



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

Final Report



**Audit of the Nashville Fire Department's
Grant Administration
July 1, 2010 through March 31, 2013**

Date Issued: July 26, 2013

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The Metropolitan Nashville Office of Internal Audit is an independent audit agency reporting directly to the Metropolitan Nashville Audit Committee

EXECUTIVE SUMMARY

July 26, 2013

The Metropolitan Nashville Office of Internal Audit performed an audit of the processes and controls in place at the Nashville Fire Department related to their grant management.

Results in Brief

Were controls in place and effective to manage grant compliance?

Generally yes. With few exceptions, grants were managed in an effective manner. However, controls should be upgraded in a number of areas as provided in the report to ensure proper accountability and visibility of grant related items.

Approval Process

- *Were controls in place to ensure that grants went through the proper approval process?*

Generally no. The Office of Internal Audit determined that all grant awards were properly approved. However, two of five grant applications did not complete the review process.

Grant Compliance

- *Were expenditures allowed under grant terms and approved by management?*
Yes. A review of expenditures related to each grant was conducted to ensure compliance with grant terms and management approval with no exceptions noted.
- *Were reimbursement requests made within 30 days and based on funding requirements?*

Generally Yes. However, a review of reimbursements showed that the Nashville Fire Department initially requested a small number of reimbursements at a higher rate than allowed by grant terms.

Reporting Compliance

- *Were controls in place to ensure that required grant related reports made to the grantors were complete and timely?*

Yes. Our review showed that the Nashville Fire Department reported as required by the grant terms. No exceptions were noted.

Grant Awards

July 1, 2010 through February 28, 2013

	Grant Awards
All Grants	\$ 9,619,971
- TennCare	269,065
- SAFER 10-12	3,516,513
- AFG 10-12	840,333
- Fire Prevention & Safety	240,900
- AFG 12-13	552,040
- SAFER 12-14	\$ 4,201,120

Key Recommendations

Management of the Nashville Fire Department should:

- Develop and implement written policies and procedures for managing all grants.
- Create standardized, individual grant files containing a complete set of documents for each grant awarded.
- Ensure strict attention to detail of all accounting transactions related to grants.
- Ensure that grant applications are fully approved prior to submission to the grantor.

Management's response can be seen in Appendix C, page 22.

TABLE OF CONTENTS

INTRODUCTION.....	4
Audit Initiation.....	4
Background.....	4
Metro Nashville Grant Process	4
Nashville Fire Department Grant Process.....	5
Organizational Structure	6
Information Systems	6
Financial Information.....	6
OBJECTIVES AND CONCLUSIONS	7
<i>A – Lack of Written Policies and Procedures.....</i>	<i>10</i>
<i>B – Lack of Complete Grant Files</i>	<i>11</i>
<i>C – Improper Accounting</i>	<i>12</i>
<i>D – Lack of Approvals.....</i>	<i>13</i>
GENERAL AUDIT INFORMATION	14
Statement of Compliance with GAGAS.....	14
Scope and Methodology	14
Criteria.....	14
Staff Acknowledgement	14
APPENDIX A. METRO NASHVILLE’S GRANT FLOWCHARTS	15
APPENDIX B. ORGANIZATION CHART.....	19
APPENDIX C. MANAGEMENT RESPONSE	20

INTRODUCTION

Audit Initiation

This performance audit of the Nashville Fire Department's Grant Process was conducted as part of the 2013 Revised Audit Work Plan. The audit was initiated based on a request received by the Metropolitan Auditor from the Director/Acting Fire Chief of the Nashville Fire Department.

Background

The mission of the Nashville Fire Department is to provide emergency medical care, fire protection and fire/hazard mitigation products to the citizens and visitors of the community. To enhance internal efforts, management of the Nashville Fire Department routinely submits proposals to receive grant funding from federal and other available sources.

Metro Nashville Grant Process

Generally speaking, grants to local governments support new initiatives, build on or broaden local government concerns, and help address issues difficult for localities to fund. These grants can diversify the local government's funding base and help to improve or expand service to citizens in need.

Because entering into grant agreements may also have a cost to local governments (e.g. matching requirements, required continuation of the service(s) without additional financial assistance, or indirect costs), responsible local governments provide systems for weighing benefits and costs of grant programs under consideration. Accordingly, the Metropolitan Government of Nashville and Davidson County has developed policies and procedures to limit the risk exposure related to grants. These policies and procedures seek to ensure that projects prioritized for funding are aligned with the priorities of the policy-makers and have the approval of departmental and Metro Nashville leadership, including Metropolitan Nashville Council in some situations. This is realized through (1) Grant Review Criteria, (2) Grant Match Policy, and (3) Grant Application Procedures. The Division of Grants Coordination (internal to Metro Nashville Finance) ensures that each step in the process is completed before the grant award is accepted. A diagram of the process can be seen in **Appendix A**.

The current process requires that each grant application and the resulting grant award be approved by various individuals (shown below). This is to ensure that grants are not requested that are misaligned with Metro's strategy and its ability to manage them. Additionally, that grant awards aren't accepted without recognition and formalization. The required award signatories for approval are as follows:

1. Department Head
2. Director of Finance
3. Director of Risk Management Services
4. Metropolitan Attorney

5. Metropolitan Mayor
6. Metropolitan Clerk (officially records/files the grant)

Once the approval signatures have been obtained, the Metropolitan Nashville Council will accept the award on behalf of the Metropolitan Nashville Government and the specific department receiving the grant funds. Many grants now require that local governments are a party to the acceptance of the funds, rather than a department or single elected official with may have reduced ability to reimburse funds if required.

Nashville Fire Department Grant Process

The Nashville Fire Department seeks grants that will assist the department in achieving its mission. Once grants have been identified, personnel create a grant proposal submission to Metro Nashville Finance, Division of Grants Coordination and subsequently the grantor. Once the grant is approved, received and accepted, Nashville Fire Department personnel will manage all grant activity. Management of grants include ensuring purchases are made only for allowable items, that reimbursements are timely requested after expenses have been incurred, expenses are properly recorded and other legal requirements are performed.

For fiscal years 2010 through 2013, the Nashville Fire Department was awarded six grants:

1. *Assistance to Firefighters 10-12* –funding for training and safety equipment for firefighting personnel responding to structural fires.
2. *Assistance to Firefighters 12-13* – funding for training and safety equipment for hazmat firefighting personnel.
3. *Fire Prevention and Safety 11-12* – funding for training, equipment and arson tip money.
4. *Staffing for Adequate Fire and Emergency Response (SAFER) 10-12 (b)* – funding for 32 Firefighters for two fiscal years.
5. *Staffing for Adequate Fire and Emergency Response (SAFER) 12-14* – funding for 35 Firefighters for two fiscal years.
6. *TennCare Bureau Direct Appropriation 10* – funding to purchase hardware and software for processing medical data obtained by the Nashville Fire Department.

Note: The TennCare Bureau Direct Appropriation 10 grant (item #6 above) was not included in the test work phase of this audit. Prior to the start of the audit, the grantor had already provided notice that all requirements by the Nashville Fire Department had been met and terms of the agreement had been complied with.

Organizational Structure

The Nashville Fire Department's Director/Fire Chief reports to the Mayor. The department is comprised of four divisions: Operations, Services, Administrative, and Finance/HR. A diagram of the organization can be seen at **Appendix B**.

Information Systems

Information systems used at the Fire Department, relevant to grant administration, are EnterpriseOne (EBS), IProcurement and a Federal Emergency Management Agency (FEMA) internet portal.

EnterpriseOne(EBS)

EnterpriseOne is the primary accounting software system used to record and report all financial reporting transactions of the Metropolitan Government.

iProcurement

iProcurement is the primary procurement software system used to allow departments to not only watch what is being purchased through their approval process but with a built-in budget check. It is now a fully integrated system from iSupplier registration to sourcing events and contracting to final requisition entry through purchase order generation.

FEMA Portal

This is a federal web based system administered through the Federal Emergency Management Agency. The FEMA Portal is used to apply for and accept grants. Once grants have been accepted, the portal is used to request reimbursements and complete quarterly, semi-annual and close out reports.

Financial Information

After grants have been awarded, the department is provided a specific business unit in which to track grant related revenues and expenditures. A summary of grant revenues and expenses for the last three years can be seen in the table below:

Exhibit A: Financial Summary of Grants Audited

Nashville Fire Department Grants	Financial Highlights			
	Award Amount	Reimbursements	Metro Match	Expenditures
TennCare Direct Appropriation	\$ 269,065	\$ 269,281	\$ 0.00	\$ 269,092
SAFER* 10-12(b)*	3,516,513	3,107,633	0.00	3,477,611
Assistance to Firefighters 12-13	552,040	370,438	138,010	374,816
Fire Prevention & Safety 11-12	240,900	306,195	60,225	291,347
SAFER 12-14*	4,201,120	233,323	0.00	387,965
Assistance to Firefighters 10-12	840,333	884,281	210,083	846,013
Total	\$ 9,619,971	\$ 5,171,151	\$ 408,318	\$ 5,646,844

Source: Metropolitan Nashville's EnterpriseOne Financial System and Division of Grants Coordination

* Staffing for Fire and Emergency Response

OBJECTIVES AND CONCLUSIONS

Below are objectives and conclusions based on those grants.

1. Were controls in place and effective to manage grants compliance?

Generally yes. With few exceptions grants were managed in an effective manner. However, controls should be upgraded in a number of areas to ensure proper accountability and visibility of grant related items. This conclusion/determination was made based primarily on the results of the following sub-objectives. Test work was performed on the grants as described below:

Exhibit B: Transaction Population and Number Tested

Grant Name	Transactions	
	Total	Tested
TennCare Direct Appropriation	n/a	n/a
SAFER* 10-12(b)*	603	40
Assistance to Firefighters 12-13	65	25
Fire Prevention & Safety 11-12	125	40
SAFER 12-14*	54	25
Assistance to Firefighters 10-12	129	30

Source: Metro Internal Audit compiled data

a. Were controls in place to ensure that grants went through the proper approval process?

Generally no. The Office of Internal Audit reviewed documents from the Division of Grants Coordination, a division of the Metro Nashville Finance Department, pertaining to the approvals of the grant applications and awards.

Application Approvals

Internal policy requires that grant applications be reviewed and approved by the Directors of Finance, Law, and Risk Management prior to submission to the grantor. The Office of Internal Audit noted that two of the five grants reviewed did not receive the required approvals before submission to the grantor (see Observation D).

Award Approvals

Each grant that is awarded is considered to be a contract between the grantor and the recipient of the grant funds. Under the Metropolitan Nashville Charter, all grant contracts must be approved by the Directors of Finance, Law, and

Risk Management and filed by the Metropolitan Clerk. In addition, grants must be accepted by either the Metropolitan Nashville Council or by the department's board or commission. Documents reviewed by the Office of Internal Audit showed that the Nashville Fire Department's grant awards were approved as required with no exceptions noted.

b. *Were individual grants compliance guidelines followed?*

Yes. A review of transactions charged to each grant was conducted to ensure compliance with the following attributes.

1) Were expenditures allowed under grant terms?

Yes. A review showed that reimbursements requested from the grantor were for allowable expenditures. However, the recording of some expenses in Metro Nashville's accounting system included expenses which were not allowed under grant terms (see Observation C).

2) Were expenditures approved by management?

Yes. Approval documentation for randomly selected transactions was obtained with no exceptions. Management approved the purchase through one of several approval processes (iProcurement, Purchasing Department, internal documents, etc.) To enhance the process a standard approval process should be developed for grant related items (see Observation A).

3) Were reimbursements request made within 30 days?

Yes. A review of reimbursement requests showed that all requests for reimbursement were made within 30 days and prior to the performance period's end. Based on documentation received, it could not always be determined precisely which expenses were aligned with each reimbursement, only that the reimbursements totaled the amount awarded to the department (see Observation B) and all expenditures were allowable and approved.

4) Were reimbursement requests made based on funding requirements?

Generally yes. However, on one grant the initial 12 reimbursement requests were at a higher rate than allowed but were later reduced so that the rate averaged the correct percentage at the end of the grant period. The Nashville Fire Department should have

requested reimbursement for 80 percent of incurred expenses while self-funding the remaining 20 percent; but, initially requested reimbursement at a 100 percent rate (see Observation C). The final amount of reimbursements was on target with stipulated rates.

- c. *Were controls in place to ensure that the Nashville Fire Department reported to the grantor as required?*

Yes. A review of reporting requirements and reports submitted to the grantor showed that the Nashville Fire Department was reporting to the grantors as required by grant terms. No exceptions were noted.

Overall, the review showed that the Nashville Fire Department was a good steward of grant funds awarded to the department. However, additional attention to financial controls will help ensure this practice continues.

OBSERVATIONS AND RECOMMENDATIONS

A – Lack of Written Policies and Procedures

The Nashville Fire Department lacks documented policies and procedures needed to properly manage grants. To date, the department has relied on Metro Nashville Division of Grants Coordination for guidance in managing their grants. By relying on the Division of Grants Coordination the Nashville Fire Department has not developed sound internal processes of how grants should be managed on an ongoing basis. Although there has yet to be a major catastrophe requiring a large reimbursement to the grantor or a known misallocation of funds, the potential is increased without documented policies and procedures for consistent actions.

Specifically, no strategic plans are in place for direction seeking and applying for available grants. Observations and key interviews conducted with personnel confirmed that:

- 1) Not all personnel are informed and aware of what grants have been applied for and how each might be used.
- 2) Personnel rely heavily on the finance department to determine if an expense can be charged to the grant because there are no spending plans in place or specific criteria for decision making such as an allowable purchase and disallowable purchase listing.
- 3) No departmental standardized approval process exists for grant related purchases resulting in the ability to make purchases that cannot be then reimbursed according to grant terms.
- 4) More critically, there are not policies and procedures in place to evaluate the success or failure of each grant and document an after-action plan to be used when applying for grants of a similar nature and scope.

Criteria:

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Having a formalized, detailed set of operating procedures that are periodically reviewed and updated is critical in ensuring a strong internal control framework. Written procedures enhance the control activities and information and communication components of a strong internal controls framework.
- *OMB Circular A-133 Subpart C – Auditee* - "Maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with

laws, regulations, and the provisions of contracts or grant agreements.”

Risk:

Given the complexity of grants, a lack of detailed, written procedures over each function in the grant process increases the risk that important functions will not be carried out, especially during periods of recent personnel turnover.

Recommendation:

Management of the Nashville Fire Department should develop and implement policies and procedures for managing grants applied for and awarded to their department.

B – Lack of Complete Grant Files

The Nashville Fire Department lacks implementation of complete grant files that contain all of the necessary information related to the grant. Instead, it is necessary to locate various folders and affected personnel to obtain required information related to purchases, reimbursements, allowable criteria, funding requirements, contracts, payroll, etc. This is coupled with the fact that the Nashville Fire Department has multiple grants with overlapping project periods, usually resulting in multiple reports due with the same deadline. Each grant may have a completely different set of allowable expenses and funding requirements.

The Office of Internal requested to review supporting documentation for transactions randomly selected for each grant. The Nashville Fire Department did maintain files related to expenses; however, not all documentation was included in the related files. It became necessary to contact the Metro Purchasing Department and various members of the Nashville Fire Department to obtain complete documentation for transactions.

Using standardized and more complete grant files, all the necessary documentation for expenses and reimbursements would be maintained in one area allowing management to easily review this documentation for compliance with grant terms. This will give management the ability to review any expenses that does not have an accompanying reimbursement and vice versa. Additionally, standardization would ease the ability to spot missing or misplaced documents.

Criteria:

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Leveraging technology enhances the Information Systems component of a strong internal controls framework.

- Deborah Ward, member of Grant Professionals Association, *Effective Grants Management, Chapter 4 “Coordinating Grants Management Tasks”* states that “A file should be created for each proposal that is funded and the file should contain the following documentation:
 - A copy of the funded proposal
 - Regulations for the grant program (usually for federal grants)
 - The award notice
 - Documents showing and approved revisions or changes
 - Assurances (usually for federal grants)
 - The project budget
 - Any correspondences with the funder related to the project
 - Memorandums of understanding with collaborative partners in the project
 - Records of reimbursements and related expenditures, receipts, and purchase orders
 - Programmatic, financial, evaluation, and audit reports.”

- *Prudent Business Practice*

Risks:

Grant criteria is individualistic by nature; therefore, a lack of complete grant files for each award increases the risk of noncompliance.

Recommendation:

Management of the Nashville Fire Department should create standardized, individual grant files containing a complete set of documents for each grant awarded.

C – Improper Accounting

The accounting for some grant related expenses were incomplete or in an unrelated business unit and it was not always possible to tie individual expenses to particular reimbursements. Accurate accounting for grant expenses and reimbursements is critical to the success of grant management. In one grant, not all the expenses were recorded in the business unit designated for that grant. Due to an advanced (unallowable) reimbursement rate of 100 percent, additional grant related purchases were not accounted for in the same business unit in order to rectify earlier mistakes. This resulted in 35 percent (14 out of 40) of the transactions reviewed being incorrectly reimbursed. Therefore, expenses related to the grant were understated. However, the additional expenses had been recorded in another business unit.

In another grant there were expenses included in the business unit designated for that grant which were not allowable. While

reimbursements for those expenses were not requested from the grantor, the expenses remained in the grant business unit. If uncorrected, this could affect the numbers reported to the grantor and possibly lead to returning funds to the grantor through misinformation.

Criteria:

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Leveraging technology enhances the Information Systems component of a strong internal controls framework.

Risks:

Improper accounting of grant funds could lead to the perception of noncompliance and mismanagement of grants. Additionally, the reporting could be misstated.

Recommendation:

Management of the Nashville Fire Department should ensure strict attention to detail for all accounting of transactions related to grants.

D – Lack of Approvals

Two out of the five grants managed by the Nashville Fire Department did not receive required approvals before submitting their application to the grantor. The Nashville Fire Department is required to obtain approvals before submitting grant applications to grantors. This ensures that the grants applied for support Metro and the department's goals. While the grants were eventually accepted and all approvals for acceptance were obtained, not obtaining approvals for the application could cause needless work for grants not desired and a lack of information on what funds might be arriving from other sources (a key budget consideration).

Criteria:

Department of Finance, Office of Management and Budget, Division of Grants Coordination – "All grant applications must be reviewed and approved by the Director of Finance, Legal, and Risk Management prior to submission."

Risks:

Without required approvals of applications departments could be applying for grants that will not be accepted by the Metropolitan Nashville Council therefore reducing the efficiency of the grant process.

Recommendation:

Management of the Nashville Fire Department should ensure that grant applications are fully approved prior to submission to the grantor.

GENERAL AUDIT INFORMATION

Statement of Compliance with GAGAS

This audit was conducted from March 2013 to May 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Scope and Methodology

The audit period focused primarily on the period July 1, 2010, through February 28, 2013. The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, conducting interviews, observations, performing substantive tests and tests of internal controls on the entity's financial information, written policies and procedures, contracts and other relevant data.

Criteria

In conducting this audit, the existing processes were evaluated for compliance with:

- Department of Finance, Office of Management and Budget and Division of Grants Coordination, Grants Management Policies and Procedures
- OMB Circular A-133
- Staffing for Adequate Fire and Emergency Response Program Guidance for FY10 and FY11
- Assistance to Firefighters Program Guidance FY09 and FY11
- Fire Prevention and Safety Program Guidance FY10
- State FY2010 Appropriation Bill

Staff

Carlos Holt, CPA, CFF, CFE, CIA, CGAP, Project Quality Assurance

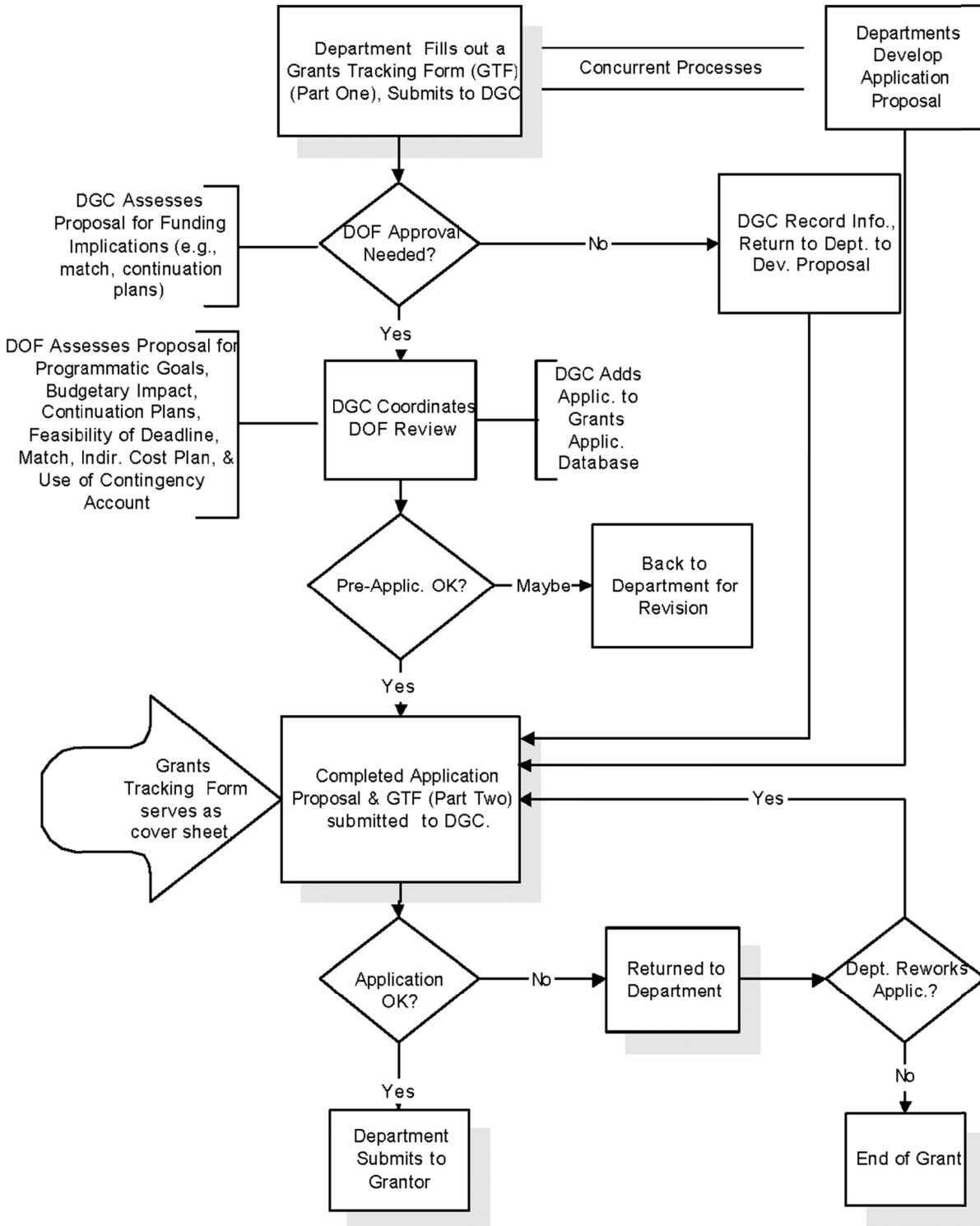
Acknowledgement

Tracy Carter, CFE, In Charge Auditor

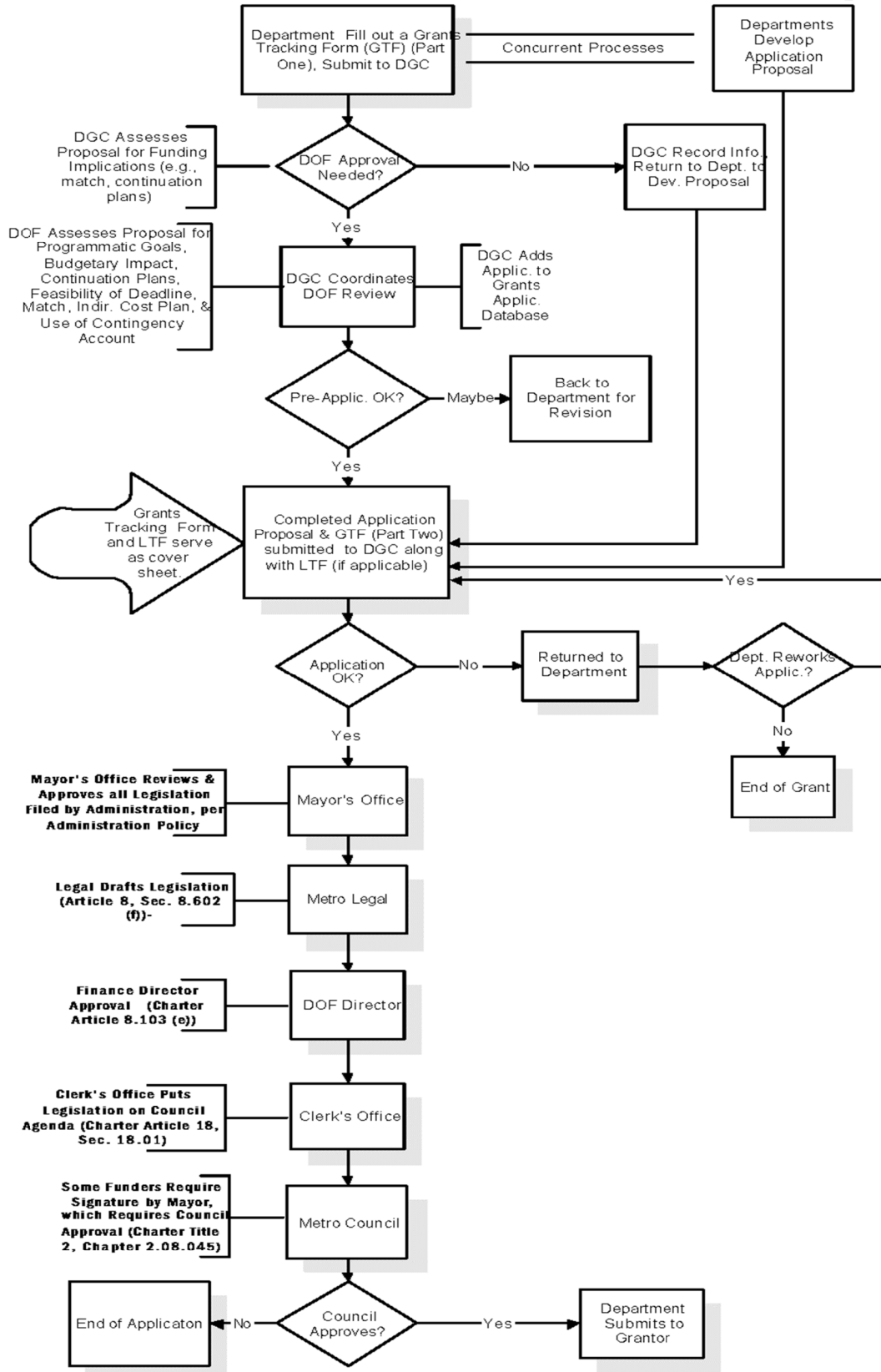
Jack Henry, CPA, Staff Auditor

APPENDIX A. METRO NASHVILLE - GRANT FLOWCHARTS

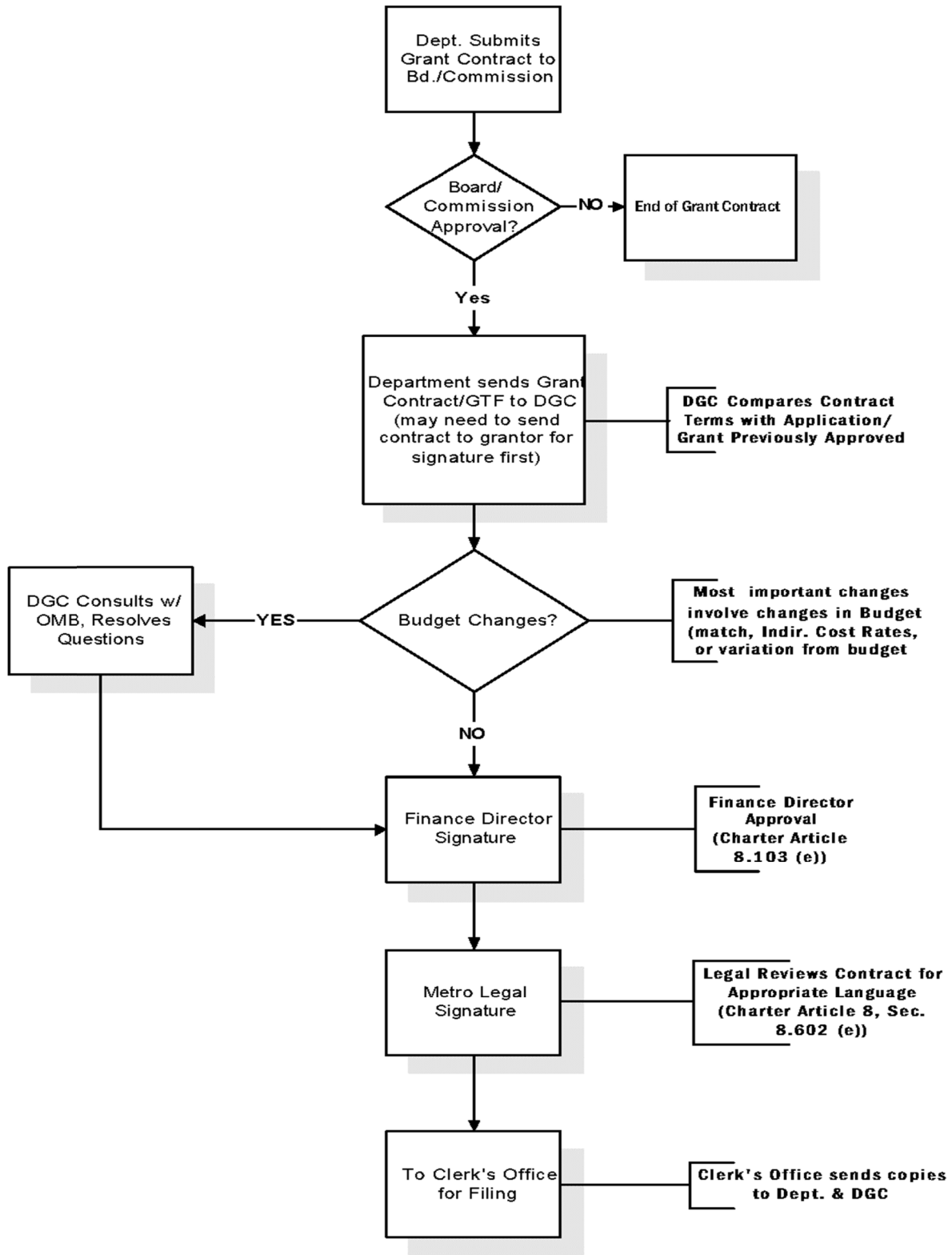
APPLICATION FLOW CHART – NO COUNCIL APPROVAL REQUIRED



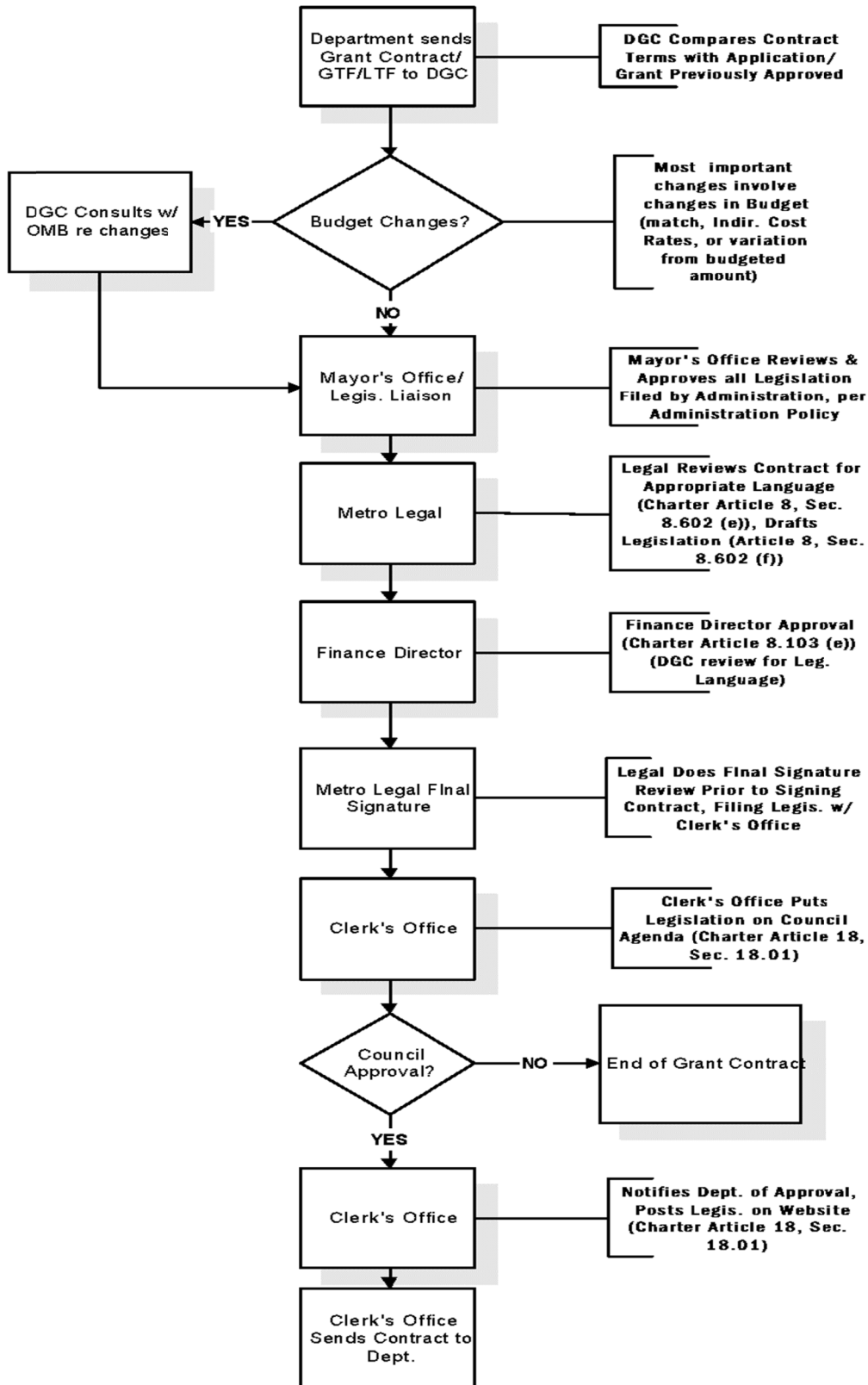
APPLICATION FLOW CHART – COUNCIL APPROVAL REQUIRED



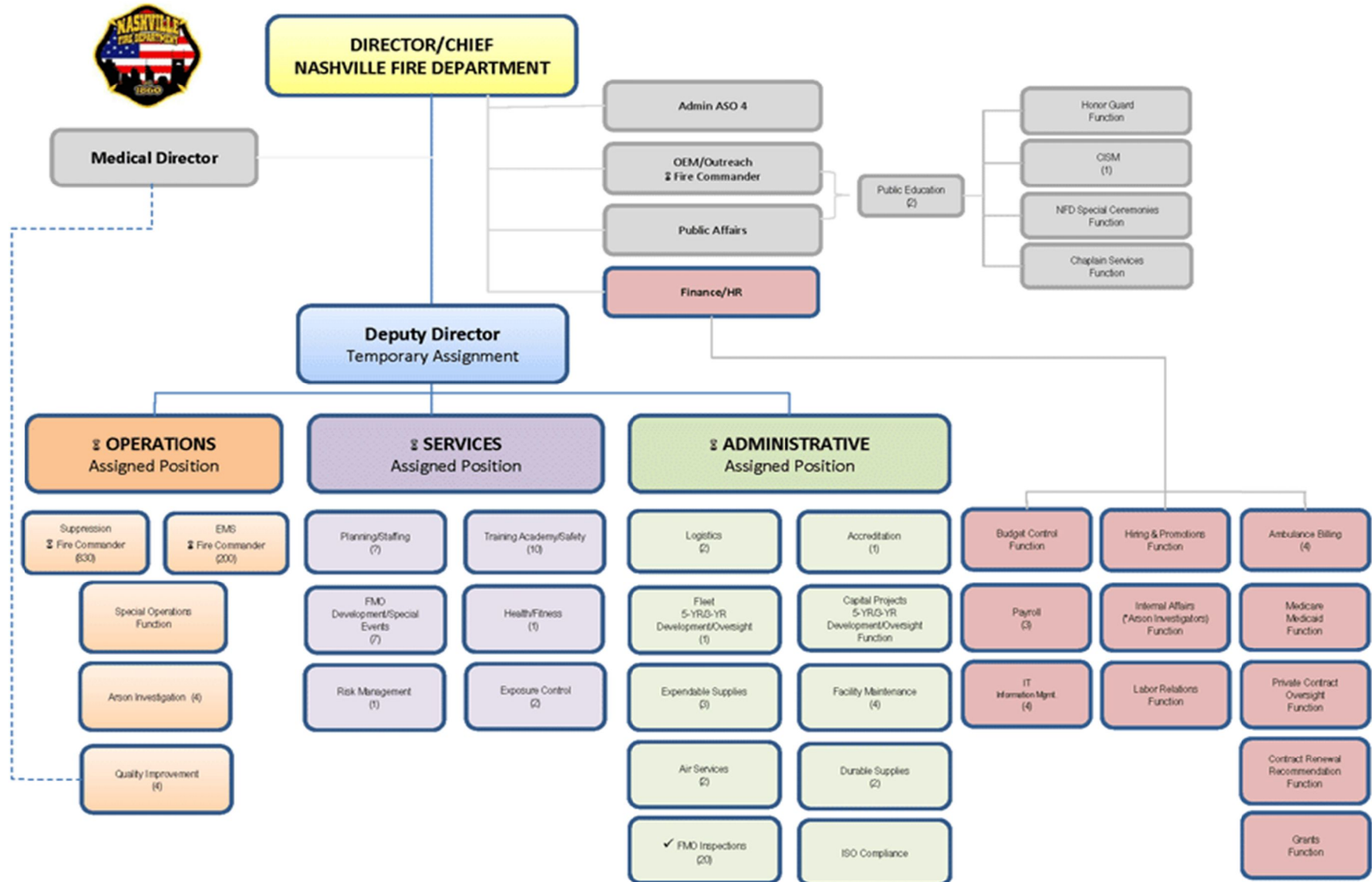
AWARD ACCEPTANCE FLOW CHART - BY BOARD/COMMISSION



AWARD ACCEPTANCE FLOW CHART - BY COUNCIL



APPENDIX B. ORGANIZATION CHART



Parentetical numbers denote approximate number of employees assigned.
 "Function" denotes activity for persons from various divisions to perform duties when necessary.

§ Indicates an ASSIGNMENT
 *Indicates an assignment to Special Ops. Works under authority of Fire Marshal
 • Responsible for Code Development, Interpretation and Training
 ✓ Day to day functional oversight of Administrative Deputy

APPENDIX C. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -

KARL F. DEAN
MAYOR

Director Chief, Fire

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



NASHVILLE FIRE DEPARTMENT
P.O. BOX 196332
NASHVILLE, TN 37219-6332

July 18, 2013

Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

RE: Nashville Fire Department – Grants

Dear Mr. Swann:

This letter acknowledges that the Nashville Fire Department received the report entitled, Audit of the Nashville Fire Department's Grant Administration. The Nashville Fire Department has evaluated all of the observations and recommendations. Wherever possible, changes have been or will soon be implemented.

The Nashville Fire Department would like to express its appreciation for your assistance and cooperation during this process. Any improvement that this department can make toward improving compliance with financial policies and increasing the efficiency of the Metropolitan Government is always welcomed.

Sincerely,
The Nashville Fire Department

A handwritten signature in cursive script that reads "John W. Lynch".

John W. Lynch
Interim Director – Chief

**Audit of the Nashville Fire Department's – Grant Administration
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation/Action Plan	Assigned Responsibility	Estimated Completion
<p>Management of the Nashville Fire Department should</p> <p>A. Develop and implement policies and procedures for managing grants applied for and awarded to their department.</p>	<p>Accept - The Nashville Fire Department Grants Administrator will develop and implement policies and procedures for managing grants. These policies and procedures will complement those established by the Department of Finance's Division of Grants Coordination. The Finance Manager will oversee compliance with NFD and Metro financial policies</p>	<p>Drusilla Martin - Grants Administrator; Leigh Anne Hagar - Finance Manager</p>	<p>8/31/2013</p>
<p>B. Create standardized, individual grant files containing a complete set of documents for each grant awarded.</p>	<p>Accept - The Nashville Fire Department Grants Administrator will create individual grant files for each active grant. These files will contain all grant documents from application to award. The files will also contain requests for reimbursement along with corresponding expenses as well as any periodic reports submitted to the grantor.</p>	<p>Drusilla Martin - Grants Administrator</p>	<p>9/30/2013</p>
<p>C. Ensure strict attention to detail for all accounting of transactions related to grants.</p>	<p>Accept - The Nashville Fire Department Finance Manager will create policies to guide the management of grants and procedures to detail how all accounting transactions should be processed. Furthermore, the department will review all grant transactions on a quarterly basis for compliance with accounting policies and procedures.</p>	<p>Leigh Anne Hagar - Finance Manager</p>	<p>9/30/2013</p>
<p>D. Ensure that grant applications are fully approved prior to submission to the grantor.</p>	<p>Accept - The Nashville Fire Department Grant Administrator will develop and implement policies and procedures for managing grants including application and award. The department will not submit a grant application without the required signatures as defined in the policies and procedures. The Finance Manager will review all grant documents to ensure compliance with departmental policies and procedures.</p>	<p>Drusilla Martin - Grants Administrator; Leigh Anne Hagar - Finance Manager</p>	<p>9/15/2013</p>