Hazards region. We provided this information to program staff who made corrections to the Oracle data.

As discussed earlier, grant award data are currently maintained and tracked through a number of different mechanisms, such as documentation in the grant files, spreadsheets maintained by program staff, the State's accounting system, and electronic grant databases. During our audit DOLA reported it will continue to maintain applications and supporting documentation in hard copy files and manage grant award information through staff-maintained spreadsheets, COFRS, and its Oracle database. DOLA also reported that it started performing regular reconciliations between the Oracle database and information maintained in COFRS. Data tracking across multiple systems can be problematic. Grant award data change frequently, making it difficult to determine actual subgrant award amounts and often requiring additional research by program staff. Moreover, tracking frequent information changes across multiple systems requires duplicate data entry, which is inefficient and can lead to errors.

The structure of the Homeland Security Grant Program is dynamic, and adjustments to grant awards and expenditures occur for multiple subrecipients on a daily basis. A single, comprehensive grant management system is needed to ensure that accurate, useful, and real-time information on homeland security grant awards and

expenditures is available to all program managers and decision makers. DOLA is implementing its Oracle database, which is an important step forward. DOLA should continue to add functionality to its Oracle database to ensure that program staff have the ability to track and report on all funds received through the homeland security grants. Staff should continue to perform regular reconciliations to ensure that grant data maintained across multiple systems agree at a single point in time. In the long term, DOLA should work toward eliminating multiple systems and spreadsheets for managing grant information and explore options for a direct data interchange between the Oracle database and COFRS. Finally, DOLA should strengthen controls to ensure that hard copy grant files substantiate all subrecipient awards, grant modifications, and reimbursements. Program staff should also maintain check-out logs recording the location of grant files at all times.

Recommendation No. 5:

The Department of Local Affairs should continue to improve the functionality of the Oracle database and other information management practices. This should include:

- a. Capturing the data necessary to facilitate analysis and reporting on grant awards and expenditures and to measure overall progress toward achieving the State's goals set forth in the State Homeland Security Strategy.
- b. Ensuring grant information maintained across multiple systems is reconciled on a regular basis to identify and correct discrepancies and ensure that all grant data agree at a single point in time. In the long term, DOLA should explore options for a direct data interchange between the Oracle database and COFRS, and eliminate duplicate tracking of grant award data in program staff spreadsheets.
- c. Strengthening controls to ensure that grant files are current and accounted for and that grant award letters and electronic data systems substantiate and accurately reflect subrecipient awards made to local and state agencies.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing. This recommendation is a validation of current practice by DOLA. DOLA continually refines and improves its grants management database. DOLA does reconcile grant information on a regular basis. DOLA is exploring a direct data upload from Oracle to COFRS. More importantly, to meet the

federal government's reporting requirements, the Department can do a direct data exchange between its database and the federal government's database.

Controlling Expenditures

Controls over purchases and payments are key to ensuring that taxpayer dollars supporting homeland security grants are used prudently and for the purposes intended. Federal and state laws, rules, and authoritative guidance provide a financial framework that the State and its subrecipients must follow when awarding and spending homeland security grant funds. During the time period of our audit this authoritative guidance included:

Office of Justice Programs Financial Guide— sets forth guidelines to assist award recipients and subrecipients in fulfilling their fiduciary responsibility to safeguard grant funds and ensure funds are used for the purposes for which they were awarded. The provisions in the Financial Guide apply to all homeland security grant awards issued by the U.S. Department of Homeland Security.

Homeland Security Grant Program Guidelines— sets forth the requirements for awarding and expending homeland security grant funds, including how funds are to be distributed between state and local governments and what types of expenditures are allowable.

Federal OMB Circular A-133— sets forth the requirements for state monitoring of subrecipient awards and expenditures “through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

State Fiscal Rules— sets forth financial policies for state agencies concerning internal controls, accounting policies, and financial reporting for the State.

State Administrative Guide— sets forth financial, administrative, and audit requirements for subrecipients' use of homeland security grant funds. The Administrative Guide is intended to serve as a day-to-day reference for subrecipient agencies.

We reviewed documentation and data available at the state level for reimbursements totaling \$15.8 million paid from 49 subrecipient awards under the 2002, 2003, and 2004 grants. We also conducted site visits at the subrecipient level to review

supporting documentation and data for reimbursements totaling \$9.8 million paid from 29 of these subrecipient awards. Grant reimbursements frequently covered numerous purchases and transactions with vendors. We identified total questioned costs of about \$2 million due to problems with controls over purchases, payments, and errors as discussed in the next three sections. Inadequate controls over purchases accounted for more than \$1.9 million of these questioned costs, and inadequate controls over payments accounted for about \$88,000 of these questioned costs. We provided data on the questioned costs we identified to both DPS and DOLA for follow-up.

Controls Over Purchases

Purchasing controls ensure that the equipment, activities, and services paid for with homeland security grant funds are allowable and authorized under the State's program. The State oversees purchases in two primary ways: (1) by authorizing the subrecipient to use its homeland security grant award to purchase allowable items through approval of the subrecipient's grant application and budget, and (2) by reviewing documentation for the items purchased by the subrecipient to ensure the items match those approved in the grant budget before remitting a reimbursement. Federal grant guidelines specify the types of activities that can or cannot be funded under the Homeland Security Grant Program.

As mentioned above, inadequate controls over purchases accounted for more than \$1.9 million in grant awards and expenditures we identified during our review for items and activities that appeared to be unallowable, unauthorized, or questionable under the federal grant guidelines (i.e., the costs did not appear to be within the intent of the approved grant project or grant program). These items and activities were listed in the subrecipients' grant applications, budgets, or reimbursement requests and were approved by the State. Specifically, we identified:

- **\$1.6 million grant award provided in exchange for state building space and for a state communications antenna**—DOLA awarded a grant to a local government in the amount of \$1.6 million, of which \$100,000 was for a state communications antenna and \$1.5 million was for the State's advance payment toward the purchase price of the second floor of the local government's building. The purchase price was equal to the net present value of the State's lease payments for 20 years. According to guidance we received from the federal Office of Justice Programs, (1) grant funds cannot be used to prepay a long-term lease; (2) lease expenses are not allowed if they are being made toward a purchase; and (3) lease expenses are only allowable as an administrative cost for the administration of the Homeland Security Grant Program. Further, the Office of Justice Programs stated that "a subgrant issued for payment of the primary grantee's [the State's]

expenditures is unallowable and cannot be charged to the grant.” In this instance, the State received the right to occupy the second floor of the local government’s building in perpetuity in exchange for awarding the local government a grant for its 911 Dispatch Center. This issue is discussed in more detail in Chapter 3.

- **\$236,000 for administration**—Although most of the homeland security grants allow for administrative costs, the 2003 Urban Areas Security Initiative (UASI) does not. Federal guidelines for this grant state that “. . . states **MAY NOT** use funds under this program for administrative costs” (emphasis in original). We identified about \$177,000 in personal services expenditures charged to the 2003 UASI grant for program staff whose primary job responsibilities are grant management and administration. Of these expenditures, about \$161,000 was charged by DOLA and about \$16,000 was charged by DPS. Program staff indicated these positions are primarily UASI planning positions; however, our review of the Position Description Questionnaire (the official description of job duties for state classified personnel) showed that the positions in question were primarily responsible for overseeing the day-to-day operations of the Homeland Security Grant Program. Although some planning functions are listed in the position descriptions, these are a small percentage of the overall job duties and were not always related to the UASI program. Moreover, DPS and DOLA did not have a method for allocating planning costs for these positions (which are allowable under the 2003 UASI grant). Further, we identified a total of about \$59,000 in expenditures at both departments charged to the 2003 UASI grant for other administrative-type costs, such as custodial services, maintenance and repair services, building rental, communication services, utilities, office supplies, and indirect cost assessments.
- **\$98,000 to purchase unallowable or questionable items**—For 9 of the 49 subrecipient awards we reviewed, the State awarded grant funds for purchases totaling about \$98,000 for items that appeared to be unallowable or were questionable under the federal grant guidelines. For example, some of the items we identified included more than \$38,000 for a passenger bus (2002 grant funds cannot be used to purchase vehicles); more than \$46,000 for a weapons training simulation system (grant funds cannot be used for weapons systems or ammunition); about \$3,500 for general-use computer software (grant funds cannot be used for general-use computer equipment or software); about \$1,800 for subrecipient indirect cost recoveries (grant funds cannot be used to cover indirect costs); and about \$1,500 for facility renovation (grant funds cannot be used for renovation or construction). Subsequent to our transaction testing, DPS reported that the costs for the passenger bus had been removed from the grant and paid from other non-

federal funds. DOLA recovered the unallowable costs for the weapons training system from the subrecipient agency and is working to follow-up on the remaining items we identified.

- **\$7,000 in unapproved expenditures**—During our audit we found that the State reimbursed about \$390,000 in costs for items that could not be readily tied back to the approved grant budget for 9 of the 49 subrecipient awards we reviewed. This is a concern because the approved grant budget is a control to ensure that subrecipients do not purchase items beyond the scope of their approved projects. We worked with subrecipients on this issue and, as of the end of the audit, were able to tie expenditures back to approved grant budgets or budget revisions for all but two subrecipient awards. Expenditures for unapproved items on these two awards totaled about \$7,000.

Controls Over Payments

Payment controls ensure that the State's payments to subrecipients and the subrecipients' payments to vendors are legitimate and for approved purposes. Payment controls mitigate the risk of fraud and abuse. Federal grant guidelines require subrecipients to first use their own funds to purchase approved grant items or services before requesting reimbursement from the State. Grant guidelines also require the subrecipient to maintain vendor invoices and proof of vendor payment to substantiate the expenditure of funds. The State Administrative Agency is also required to maintain appropriate documentation supporting the disbursement of funds.

During our audit we examined documentation available at the State Administrative Agency for \$15.8 million in grant reimbursements paid to subrecipients. We identified \$1.8 million paid by DPS to three subrecipients that was not substantiated by the subrecipients' reimbursement requests. For example, DPS reimbursed one subrecipient about \$1.3 million when documentation supplied with the reimbursement request supported expenditures of only about \$14,000. DPS subsequently provided us with documentation supporting the full \$1.8 million paid to the three subrecipients after we brought these transactions to staff's attention. Effective controls over expenditures require documentation in advance of payment. Finally, we identified about \$22,000 that DPS paid to subrecipients for exercise costs without complete documentation. Although these costs were supported by a summary reimbursement request form, supplemental provisions of DPS' exercise awards also required subrecipients to submit copies of all receipts when seeking reimbursement for costs associated with planning and conducting an exercise. Receipts were missing at the time of our review.

We also examined supporting documentation available at the subrecipient level for \$9.8 million in grant reimbursements, a subset of the \$15.8 million we reviewed at the State Administrative Agency level. Through our on-site reviews, we identified about \$88,000 in grant expenditures for which subrecipients lacked either vendor invoices, proof of vendor payment, or both. (About \$31,000 was the result of a double payment to a subrecipient.) The total amount of \$88,000 is included in our questioned cost figures because documentation to substantiate the grant expenditure was lacking at the time of our review. One subrecipient we visited lacked documentation to support approximately \$331,000 in expenditures because the subrecipient's records were incomplete and in disarray at the time of our site visit. The subrecipient ultimately provided documentation to support all but about \$21,000 of these expenditures. However, it took the subrecipient six months from the date of our site visit to provide this documentation. Subrecipients should have sufficient documentation to support grant expenditures prior to requesting reimbursement from the State Administrative Agency. Without such documentation, there is not a reasonable basis for the draw down of federal funds and, therefore, grant expenditures can be disallowed.

Controls to Prevent and Detect Errors

There are several points in the grant application, award, and reimbursement processes where checks are needed to prevent errors from occurring. For example, the total grant award should add up to the total of approved items set forth in the subrecipient's grant application and budget. Furthermore, grant expenditures should be classified correctly and charged to the correct year. Our audit identified two areas where the State made errors in awarding funds or classifying grant expenditures:

- **Errors in approved grant budgets**—We reviewed 49 applications and corresponding subrecipient awards and identified math errors on 11 (22 percent) approved grant budgets that resulted in the over- or underawarding of funds. Eight subrecipients were overawarded about \$109,000 in funds, and three subrecipients were underawarded nearly \$31,000 in funds. The approved grant budget is a control over subrecipients' expenditure of grant funds. When excess funds are awarded, monies are allocated to agencies without an approved use, reducing the pool of funds available for other projects. When too few funds are awarded, agencies could run short of the monies necessary to complete their approved projects.
- **Misclassified grant expenditures**—Federal guidelines limit the amount of homeland security grant funds that may be used for management and administration. Administrative expenses must be charged to the administrative portion of the grant, and program expenses must be charged to the program portion of the grant. We identified about \$25,000 in

subrecipient administrative expenses under the 2004 State Homeland Security Grant that were charged as program expenses and, therefore, were not charged toward the State's administrative portion. Although the State's grant has not yet been fully expended, failure to account for all administrative costs charged to the grant, including those at the subrecipient level, increases the risk of noncompliance with federal grant guidelines. We also identified two reimbursements to subrecipients totaling about \$118,000 that were recorded in the wrong fiscal year (Fiscal Year 2004 instead of Fiscal Year 2003).

The lack of controls over expenditures identified during our audit jeopardizes the State's compliance with federal requirements, increases the risk that funds are not spent as intended to enhance homeland security, and potentially requires repayment of funds to the federal government. Controls should be strengthened at both state and local levels. At the State Administrative Agency level, DOLA needs to improve its review of all grant applications and awards to ensure that grant funds are only awarded for allowable and reasonable purchases. Additionally, DOLA should review reimbursement requests to ensure that all reimbursements have been authorized within the approved grant award budget and that sufficient documentation exists prior to approving the disbursement of funds. Grant budget and reimbursement request forms should be modified so each item requested for reimbursement can be tracked to the appropriate grant budget line item or budget revision in a straightforward manner. Further, DOLA should increase review of administrative costs paid with grant funds to make sure these costs are allowable, within federal limits, and recorded properly as administrative expenses. Controls should be strengthened in each of these areas by implementing more thorough supervisory review of approvals and payments.

Additionally, DOLA needs to increase monitoring to ensure sufficient controls are in place at the subrecipient level. Neither DOLA nor DPS had a subrecipient monitoring program in place for the Homeland Security Grant Program as required by the Office of Management and Budget's Circular A-133. DOLA conducted limited site visits in October 2004 to review equipment inventory in 12 counties receiving funding under the 2003 grants. During our audit DOLA was working to develop a monitoring program and, effective June 2005, began another round of site visits to subrecipient agencies. To ensure that the State is in compliance with federal grant requirements and that all grant expenditures are appropriate, DOLA will need to continue regular on-site monitoring of all subrecipients. Subrecipient monitoring should include on-site testing of grant files to ensure all grant reimbursements are supported by required approvals and documentation, and test for inventory, equipment readiness, and cash management controls as discussed later in this chapter. Regular follow-up should occur to verify that subrecipients have taken appropriate corrective action. In addition to on-site monitoring, DOLA should

conduct detailed desk reviews of sampled grant expenditures. Desk reviews should examine support for reimbursements, including vendor invoices, proof of vendor payment, travel expenditures, and training and exercise expenditures.

Recommendation No. 6:

The Department of Local Affairs should improve controls over purchasing and payment processes by:

- a. Reviewing grant applications and awards to ensure grant funds are only awarded for allowable and reasonable purchases and activities.
- b. Modifying grant budget and reimbursement request forms to ensure items requested for reimbursement are linked to the appropriate budget line item.
- c. Improving review of reimbursement requests and payments to subrecipients to ensure that all items and activities reimbursed are allowable, included in the approved grant award budget, and substantiated by appropriate supporting documentation.
- d. Establishing controls to ensure that all administrative costs paid with grant funds are allowable and appropriate, recorded as administrative expenses, and within the federal grant limits on administrative expenses.
- e. Strengthening supervisor review of reimbursement requests.

Department of Local Affairs Response:

- a. Agree. Implementation Date: Implemented and Ongoing. This recommendation is a validation of current practice by DOLA. In the past year, DOLA has gone back and reviewed all 2003 and 2004 grant awards for allowability. Additionally, DOLA comprehensively reviewed all 2005 applications through the grant process.
- b. Agree. Implementation Date: Implemented. This recommendation is a validation of current practice by DOLA. DOLA modified the 2005 grant budget forms to ensure items requested are linked to the appropriate budget line item.
- c. Agree. Implementation Date: Implemented and Ongoing. The Department has worked with local and state agencies to resolve or

reconcile nearly all of the costs that were questionable and the \$7,000 in unapproved expenditures are actually approved expenditures that cannot be tied back to a budget revision. This recommendation is a validation of current practice by DOLA.

- d. Agree. Implementation Date: Implemented. DOLA has written and distributed an Administrative Guide for the Homeland Security Grant Program. The guide also can be found online for quick easy reference. Additionally, the Office of Justice Programs recognized DOLA's Administrative Guide as a "best practice" and a model for all other states to follow. Departmental expenditures also follow internal administrative review procedures. This review is done to ensure appropriateness, allowability, and classification, and is done by the Financial Program Administrator, the Homeland Security Program Manager, and the Deputy Director prior to the expenditure being approved for payment.
- e. Agree. Implementation Date: Implemented. This recommendation is a validation of current practice by DOLA. DOLA includes the Financial Program Administrator, the Homeland Security Program Manager and the Deputy Director in the review of all reimbursement requests prior to the Executive Director and Controller's approval.

Recommendation No. 7:

The Department of Local Affairs should improve oversight of homeland security grant expenditures by implementing subrecipient monitoring procedures, including:

- a. Conducting regular site visits and desk reviews.
- b. Developing standard monitoring tools and program checklists to facilitate site visits and desk reviews.
- c. Developing and implementing standard follow-up procedures to ensure that subrecipients take timely and appropriate corrective action on all problems identified.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing. This recommendation is a validation of current practice by DOLA. When DOLA became the State Administrative Agency very little monitoring of grants had been accomplished. As early as September 2004, DOLA staff started

performing field reviews and checking equipment. Since July 2004, DOLA has put a monitoring process in place to include program, financial, and field staff. Program and field staff monitored all 2003 grants by August of 2005. By the end of March 2005, DOLA staff had reviewed every 2003 and 2004 grant award and file. All state agency grant reviews were conducted with the grantee.

Equipment Readiness

Once homeland security grant funds have been spent to purchase approved equipment, controls are needed to ensure the equipment is maintained and ready to deploy on short notice by first responders in the event of an incident. We conducted site visits to 20 subrecipient agencies receiving homeland security grant funding and identified 6 subrecipients (30 percent) that had equipment purchased with grant funds that was not ready for deployment. Specifically, we found:

- Emergency weather information systems in storage awaiting distribution six months after receipt at one location.
- Portable radio chargers unused in their original boxes about 15 months after their receipt at a second location.
- Personal protective equipment in boxes, not inventoried or deployed to the end users at two locations. In one case, the equipment had been received by the subrecipient at the time of our site visit, but the subrecipient did not plan to distribute the equipment for another five months. This same subrecipient reported that their portable 800 MHz radios had not been programmed for use and their hazardous material suits lacked air supplies.
- Damaged communications equipment at two separate locations.

In October 2004 DOLA conducted a limited equipment inventory review in 12 counties receiving funding under the 2003 grants. DOLA staff identified questionable use of equipment or at least one item missing at 3 of the 12 counties they visited. In one case, a piece of communications equipment belonging to a county was being used by the vendor as “show equipment” to support equipment sales in the region.

During our site visits we also noted instances of individuals not being trained on the proper use of purchased equipment. In one case, the subrecipient reported that a piece of communications equipment was placed for several months with an agency

that did not have the technical capability or training to use it. In another case, the subrecipient reported that a piece of search-and-rescue equipment broke on the first day it was used because staff at the receiving agency were not sufficiently trained.

The State has not provided subrecipients with sufficient guidance regarding equipment readiness or responsibility for the storage, repair, and maintenance of equipment purchased with homeland security grant funds. About half of the subrecipients we visited used an equipment release form or other type of written agreement to assign responsibility for equipment purchased with grant funds to the receiving agency. However, this was not a universal practice, and some subrecipients relied only on verbal agreements or an implied understanding that the receiving agency would assume responsibility for purchased equipment. We consider the use of written equipment release forms to be a best practice that program staff should require for all subrecipients under the Homeland Security Grant Program.

Recommendation No. 8:

The Department of Local Affairs should work with subrecipients to establish policies and procedures for the appropriate storage, use, maintenance, repair, and overall readiness of equipment purchased with homeland security grant funds. Policies should require the use of written equipment release forms and maintenance agreements. Implementation of these equipment readiness policies should be evaluated periodically through DOLA's subrecipient monitoring program.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing. The stated complaints occurred prior to DOLA being the SAA and having the opportunity to put a monitoring process in place. DOLA is currently addressing the need for stricter controls of equipment purchased with SHSG through monitoring and inventory. DOLA will continue to review our procedures with the fiscal agent for appropriateness and update as needed. Each fiscal agent is responsible for purchasing items on behalf of the entities within the region (i.e., fire districts, hospitals, tribes, police departments, etc.). Intergovernmental agreements or Memorandum of Understanding exist. Although there is no standard "boilerplate" language, each fiscal agent requires a written agreement between the fiscal agent and the beneficiary of the equipment.

Cash Management

Cash management controls ensure that grant funds are retained and available for use by the granting agency until needed to pay reimbursements. Federal rules require the State and its subrecipients to establish cash management controls to prevent drawdown of federal grant funds before their use. To ensure compliance with federal cash management rules, the Administrative Guide issued in 2003 by DPS allowed subrecipients to request reimbursement of grant funds up to 10 days prior to their actual expenditure. The Administrative Guide issued by DOLA in September 2004 does not establish a specific number of days, only stating that “the Federal Office of the Comptroller does not allow for excess grant funds on hand with [subrecipients]” and that subrecipients should contact their DOLA grant manager for more specific instructions.

During our site visits our tests of \$9.8 million in grant expenditures showed that a total of nearly \$1.7 million, or 17 percent, was not spent in accordance with cash management policies established by the State Administrative Agency. Of this \$1.7 million, about \$300,000 was received but not spent for up to 29 days (average of 17 days), and about \$1.4 million was received but not spent for between 30 and 304 days (average of 81 days). For example, one local agency requested and received reimbursement of about \$21,000 for a decontamination shelter in November 2004. The subrecipient award to this local agency expired in February 2005. At the time of our site visit in March 2005, the agency had neither paid the vendor nor received the shelter. Subsequent to our site visit, DOLA required the subrecipient to refuse delivery of the item and return the funds to the State in August 2005. DOLA then reawarded funding to the subrecipient agency with a new grant performance period, thereby allowing the subrecipient agency to take delivery of the equipment. In total, the funds were distributed but not used for about nine months. DOLA did not recover any interest on the funds. We provided data on the cash management problems we identified at the subrecipient level to both DPS and DOLA for follow-up.

In addition to problems identified with subrecipients’ requesting reimbursements too early, we found problems with the State’s own cash management controls. Specifically, DPS prematurely authorized grant expenditures and paid subrecipients a total of more than \$210,000 over a period of six to nine months before the State was allowed to draw down any federal funds. According to DPS staff, the grant drawdowns from the federal government were delayed until the State could meet “special conditions” required by the U.S. Department of Homeland Security. Although DPS was aware that it could not draw down federal funds, it authorized subrecipients to spend the funds anyway and covered subrecipient reimbursements

during the lag time with state general funds. This resulted in about \$5,300 in lost interest for the General Fund.

Several factors contributed to poor controls over cash management, including unclear program guidance, conflicting information from grant managers, and lack of subrecipient monitoring by program staff. Local purchasing policies and cash flow limitations also contributed to cash management violations. Noncompliance with federal cash management rules can create an interest liability for the State and local governments. Interest can be assessed on federal funds drawn prematurely, even when those funds are held in a non-interest-bearing account. In one recent instance, a subrecipient requested reimbursement for equipment that it had not purchased and held the funds for approximately five months. DOLA required the subrecipient to remit the \$190,000 in funds to the State along with interest of more than \$1,700 to the federal government for failing to spend grant funds in accordance with federal cash management regulations.

As the primary recipient and administrator of federal homeland security grant awards, the State is ultimately responsible for ensuring compliance with cash management standards and covering any interest owed to the federal government as a result of noncompliance. To improve compliance with cash management standards, DOLA should establish and communicate clear written policies and address these requirements in subrecipient training programs. Additionally, on-site monitoring should include testing for compliance with cash management requirements and include recovery of grant funds or interest earnings when cash management policies are not followed. Clear policies and regular monitoring are especially important because ODP allows subrecipients under the 2005 homeland security grants to draw down funds up to 120 days in advance of expenditure. Such funds must be held in an interest-bearing account until needed, and interest earned must be reverted to the federal government. Finally, DOLA should establish controls to ensure that subrecipients are not reimbursed until the State is able to access the federal grant funds.

Recommendation No. 9:

The Department of Local Affairs should improve controls to ensure compliance with federal cash management regulations. This should include:

- a. Establishing clear written policies and procedures; consistently communicating these requirements to subrecipients; and reviewing cash management regulations, policies, and procedures in established subrecipient training programs.

- b. Testing for compliance with cash management requirements in subrecipient monitoring programs. Follow-up procedures should address the recovery of grant funds or interest earnings when cash management policies are not followed.
- c. Ensuring the availability of federal funds for drawdown prior to reimbursing subrecipients for grant expenditures incurred.

Department of Local Affairs Response:

Agree. Implementation Date: Implemented and Ongoing. Over the course of the entire Homeland Security Grant Program, cash management requirements have changed at both the state and federal level. DOLA addresses cash management policies and procedures with the Administrative Guide. The Guide was revised in September 2004 and again in April 2005. DOLA has not fully completed the testing of the cash management procedures.

Exercise Awards

According to the 2005 State Homeland Security Strategy, goals related to planning, training, and exercises, taken together, represent the most direct means to improve prevention, response, and recovery capabilities. In particular, exercises are used to identify gaps and needs in prevention and response preparedness efforts. Exercises also provide first responders the opportunity to practice using purchased equipment in a realistic emergency response situation. More than \$3.2 million has been awarded during the 2002–2005 grant cycles for exercises. However, we found that exercises funded with homeland security grant funds are not always materializing.

During our audit we reviewed controls to determine whether subrecipients receiving homeland security grant funding for exercises were using monies appropriately to conduct exercises as planned. We identified three subrecipients who reverted a total of about \$85,500 in exercise funds to the State after the funds sat idle for several months. The first subrecipient reverted its entire award of \$50,000 after eight months when participating agencies withdrew their support for the exercise. The second subrecipient reverted its entire award of \$15,000 after six months because the timeline for expending the funds was very quick and that the subrecipient lacked in-house expertise or outside consultants to plan and execute the exercise. Finally, a third subrecipient reverted approximately \$20,500, or 41 percent of its total exercise award, to the State. Unlike the prior two cases, this third subrecipient was very active and had conducted several different exercises. This subrecipient simply was

awarded more exercise funds than were actually needed or could be used within the grant performance period.

We found that with few exceptions, applications for exercise awards did not include specific details on how funds would be used, indicating that exercise planning generally occurs subsequent to receiving the award. Program staff reported that exercises can take considerable time to plan and execute. Subrecipients also reported to us that exercises are not a regular enough occurrence in many agencies to be seen as a priority and that full-scale exercises can overwhelm small agency resources. Finally, regional coordinators expressed a concern that the State had arbitrarily determined that all regions would be required to spend at least \$150,000 of their 2005 grant awards on exercise activities without considering whether this was an appropriate amount of funds for each region.

It is an inefficient and ineffective use of grant funds to have exercise awards sitting unused for several months only to revert to the State. Proper controls are needed to ensure followthrough and completion of exercises using homeland security grant funds. The State needs to ensure that sufficient information on planned exercises is included in each grant request. For example, all applications for exercise funding should address the scope, goals, and objectives for each exercise; participating agencies and their role in planning and conducting the exercise; key deliverable dates; and a preliminary budget for how exercise funds will be spent. The regional grant process may help to alleviate some of the coordination and planning issues facing smaller agencies. However, program staff should still explore ways to provide more direct planning and logistical support to subrecipients lacking sufficient resources. This could include using preexisting exercise plans. Finally, program staff should improve and focus their oversight of exercise awards to identify early on those situations where exercise funds are not likely to be used so the funds can be reallocated in a more timely and effective manner for use on other exercise awards.

Recommendation No. 10:

The Department of Local Affairs should ensure the efficient and effective use of exercise funds as part of the State's preparedness efforts by:

- a. Requiring subrecipients to provide more detailed planning information for exercise funds in a timely manner, including the exercise scope, goals, and objectives; participating agencies; key deliverable dates; and a detailed budget for how exercise funds will be spent.

- b. Providing more direct planning and logistical support to subrecipients awarded exercise funds.
- c. Improving monitoring and oversight of exercise awards for progress toward established goals, objectives, and deadlines.

Department of Local Affairs Response:

- a. Agree. Implementation Date: Implemented and Ongoing. DOLA recognizes exercises are extremely important and requires regions to fund exercises through the base funding allocation. DOLA not only requires detailed, well documented planning but also has the ability to assist local and state agencies. Prior to the Homeland Security Grant Program being relocated to DOLA, DPS had very little staff to accomplish effective planning. DOLA has one exercise officer and field staff who work with local emergency responders to plan and implement exercises.
- b. Agree. Implementation Date: Implemented and Ongoing. DOLA provides support to subrecipients and has since the Office of Emergency Management was transferred to DOLA in 1992. More direct planning and logistical support will require more General Funded FTE. Additional support is contingent upon our ability to obtain additional resources.
- c. Agree. Implementation Date: Implemented and Ongoing. This recommendation is a validation of current practice by DOLA. Discussed more fully in an earlier recommendation (Recommendation No. 7).

Auditor's Addendum:

Hiring of dedicated exercise program staff is an allowable cost under the Homeland Security Grant Program. Therefore, resources to provide more direct logistical support for exercise activities could come from the State's portion of the federal grant.

Statewide Coordination

Chapter 3

Introduction

A key component of homeland security preparedness is an infrastructure that promotes information sharing and coordination among multiple federal, state, and local government agencies. Coordination ensures that resources can be deployed quickly when needed to prevent, intervene, or respond to an act of terrorism or a major disaster. The Department of Local Affairs (DOLA) reports that it began planning a State Multi-Agency Coordination Center (MACC) in 2003 to address the State's infrastructure and capacity for coordinating prevention and response to emergencies and acts of terrorism. According to DOLA, the MACC brings together federal, state, and local agencies to support a single, coordinated homeland security and all-hazards emergency management operation.

In December 2004 DOLA moved the State Emergency Operations Center and Division of Emergency Management from "The Bunker" at Camp George West in Golden, Colorado, to the second floor of South Metro Fire Rescue District's (South Metro) administrative office building located in the Denver Tech Center. South Metro is in the process of purchasing the administrative building and is financing its purchase through Certificates of Participation issued in April 2002. The Department of Public Safety (DPS) also relocated the Office of Preparedness Security and Fire Safety and the Colorado Information Analysis Center to the MACC location. Collectively, these offices and agencies represent the core components of the MACC.

To finance the acquisition (i.e., sublease) and build out the MACC office space, DOLA awarded South Metro a series of federal and state grants. In total, DOLA awarded South Metro \$5.9 million in grants from the Homeland Security Grant, Energy and Mineral Impact Assistance, and Chemical Stockpile Emergency Preparedness Programs. (The key events and transactions related to these grants are summarized in Appendix D.) We reviewed the substance of these grant awards and found that DOLA did not comply with applicable state and federal laws and fiscal controls as discussed in the remainder of this chapter.

MACC Grant Awards

One of DOLA's key functions is to oversee grants awarded to other state agencies and local governments. During Fiscal Year 2005 DOLA granted almost \$192 million in federal and state funds to local governments for various purposes. In general, DOLA's grants are intended to support an activity or program carried out by the local government, for the local government's use or benefit. Depending on the grant and its requirements, DOLA has a specified application and review process that local governments must follow to be awarded grant monies. These processes are intended to establish a level playing field to ensure local governments have fair and equitable access to grant monies and that grant allocations have a reasonable basis. We reviewed DOLA's processes for awarding the federal grant funds used to occupy, furnish, and equip the MACC and identified problems in several areas.

First, DOLA provided \$5.9 million in grant funds to South Metro for state procurement purposes rather than for local government needs. In other words, DOLA used these grant funds to benefit the State. South Metro had office space available that DOLA wanted to use for the State's MACC. South Metro wanted to build a new 911 Dispatch Center (also referred to by South Metro as the MACC; however MACC is South Metro's acronym for Multi-Agency *Communications* Center). Through a less than transparent series of transactions, DOLA granted South Metro the funds to help design and equip South Metro's 911 Dispatch Center in exchange for the State's lease of office space for the State's MACC. DOLA also awarded several other grants to South Metro so that the State could build out and equip office space for the State's MACC. On paper, DOLA granted about \$5.9 million to South Metro; however, substantively, DOLA awarded these funds to itself, funneling the grant funds through South Metro to pay for a state building project. The \$5.9 million was paid from the grants listed below and used by DOLA as follows:

- **\$1.6 million 2004 State Homeland Security Grant.** DOLA used these funds to make a significant advance payment toward the purchase price of the second floor of South Metro's administrative office building and to purchase a new microwave antenna for the MACC. In September 2004 DOLA entered into a 20-year sublease with South Metro. The sublease includes a purchase option which states that DOLA can pay the purchase price of the building in one of two ways, either payment of its rent obligations over 20 years, or by paying an agreed-upon net present value of all 20 years base rent obligations. In August 2004 South Metro's Board of Directors passed a resolution invoking the purchase price section of the purchase option in the sublease. The resolution set the net present value of DOLA's base rent obligations at \$1.5 million, thereby allowing DOLA to

prepay all 20 years of its base rent obligations. The \$1.5 million represents payment of all rent obligations due; however, in order to complete the purchase option, the State will also have to pay its share of engineering, planning, surveying, and other costs associated with converting the property to condominium ownership. South Metro's resolution specifically called for payment of the \$1.5 million to be made as follows: "the State shall prepay four hundred thousand dollars (\$400,000) of the base rent . . . and the State shall pay for the design, construction, and equipping of certain facilities ("Facilities") approved by [South Metro], and reasonably acceptable to the State which have an actual cost of not less than one million, one hundred thousand dollars (\$1,100,000)."

In March 2005 DOLA's Executive Director accepted the terms of the resolution. DOLA paid the \$1.5 million required in the resolution by giving South Metro a homeland security grant that included:

- \$400,000 cash for prepayment of the State's 20-year sublease
 - \$1.1 million for South Metro's 911 Dispatch Center (in exchange for the remaining amount due on the State's sublease)
 - An additional \$100,000 for a new antenna for the State.
- **\$1.6 million 2003 Part II State Homeland Security Grant.** DOLA awarded these grant funds to finance the State's security improvements to the building. South Metro staff stated that the existing security in the building was sufficient to meet South Metro's needs; however, DOLA had additional security needs that it funded through the grant to South Metro. The funds were awarded from the local government portion of the State's federal grant award and represented 96 percent of total funds specifically earmarked for local governments to use for critical infrastructure protection. Only two other local governments received critical infrastructure grants from this program, and in total, they received about \$72,000.
 - **\$1.7 million from the 2004 and 2005 Energy and Mineral Impact Assistance Grants.** This program provides federal and state funds to communities socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels. According to state statute [Section 34-63-102(1)(a), C.R.S.], communities are to use these funds for planning, construction, and maintenance of public facilities and for public services. DOLA awarded two mineral impact grants to South Metro: (1) \$20,000 from the 2004 state severance tax portion to finance the design of the State's office space at the MACC and (2) \$1.7 million from the 2004 and 2005 federal mineral leasing funds portion to finance "the design and construction of the State Emergency Operations Center, construction of

office space, acquisition of communications, technology, and microwave systems to create a regional multi-agency coordination center to serve both local and state agencies. The project includes acquisition of furniture and fixtures necessary for the new facilities. The South Metro Fire Rescue District will serve as the contractor for the project.”

- **\$933,000 from the 2003–2005 Chemical Stockpile Emergency Preparedness Program Grants.** This federal program provides funding to communities around the nation’s eight remaining chemical weapons stockpiles, one of which is located in Pueblo, Colorado. The Federal Emergency Management Agency (FEMA) awards chemical stockpile funds to both DOLA and Pueblo County annually. Funds are to be used to enhance emergency operations. DOLA granted South Metro \$933,000 in chemical stockpile funds to “outfit the new State Emergency Operations Center with appropriate Audio Visual, Telecommunications, automated data processing equipment, and related services improving the State’s capacity to plan for and respond to accidents associated with the storage and disposal of chemical warfare materials.”

In each instance, these grants to South Metro were actually used by the State to further the acquisition, improvement, and security of the State’s MACC office space.

Second, DOLA did not ensure a level playing field among local governments when awarding these grants. DOLA did not use a formal grant application and review process when it awarded the homeland security and mineral impact grants to South Metro. For the \$1.6 million 2004 State Homeland Security Grant, South Metro did not compete with other local governments to receive grant funds. All other local agencies receiving homeland security grant funds in 2004 had to apply through a regional process earlier in the year conducted by the Department of Public Safety. Additionally, for the mineral impact grants totaling \$1.7 million, DOLA did not require South Metro to submit the standard detailed five-page project application. Instead, South Metro received an out-of-cycle grant by submitting two, one-page memoranda to the DOLA Executive Director. One of the memoranda stated “South Metro Fire Rescue is in need of assistance to develop and construct the MACC. We believe the costs will not exceed \$1.2 million.” The MACC referred to here is the State’s project, not South Metro’s 911 Dispatch Center. The second memorandum requested a \$500,000 funding increase, bringing the total mineral impact grant to \$1.7 million. Further, South Metro’s total mineral impact award of \$1.7 million greatly exceeded the typical award provided to most local governments. According to DOLA’s 2004 Energy and Mineral Impact Assistance Program Annual Report, the grants awarded to local governments ranged from \$2,000 to just over \$1.2 million. There were only two awards in 2004 of about \$1.2 million, one to South Metro for the State’s MACC and one to Rio Blanco County for improvements to a county road.

The average amount of mineral impact funding awarded to local governments in 2004 was \$210,000, and South Metro received three times the recommended maximum award of \$500,000. Information for the 2005 mineral impact awards is not yet available. Finally, according to DOLA's 2004 Energy and Mineral Impact Assistance Program Annual Report, South Metro did not provide cash or in-kind matching funds for the mineral impact grant funds, although program guidelines strongly encourage applicants to provide a match. Of 289 municipalities that received mineral impact grants in 2004, 246 (or 85 percent) provided matching funds. DOLA reports that mineral impact grant recipients in 2004 provided about \$10 in matching funds for every dollar of grant funding awarded.

Third, DOLA did not comply with federal laws and guidelines when it used homeland security grant funds to pay for its office space at South Metro. Of the \$1.6 million in grant funds DOLA awarded to South Metro, \$1.5 million was advance payment toward the purchase price as outlined in the State's 20-year sublease agreement. According to the federal Office of Justice Programs, (1) grant funds cannot be used to prepay a long-term lease; (2) lease expenses are not allowed if they are being made toward a purchase; and (3) lease expenses are only allowable as an administrative cost for the administration of Homeland Security Grant Program. Additionally, the \$1.5 million (of which \$1.1 million was funding for South Metro's 911 Dispatch Center and \$400,000 was a cash payment) was provided in exchange for the State's right to occupy the second floor of South Metro's building in perpetuity. According to guidance from the federal Office of Justice Programs, "a subgrant issued for payment of the primary grantee's [the State's] expenditures is unallowable and cannot be charged to the grant." Finally, the State's payment of \$400,000 to South Metro was not a reimbursement for a cost incurred by South Metro under its 2004 State Homeland Security Grant. Instead, the \$400,000 cash payment was deposited into South Metro's general fund and was available for South Metro's broader use. Federal guidelines require homeland security grant payments to reimburse actual costs incurred by subrecipients under their approved grant award.

Subsequent to our questioning DOLA's award of homeland security grant funds to South Metro in exchange for an obligation under DOLA's sublease, DOLA adjusted the way that the lease transaction was recorded in the State's accounting system (COFRS). As of the end of the audit, DOLA recorded the transaction in COFRS as a donation of a \$1.1 million building. However, South Metro did not donate the building. South Metro cannot donate a building that it does not own. Rather, South Metro accepted \$1.1 million in 2004 homeland security grant funds for its 911 Dispatch Center as prepayment of DOLA's 20-year sublease. Characterizing the transaction as a donation rather than a prepayment to acquire an interest in the property misrepresents the substance of the transaction.

In general, DOLA has broad decision-making authority to allocate grant funds. For some grant programs, DOLA has established advisory committees that make recommendations concerning grant awards. DOLA's Executive Director has final decision-making authority and considers advisory committee recommendations in his decision-making process. The Executive Director used this authority to approve the grants that created and funded the MACC.

The State operates in a tight budget environment and funding for new programs is scarce. The Homeland Security Grant Program brought a significant influx of new funding to Colorado, and DOLA reports that funding received from the Energy and Mineral Impact Assistance Program is growing. Considering the importance of these and other discretionary grant programs to stakeholders, the General Assembly may want to consider whether statutes should be more prescriptive in defining processes for allocating these grant funds. One option the General Assembly could consider is to change advisory committees to decision-making bodies with increased authority over funding decisions. Public trust and government accountability are better served with sufficient checks and balances when allocating grant funds.

Recommendation No. 11:

The Department of Local Affairs should work with the appropriate federal and state oversight agencies to evaluate questioned costs associated with the State's MACC and determine whether repayment of funds used to finance the MACC is necessary.

Department of Local Affairs Response:

Agree. Implementation Date: January 2006. DOLA will work with the Office of Grant Operations, the Office of Domestic Preparedness, the State Controller's Office, and the Attorney General's Office to ensure proper utilization of grant funds. This recommendation is a validation of current practice by DOLA.

Recommendation No. 12:

The General Assembly should consider options for formalizing grant processes and strengthening controls over homeland security grants, mineral impact grants, and DOLA's other discretionary grant programs. Options include prescribing more formal grant review processes and changing advisory committees to decision-making bodies with increased authority over funding decisions.

Department of Local Affairs Response:

Disagree. DOLA will endeavor to satisfy federal grant specific criteria and statutory requirements. Substantial controls and limitations are in place with criteria for spending from the Office of Domestic Preparedness. The grant process allows expenditures as needed to occur expeditiously without an additional level of review. Further, state governments have only sixty days to award and allocate homeland security grant dollars.

Auditor's Addendum:

Controls should not be bypassed in an effort to expedite grant awards. DOLA's financing of the State MACC with funds intended for the benefit of local governments indicates a need for the State to tighten controls and reduce DOLA's discretionary authority over homeland security and other grant programs.

State Fiscal Controls

In addition to the concerns raised in the preceding comment, it appears that DOLA circumvented state statute and fiscal controls. First, DOLA did not comply with state statutes when it made an advance payment toward the purchase price of its office space without first having the facilities appraised. Statute [Section 24-30-202(5)(b), C.R.S.] requires that “before any state department, institution, or agency enters into any option or agreement to purchase any real property or any interest therein that has a total purchase price of more than one hundred thousand dollars, such department, institution, or agency shall contract with at least one but not more than three independent appraisers for an estimate of the value of such property.” DOLA’s payment of \$1.5 million for all remaining base rent obligations through September 30, 2024 (i.e., advance payment toward the purchase price of its office space) constitutes “obtaining an interest in real property.” At the time of our audit DOLA had not completed an appraisal of its second floor office space in South Metro’s building. According to DOLA, at the time the sublease was signed the State Controller’s Office did not require DOLA to obtain an appraisal until the purchase option is exercised. However, when DOLA accepted South Metro’s resolution and awarded a grant to South Metro to make a payment of \$1.5 million toward the purchase price for the 20-year lease, DOLA engaged the purchase option in the contract. Thus, an appraisal would be needed to ensure sufficient value for the State’s investment in the property.

Second, State Fiscal Rules require State Controller and Attorney General approval. The original lease was approved by the State Controller's Office and the Attorney General's Office. However, the resolution (the key document invoking the purchase option) was not reviewed by either the State Controller's Office or the Attorney General's Office. Appraisals and legal reviews are intended to ensure that the State's interests are adequately protected. We asked the Attorney General's Office for an informal review of the sublease and resolution. It appears that a number of legal issues surrounding the sublease and resolution are in question, including whether South Metro's resolution and DOLA's acceptance of the resolution constitute a binding agreement. These issues need to be resolved by DOLA to ensure that the State's interests are protected.

Third, DOLA's significant advance payment toward the purchase price, furnishing, and equipping of the MACC was not reviewed or approved by the Joint Budget Committee prior to executing the sublease and awarding all grant funds. Additionally, DOLA did not seek spending authority to use mineral impact monies for equipping the State's MACC space. (State statute and grant guidelines allow state agencies to use federal mineral impact monies if approved by the Joint Budget Committee.) By granting \$1.7 million in mineral impact funds to South Metro, DOLA bypassed appropriations controls.

Fourth, DOLA bypassed the State Controller's Office's required review. The State Controller's Office is responsible for reviewing all contracts, including leases and purchase agreements, to ensure the agreements comply with state laws, fiscal procedures, and generally accepted accounting principles. According to interviews with staff at the State Controller's Office, DOLA failed to inform the State Controller's Office in July 2004 when the federal Office of Justice Programs overrode the federal Office for Domestic Preparedness' initial approval to use homeland security funds to prepay a long-term lease. The State Controller's Office signed the sublease in September 2004, apparently not aware of the federal reversal. Additionally, DOLA bypassed the State Controller's Office's approval when it accepted South Metro's offer to prepay \$1.5 million toward the purchase price in the sublease. South Metro specifically cited the purchase option in the sublease through a provision in the resolution that states: "the State and [South Metro] desire to agree upon the net present value of the base rent under the sublease for the purposes of paying all remaining base rent obligations due through September 30, 2024 as set forth in [the purchase option] of the sublease." However, the purchase price provision in the sublease agreement was preceded by several other contract provisions requiring DOLA to obtain (1) an appraisal of the space, (2) a State Buildings Program review of the building, and (3) other required agency, board, commission, or legislative approvals. In essence, DOLA made a significant advance payment toward the purchase price for the MACC without the ability to obtain title to the property and without the approval or consent of the authoritative bodies of

state government. As discussed earlier, South Metro is financing its purchase of the building through Certificates of Participation and, therefore, does not currently hold title to the property.

Finally, DOLA has not executed a formal agreement for the Department of Public Safety's (DPS) use of space at the MACC. DOLA's sublease with South Metro allows DOLA to sublet space to DPS. According to staff at the Division of State Buildings and Real Estate, the sublease should be formalized through an interagency agreement or another legal document. Although staff at DOLA stated that they plan to formalize the sublease with DPS through an agreement, as of the end of the audit, no such agreement was in place.

Fiscal controls exist to safeguard public funds, ensure funds are spent efficiently and within the program intent, and prevent fraud and abuse. Because DOLA bypassed controls, the State could be liable to the federal government for repaying funds used inappropriately. Additionally, DOLA has placed \$5.9 million at risk by making a substantial advance payment toward the purchase price of the MACC space and investing in significant improvements without obtaining an ownership interest in the property. Although South Metro is required by its lease-purchase agreement to maintain insurance to cover the structure in case of damage or loss, DOLA only has insurance coverage for its personal property in the building. Therefore, if for some reason the building becomes uninhabitable, DOLA has paid its entire lease obligation for 20 years without legal assurance that it could recoup those lease payments. Further, if DOLA desires to move to a different location, the State may not be able to recoup its investment.

Recommendation No. 13:

The Department of Local Affairs should resolve issues with the transactions related to the sublease and build out of the MACC facility by:

- a. Working with the State Controller's Office, Joint Budget Committee, and Attorney General's Office to obtain review and approval of the sublease, resolution, and its acceptance by DOLA, and take additional steps, as needed, to ensure that the State's interests are protected.
- b. Completing development of a formal agreement for the Department of Public Safety's occupancy of the space.
- c. Ensuring accountability for and transparency in its grant administration processes by complying with state statute, fiscal controls, and federal grant requirements.

Department of Local Affairs Response:

- a. Partially Agree. Implementation Date: Implemented and Ongoing. DOLA agrees it will pursue additional means to assure the State's interests are protected. The Department believes it involved all appropriate state agencies in completing the sublease. All applicable state fiscal and procurement rules were followed. DOLA is required statutorily to enlist the Division of State Buildings and Real Estate to negotiate and execute the sublease. Colorado Revised Statute 24-30-1303(1)(a), requires the Department of Personnel and Administration, Division of State Buildings and Real Estate to "negotiate and execute leases on behalf of state government for land, buildings, and office or other space." The Division of State Buildings and Real Estate in the Department of Personnel and Administration was consulted and participated in the development and approval of the lease. Additionally, the acceptance letter was written with the guidance from the Division of State Buildings and Real Estate. The sublease was reviewed by both the State Controller's Office and the Attorney General's Office. The State Controller subsequently signed and executed the sublease. Additionally, the State Controller's Office consulted on the transaction and consensus was reached among the agencies on the appropriate accounting transaction. DOLA will continue working with the SCO on transactions related to the sublease. The Governor's Office of State Planning and Budget gave approval as required by executive order. The facility was built utilizing federal funds, the Department does not believe legislative authorization was required.

Auditor's Addendum:

As noted in the comment, DOLA unilaterally accepted South Metro's resolution (which invoked the purchase option) without required appraisals, approvals, or the ability to obtain title. Further, DOLA did not notify the State Controller's Office of the federal government's rescission of its approval to use homeland security grant funds for DOLA's long-term lease payments. Federal funds should receive the same level of scrutiny and oversight as state funds.

- b. Agree. Implementation Date: December 2005. DOLA and DPS are in the process of developing and executing an interagency agreement.
- c. Agree. Implementation Date: Implemented and Ongoing. This recommendation is a validation of current practice by DOLA. The Department's grant administration processes do comply with state statute, fiscal controls and federal grant requirements. DOLA will

continue to ensure our processes comply and will monitor the processes as statutes, rules, and controls change.

Accounting Issues

Federal guidelines, state fiscal rules and procedures, and generally accepted accounting principles set forth specific requirements for recording and reporting the use of funds. Authoritative guidance is intended to ensure that grant funds are accounted for properly and used for the purposes intended. We reviewed the \$3.2 million in reimbursements to South Metro as of April 2005 from the mineral impact, chemical stockpile, and homeland security grants and identified problems with inappropriate allocation of grant expenditures, reimbursements, and inventory records.

Allocation of Grant Expenditures

According to the federal Office of Justice Programs' Financial Guide, all grant expenditures must be for approved purposes and charged to the correct grant. We reviewed the grant reimbursements and supporting documentation for the \$3.2 million spent to acquire and build out the MACC and identified about \$12,600 in grant expenditures paid from the incorrect grant award:

- About \$6,200 in expenditures were charged to the mineral impact grants for items related to the 911 Dispatch Center, which is budgeted for in the 2004 State Homeland Security Grant award.
- About \$6,400 in expenditures were charged to the 2004 State Homeland Security Grant award for items related to DOLA's build out of the second floor, which is budgeted for in the mineral impact grant awards.

Additionally, we found that some vendors performed services that relate to multiple grants. Because the vendors did not always invoice separately for each different grant project, it is difficult to determine whether individual expenditures met the approved intent of the grant to which they were charged. We found at least 12 vendors that were each paid from more than one of South Metro's grants. One vendor was paid about \$1.1 million for construction services related to South Metro's 911 Dispatch Center and DOLA's offices at the MACC. The 911 Dispatch Center and design and construction of DOLA's offices are two separate and distinct grant projects paid for with homeland security funds and mineral impact funds, respectively. This vendor received about \$1 million from the mineral impact grants and about \$100,000 from the 2004 State Homeland Security Grant. According to

DOLA, this vendor provided a separate proposal for each project and invoiced separately. We identified one instance where the vendor invoiced about \$100,000 under the mineral impact grant project and DOLA ultimately paid the invoice from the homeland security grant project.

Reimbursements

As discussed in Chapter 2, we identified problems with controls over payments made to subrecipients in the Homeland Security Grant Program. We found similar problems with DOLA's controls over payments in the mineral impact and chemical stockpile grants awarded to South Metro. Specifically, we found about:

- \$150,000 in duplicate reimbursements to South Metro.
- \$130,000 where DOLA paid the incorrect amount to South Metro.
- \$13,000 paid for items that were not in the approved grant budget.

In all cases, we provided the inaccurate payment information to DOLA, and DOLA resolved the issues. Additionally, with respect to the chemical stockpile grants, DOLA could not provide us with documentation showing how approximately \$929,000 in chemical stockpile grant funds paid to South Metro as of September 17, 2005, tied to the line items in the approved 2003, 2004, and 2005 Chemical Stockpile Emergency Preparedness Program budgets.

These issues result from DOLA's and South Metro's practices for approving grant expenditures. According to South Metro, staff make a notation on the invoice charging a specific grant for the reimbursement and then submit the invoice to DOLA. DOLA staff review the invoices and determine whether they agree with South Metro's decision and, if not, make a notation on the invoice to charge a different grant. Although each grant was awarded for a distinct purpose, DOLA staff frequently paid for expenditures related to the MACC as though all grants were awarded for one large project. Payment controls are needed when reconciling grant expenditures to grant budgets to ensure that grant budgets match expenditures and that items are reimbursed only once.

Inventory

Federal grant guidelines and state fiscal procedures require that grant recipients and subrecipients take a physical inventory of property valued over \$5,000 acquired with grant funds. According to the State's Fiscal Procedures manual, agencies should protect assets regardless of cost and, as a result, may also need to maintain inventory control over assets valued at less than \$5,000. This would include maintaining adequate records of property acquired throughout its useful life and until disposal. Appropriate property records should include a description of the property, serial numbers or other identification numbers, date the property was acquired, the cost of the property, and the location of the property, among other information.

We reviewed records at DOLA and South Metro and found that neither agency had a system for tracking, valuing, and recording almost \$1.5 million in equipment purchased with federal grant funds. (According to South Metro's invoices, of the \$1.5 million, about \$320,000 was purchased with homeland security grant funds, about \$234,000 was purchased with mineral impact funds, and about \$906,000 was purchased with chemical stockpile funds.) When we asked South Metro for inventory records, South Metro initially reported that all of the equipment was owned by the State. Similarly, when we asked DOLA for inventory records, DOLA reported that all of the equipment was owned by South Metro. The parties finally decided that South Metro owns all items purchased with homeland security and mineral impact funds and the State owns all items purchased with chemical stockpile funds. During our audit South Metro was in the process of drafting an agreement to lease the approximately \$234,000 in equipment purchased with mineral impact funds to DOLA for \$10. The equipment that South Metro is leasing to DOLA includes security card access readers, name plates for the offices on the second floor, and furniture at the MACC and at DOLA's offices at 1313 Sherman Street.

As of the end of the audit, neither DOLA nor South Metro had a complete inventory of all furniture or equipment purchased with grant funds. With respect to the homeland security grants, the Office of Justice Program's Financial Guide states that "if the awarding agency is made aware that the recipient/subrecipient does not employ an adequate property management system, project costs associated with the acquisition of the property may be disallowed." In all cases, systems for tracking and recording inventory mitigate risks that inventory could be lost through theft.

DOLA should improve its accounting for grant funds. As stated previously, DOLA is responsible for awarding approximately \$192 million in grant funds for about 15 federal and 11 state grant programs. Accounting controls can reduce the risk of fraud and abuse and the wrongful expenditures of funds.

Recommendation No. 14:

The Department of Local Affairs should improve its accounting for federal and state grant funds and equipment purchased with those funds by:

- a. Reviewing all South Metro grant expenditures to date and reclassifying expenditures as necessary to ensure that expenditures are paid from the appropriate grant award.
- b. Working with South Metro to ensure that all equipment is properly inventoried and accurately reflected in both South Metro's and the State's financial statements.

Department of Local Affairs Response:

- a. Agree. Implementation Date: Implemented and Ongoing. DOLA reviewed grant expenditures with South Metro and all grant expenditures are classified properly and paid from the appropriate grant award.
 - b. Agree. Implementation Date: December 2005. The Department and South Metro are in the process of properly inventorying equipment and will ensure they are accurately reflected in the financial statements.
-

Statewide Security

Prior to acquiring the facility housing the MACC, DOLA's Division of Emergency Management and State Emergency Operations Center, and the Department of Public Safety's Office of Preparedness, Security, and Fire Safety occupied 25,500 square feet of office space, including a secure bunker, at Camp George West in Golden, Colorado. According to information provided by DOLA, Camp George West was completed in 1967 as a hardened, safe site that could be used to evacuate the Governor and the cabinet members in case of a nuclear attack. The facility includes a number of security enhancements to its structure and mechanical systems to protect it against terrorist or other threats. DOLA staff indicated that the bunker was not compliant with the Americans with Disabilities Act and needed substantial improvements to ventilation and sewer systems. Additionally, staff reported that Camp George West lacked both sufficient space and video-conferencing capabilities required to implement the National Incident Management System (NIMS) standards or to effectively manage major or multiple disasters.

We reviewed DOLA's planning and decision-making process leading to the relocation of its offices and the State Emergency Operations Center from Camp George West to its current location on the second floor of South Metro's building in the Denver Tech Center. We found that DOLA did not fully consider security and cost-benefit issues before moving to the Tech Center location.

First, we found that DOLA signed the agreement to acquire space for the MACC before it completed a security analysis of the above ground, nearly all-glass structure. Guidance from the Federal Emergency Management Agency (FEMA) specifically states that when determining where to locate an emergency operations center, agencies should ensure that buildings "have sufficient security and structural integrity to protect the facility, its occupants, and communications equipment and systems from relevant threats and hazards." In addition to the State Emergency Operations Center, the MACC facilities have been used for the Governor's cabinet meetings. As such, it is critical that the MACC be a secure environment. However, the above ground, nearly all-glass structure of South Metro's building was not built to withstand a chemical, biological, nuclear, or explosive event. Additionally, the State does not own the floors located above and below the State's MACC site. These floors are owned by South Metro, who rents this space to other tenants. Although the entire building is currently occupied by other government entities, the State has no control over future building tenants. In contrast, the State owns the buildings at Camp George West.

Second, we found that DOLA did not complete a full cost-benefit analysis before developing the MACC. Although DOLA projected that renovating Camp George West would be costly, it could not provide us with an analysis comparing the estimated costs for renovation with the costs for obtaining and equipping space in South Metro's building. Further, DOLA did not conduct a cost analysis comparison for any other potential locations for the MACC. As stated previously, about \$5.9 million in federal funds financed DOLA's activities at the MACC. When making decisions of this magnitude, it is critical that all alternatives be examined and that the costs and benefits be weighed and compared in a documented and transparent fashion.

We do not question the need for a well equipped, multi-agency coordination center. In fact, the importance of coordinating emergency response at multiple levels of government was demonstrated recently during the response to the Hurricane Katrina disaster in New Orleans. We are concerned, however, that a full stakeholder cost-benefit analysis, security assessment, and comprehensive evaluation of alternatives was not done prior to execution of the sublease. This is troubling given the importance of the MACC to the State and its cost of about \$5.9 million. In the future, decisions of this magnitude should be vetted appropriately through the applicable oversight agencies. DOLA should ensure that all expenditures of public

funds, including federal funds, receive appropriate levels of oversight and analysis. Finally, DOLA should work with South Metro to negotiate an agreement providing DOLA with some authority over any leases within South Metro's administrative office building. This should include authority to limit access and establish other security controls as needed to secure the MACC site.

Recommendation No. 15:

The Department of Local Affairs should address security and decision-making issues related to the MACC facility by:

- a. Ensuring that large-scale projects involving public funds include a full assessment of the costs and benefits and are fully vetted through the appropriate state and federal oversight agencies.
- b. Considering working with South Metro on an agreement that provides the State with input or control over the types of tenants that occupy South Metro's building in the future.

Department of Local Affairs Response:

- a. Agree. Implementation Date: Ongoing. Large-scale projects involving public funds will be vetted out to applicable oversight agencies.
 - b. Agree. Implementation Date: December 2005. DOLA will consider.
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Appendix A

Homeland Security Grant Program Subrecipient Awards by Region 2002 Through 2005 Grant Cycles (as of May 2005)	
Subrecipient Agency	Total Awarded
North Central Region	
Adams County	\$276,493
Adams-Jefferson-Broomfield Counties	\$766,600
Arapahoe County ¹	\$7,383,273
Boulder County	\$207,340
Broomfield County	\$20,000
City and County of Denver ²	\$27,127,556
City of Aurora	\$204,956
City of Federal Heights	\$223,568
Clear Creek County	\$16,005
Cunningham Fire Protection District	\$51,252
Douglas County	\$3,000
Elbert County	\$161,565
Gilpin County	\$15,000
Jefferson County ¹	\$17,803,997
Mountain View Fire Protection District	\$45,000
Regional Transportation District	\$111,000
South Adams County Fire District	\$225,060
South Metro Fire Rescue District (Also received a \$1.6 million award as listed under state agencies.)	\$1,602,035
Sugar Loaf Fire District	\$5,250
Tri-County Health Department	\$362,530
North Central Region Total	\$56,611,480
Northeast Region	
Cheyenne County	\$215,464
City of Sterling	\$22,500
Fort Morgan Police Department	\$8,937
Kit Carson County	\$160,860
Larimer County ¹	\$6,082,905
Lincoln County	\$60,841
Logan County	\$20,461
Morgan County	\$145,275
Northeast Colorado Department of Health	\$6,250
Phillips County	\$16,005
Poudre Valley Fire Authority	\$2,000
Sedgwick County	\$16,005

**Homeland Security Grant Program
Subrecipient Awards by Region
2002 Through 2005 Grant Cycles
(as of May 2005)**

Subrecipient Agency	Total Awarded
Sterling Fire District	\$20,100
Washington County	\$111,527
Weld County	\$1,506,068
Yuma County	\$71,340
Northeast Region Total	\$8,466,538
Northwest Region	
Central Mountain RETAC	\$10,000
City of Grand Junction	\$25,000
Eagle County	\$482,911
Garfield County	\$98,220
Grand County	\$188,178
Jackson County	\$380,964
Mesa County	\$344,850
Moffat County	\$333,040
Northwest Colorado Council of Governments ¹	\$4,558,259
Pitkin County	\$185,762
Rio Blanco County	\$197,114
Routt County	\$162,059
Summit County	\$197,461
Northwest Region Total	\$7,163,818
San Luis Region	
Alamosa County	\$331,484
Conejos County	\$643,778
Costilla County	\$36,031
Mineral County	\$22,005
Rio Grande County ¹	\$4,965,982
Saguache County	\$18,380
San Luis Valley Hazardous Materials Substance Board	\$35,000
San Luis Region Total	\$6,052,660
South Region	
City of Walsenburg	\$154,993
Custer County	\$71,005
Fremont County	\$114,761
Huerfano County	\$16,005
Las Animas County	\$169,893
Pueblo County ¹	\$4,871,291

**Homeland Security Grant Program
Subrecipient Awards by Region
2002 Through 2005 Grant Cycles
(as of May 2005)**

Subrecipient Agency	Total Awarded
South Region Total	\$5,397,948
South Central Region	
Chaffee County	\$99,610
City of Colorado Springs	\$152,660
City of Salida	\$5,000
El Paso County ¹	\$6,362,748
Ellicott Fire Protection District	\$2,255
Four Mile Fire Protection District	\$3,600
Jefferson-Como Fire Protection District	\$54,805
Lake County	\$184,255
Park County	\$175,121
Teller County	\$647,584
Town of Palmer Lake	\$117,000
South Central Region Total	\$7,804,638
Southeast Region	
Baca County	\$61,885
Bent County ¹	\$4,064,230
City of La Junta	\$390,426
Crowley County	\$16,005
Kiowa County	\$24,746
Otero County	\$16,005
Prowers County	\$173,600
Southeast Region Total	\$4,746,897

**Homeland Security Grant Program
Subrecipient Awards by Region
2002 Through 2005 Grant Cycles
(as of May 2005)**

Subrecipient Agency	Total Awarded
Southwest Region	
Archuleta County	\$16,005
Cortez Fire Protection District	\$14,500
Dolores County	\$19,605
Durango Fire and Rescue Authority ¹	\$4,402,353
Fort Lewis Mesa Fire Protection District	\$17,500
Mercy Medical Center	\$4,000
Montezuma County	\$3,000
Pagosa Springs Fire Protection District	\$34,920
San Juan Basin Health-Archuleta County	\$3,115
San Juan Basin Health-La Plata County	\$3,000
San Juan County	\$19,605
Silverton Fire Department	\$22,455
Southern Ute Fire Protection District ³	\$16,000
Upper Pine River Fire Protection District	\$16,200
Southwest Region Total	\$4,592,258
West Region	
Delta County	\$44,761
Gunnison County ¹	\$4,141,682
Gunnison-Hinsdale Counties	\$220,000
Hinsdale County	\$16,005
Montrose County	\$20,461
Ouray County	\$16,005
San Miguel County	\$20,132
Telluride Fire Protection District	\$4,000
West Region Total	\$4,483,046
State Agencies	
Colorado Bureau of Investigation	\$252,570
Colorado State Patrol	\$2,872,622
Colorado State University	\$97,498
Department of Agriculture	\$1,104,688
Department of Corrections	\$137,795
Department of Education	\$88,000
Department of Labor and Employment	\$6,916
Department of Local Affairs	\$196,810
Department of Military and Veterans Affairs	\$925,284

**Homeland Security Grant Program
Subrecipient Awards by Region
2002 Through 2005 Grant Cycles
(as of May 2005)**

Subrecipient Agency	Total Awarded
Department of Public Health and Environment	\$491,420
Department of Revenue	\$460,173
Department of Transportation	\$682,790
Division of Central Services	\$1,596,592
Division of Criminal Justice	\$499,000
Division of Fire Safety	\$587,102
Division of Information Technologies	\$3,971,000
Division of Wildlife	\$455,000
Governor's Office	\$1,511,646
Lieutenant Governor's Office	\$161,585
Office of Preparedness, Security, and Fire Safety	\$1,673,959
South Metro Fire Rescue District ⁴	\$1,600,000
University of Colorado-Boulder	\$727,500
University of Colorado-Denver	\$68,893
University of Denver	\$50,000
University of Northern Colorado	\$13,760
Total State Agencies	\$20,232,603
Grand Total, All Subrecipient Awards⁵	\$125,551,886

Source: Data provided by the Departments of Local Affairs and Public Safety.

¹ County served as a regional fiscal agent for the 2004 and 2005 grants. Arapahoe County became the fiscal agent for the North Central Region beginning with the 2005 grant.

² Includes funding received through the Urban Areas Security Initiative (UASI).

³ This agency is on the Southern Ute Indian Reservation. It is grouped under the Southwest Region for reporting purposes.

⁴ South Metro Fire Rescue District is listed under state agencies because this grant is from the State's share of funding under the 2004 State Homeland Security Grant.

⁵ This figure does not include \$12.2 million in funding as follows because it was not passed through to a subrecipient agency at the time of our audit: \$3.7 million in planning and administrative funds retained by DOLA and DPS; \$150,000 in equipment, exercise, and training funds retained by DOLA and DPS; \$4.7 million in unobligated funds; and \$3.6 million in funds received under the 2005 Emergency Management Performance Grants and Metropolitan Medical Response System program.

Appendix B

<p align="center">Homeland Security Grant Program 2005 Grant Funds Awarded by 2005 State Homeland Security Strategic Goal <i>Combined Local and State Agency Funding</i> (Dollars in Millions)</p>			
Strategic Goal	Goal Description	Total Funds Awarded	Percent of Total Funds Awarded
1	Planning - Develop a comprehensive homeland security planning process which mirrors the National Response Plan, provides for prevention of disaster emergencies, and will effectively integrate all disciplines in response and recovery operations.	\$3.7	15.1%
2	Training and Exercise - Through training and exercises, improve Colorado's ability to deal with terrorist-related incidents.	\$2.0	8.2%
3	Information Sharing - Facilitate the prevention of terrorism by enhancing the abilities of state and local agencies to gather, analyze, and share information.	\$2.8	11.5%
4	Communications Interoperability - Develop a statewide standards based comprehensive interoperable communication system that provides instant and disruption-resistant communications capabilities for all public safety and first responder agencies.	\$7.0	28.6%
5	Critical Infrastructure Protection - Identify and prioritize critical infrastructure, key assets, and high-population density venues pursuant to the principles of the National Strategy for Homeland Security.	\$0.3	1.2%
6	Cyber Security - Prevent and deter widespread disruption and damage caused by cyber attacks on Colorado's critical infrastructure.	\$0.5	2.0%
7	Food and Agriculture Protection - Provide the Colorado food and agriculture sectors with the means to prepare, prevent, respond, and recover from agroterrorist attacks.	\$0.3	1.2%
8	Public Health Protection - Provide an effective response and coordinated patient care that protects the health of Colorado citizens in the event of a terrorist attack.	\$0.1	0.4%
9	Citizen Participation - Strive to include every Colorado citizen in homeland security activities through public education and outreach, training, and volunteer service opportunities at the community level.	\$0.2	0.8%
10	Continuity of Government - Develop a comprehensive plan for continuity of government that focuses on constitutional governance, ensures command and control of response and recovery operations, and facilitates the restoration of critical and essential services expected by Colorado citizens.	\$0.1	0.4%
11	Emergency Responder Capabilities - Colorado will build capacity to equip, train, and effectively manage first responder resources for terrorism events.	\$7.5	30.6%
Total 2005 Grant Funds Awarded		\$24.5	100.0%
<p>Source: Data prepared and reported by the Department of Local Affairs in the 2005 Initial Strategy Implementation Plan report to the U.S. Department of Homeland Security.</p> <p>Note: Figures include funding through the 2005 State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program, and Citizen Corps Program components.</p>			

Appendix C

Homeland Security Grant Program Local Agency Equipment Funds Awarded¹ by Equipment Category <i>2004 and 2005 Grant Cycles</i> (Dollars in Millions)		
Equipment Category	Total 2004–2005 Equipment Funds Awarded	Percent of Total Equipment Funds Awarded
Interoperable Communications	\$24.0	55.8%
CBRNE Incident Response Vehicles ²	\$5.6	13.0%
Personal Protective Equipment	\$3.9	9.1%
Other Authorized Equipment	\$1.7	4.0%
Explosive Device Mitigation	\$1.3	3.0%
Intervention Equipment	\$1.3	3.0%
CBRNE Logistical Support ²	\$1.1	2.6%
Information Technology	\$1.0	2.3%
Detection Equipment	\$0.7	1.6%
Physical Security Enhancement	\$0.7	1.6%
Cyber Security Enhancement	\$0.5	1.2%
Terrorism Incident Prevention	\$0.5	1.2%
Power Equipment	\$0.3	0.7%
Decontamination Equipment	\$0.2	0.5%
Medical Supplies and Pharmaceuticals	\$0.1	0.2%
CBRNE Operational Search/Rescue ²	\$0.1	0.2%
Total Funds All Categories	\$43.0	100.0%
<p>Source: Data prepared and reported by the Department of Local Affairs in the 2004 and 2005 Initial Strategy Implementation Plan report to the U.S. Department of Homeland Security.</p> <p>¹ Figures include funding through the 2004 and 2005 State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program, and Citizen Corps Program components.</p> <p>² CBRNE stands for incidents involving chemical, biological, radiological, nuclear, or explosive devices.</p>		

Appendix D

State Multi-Agency Coordination Center (MACC) Timeline for Coordinating Funds and Key Events

Date	Transaction	Source of Funds	Amount
November 2003	DOLA staff begin discussions with South Metro about leasing space in South Metro's administrative building for the MACC.	—	—
January 2004	DOLA subgrants funds to South Metro to design the second floor of South Metro's building to house the MACC.	2004 Mineral Impact Grant	\$20,000
February 2004	The federal Office for Domestic Preparedness approves using homeland security grant funds to prepay a long-term lease.	—	—
July 2004	Oversight of the Homeland Security Grant Program transfers from DPS to DOLA.	—	—
	DOLA subgrants funds to South Metro for the build out of the MACC space.	2005 Mineral Impact Grant	\$1,200,000
	The federal Office of Justice Programs rescinds the federal Office for Domestic Preparedness' approval to use homeland security grant funds to prepay a long-term lease.	—	—
August 2004	DOLA signs sublease agreement with South Metro for the MACC space. The sublease includes a purchase option.	—	—
	South Metro passes a resolution invoking the purchase option in the sublease contract and allowing the State to make a \$1.5 million advance payment towards the purchase price of the MACC space. The terms of the resolution state that DOLA will pay \$400,000 in cash and also pay for "the design, construction, and equipping of certain facilities approved by [South Metro]...which have an actual cost of not less than...\$1,100,000." The facilities the State agreed to pay for are related to South Metro's 911 Dispatch Center. Once paid, the State has no further lease payment obligations to South Metro.		
September 2004	DOLA subgrants funds to South Metro to equip the new State Emergency Operations Center at the MACC.	2003 and 2004 Chemical Stockpile Grants	\$633,000
	Sublease agreement fully executed by the Division of State Buildings and Real Estate Programs, the Attorney General's Office, the State Risk Manager, and the State Controller's Office.	—	—
October 2004	DOLA subgrants funds to South Metro in exchange for the State's right to occupy the second floor of South Metro's building in perpetuity and to satisfy South Metro's August 2004 resolution. The grant budget includes \$400,000 for lease expenses, \$1.1 million for South Metro's 911 Dispatch Center, and \$100,000 for communications equipment for the State.	2004 Homeland Security Grant	\$1,600,000
January 2005	DOLA grants additional funds to South Metro to pay for State construction and equipment at the MACC, bringing the total mineral impact grants to \$1.7 million.	2005 Mineral Impact Grant	\$500,000
February 2005	DOLA subgrants additional funds to South Metro to equip the State Emergency Operations Center at the MACC, bringing the total chemical stockpile grants to \$933,000.	2005 Chemical Stockpile Grant	\$300,000
	DOLA subgrants funds to South Metro for the State's target hardening and other critical infrastructure protection projects at the MACC.	2003 Part II Homeland Security Grant	\$1,448,500
March 2005	DOLA pays South Metro \$400,000 in homeland security funds for the payment of the cash portion of the State's \$1.5 million advance payment toward the purchase price. The payment was accompanied by a memorandum from the DOLA Executive Director accepting the terms of South Metro's August 2004 resolution invoking the purchase option in the sublease.	—	—
April 2005	DOLA subgrants additional funds to South Metro for the State's target hardening and other critical infrastructure protection projects at the MACC, bringing the total 2003 Part II Homeland Security Grant to over \$1.6 million.	2003 Part II Homeland Security Grant	\$153,535
Total Grant Funds Awarded, All Sources			\$5,855,035
Source: Events as presented in interviews and documentation provided by the Department of Local Affairs, Department of Public Safety, and South Metro Fire Rescue District.			

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