




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

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Memorandum

To: Robert M. Scruggs
Deputy State Director, Division of Support Services
Nevada State Office, Bureau of Land Management

From: Suzanna I. Park 
Director of External Audits

Subject: Management Advisory – Issues Identified During our Audit of Nevada Fire Safe Council Claimed Costs under Cooperative Agreements with Bureau of Land Management from January 1, 2008, Through February 29, 2012
Report No. K-MA-BLM-0005-2012

The Bureau of Land Management (BLM) request to audit the Nevada Fire Safe Council (NVFSC) included a request to identify findings for process improvement. We also provide suggestions to detect and prevent future deficiencies.

BLM failed to effectively monitor NVFSC and as a result did not prevent or detect the numerous reporting and internal control problems. NVFSC's financial management system was inadequate to support the drawdown of Federal funds. We also noted numerous instances of inadequate or missing documentation to support costs, duplicate drawdowns, math errors, and unpaid amounts billed to BLM. In addition, we found weaknesses such as improper segregation of duties, commingling of funds, and inadequate policies and procedures.

The effective monitoring of financial assistance is achieved through a plan that includes:

- using audits and financial status reports to provide valuable information about recipients;
- reviewing costs incurred through examination of drawdowns; and
- ensuring performance results through phone calls, desk reviews, and site visits.

Lack of Monitoring

Single Audits

The Office of Management and Budget Circular A-133 requires all non-Federal entities that expend \$500,000 or more in Federal awards in 1 year to obtain an annual Single Audit within 9 months after the end of the that year. The NVFSC Single Audits for 2007 to 2010 were not filed until March 2012.

These Single Audits identified significant deficiencies and material weaknesses that indicated the internal controls were deficient—weak internal control over invoicing, improper segregation of duties, services incurred and paid to vendor outside of funding period, inefficient monitoring of budgets, and request for funds noncompliant with Federal laws. If BLM had adequately monitored the Single Audit requirement, these audits would have been filed and reviewed on a timely basis. BLM could have addressed these deficiencies starting in 2008 and prevented most of the \$1,544,220 in questioned and unsupported costs we identified in our audit report.

Quarterly Status Reports

BLM required NVFSC to submit quarterly status reports. These reports included a quarterly budget, quarterly project status, project/cost tracking, and the Federal Cash Transaction Report (SF-272). BLM did not monitor this reporting requirement from 2008 to 2012, allowing NVFSC's non-compliance to go undetected.

Federal Financial Reports

According to the Code of Federal Regulations, 2 CFR § 215.52(a)(1)(iii), the SF-425 is required to be filed at least annually. BLM did not adequately monitor this reporting requirement from 2008 to 2011. NVFSC did not submit any Federal Financial Reports (SF-425s) for this period until requested by BLM in September 2011.

In addition, during our testing of drawdowns, we identified matching funds, in-kind contributions, and potential program income that were not included in the SF-425, resulting in the understatement of reported expenditures. If BLM had properly monitored the application process, they may have anticipated matching funds, in-kind contributions, and program income on the SF-425.

Promising Practices

Pre-Award

Pre-award assessments are essential to reducing risk when awarding financial assistance. The recipient's capability to account for funds should be evaluated prior to awarding financial assistance. An assessment helps ensure that an applicant has adequate financial management systems and enables awarding agencies to decide whether to award the financial assistance and whether conditions should be added. Assessments provide confidence to management that recipients have the required financial systems, and they allow management to plan the appropriate level of recipient oversight.

The Association of Government Accountants, in cooperation with the U.S. Office of Management and Budget, created a financial and administrative monitoring tool. This comprehensive tool would provide BLM an excellent way to assess the financial management system of applicants. A risk assessment score could then be developed to help determine the level of monitoring the applicant would require. For example, higher risk applicants may require

site visits for reviewing their financial management system as well as requiring documentation for all drawdowns.

One promising practice we identified was the Environmental Protection Agency's requirement of a uniform, pre-award evaluation of applicants. Applicants are required to answer questions regarding financial management systems, property and procurement standards, assigned personnel, and travel policies. If the evaluation indicates any weaknesses, the award official must impose conditions to be completed before the funds are awarded. The applicant must address weaknesses within a specified time and inform the agency of corrective actions.

The National Science Foundation has applicants submit a questionnaire on accounting, timekeeping, and funds management. Depending on the severity of the problems identified, the agency can take a range of corrective actions, from requiring a recipient to update their time-reporting systems to not making the award.

Post-Award

Post-award monitoring, including the timely receipt of financial records and reports from financial-assistance recipients, is important for effectively managing financial assistance. Ineffective financial assistance monitoring increases the risk of improper payments and untimely expenditures. Agencies have addressed this issue through on-site reviews and development of systems that make financial information readily available to staff.

The Environmental Protection Agency requires staff to perform desk or on-site reviews on 10 percent of all grantees each year. These reviews include an analysis of grantee financial systems, including timekeeping and drawdown procedures. Based on the results of the review, the grantee may be required to prepare an action plan to correct any deficiencies. These reviews help ensure that the grantee has an adequate financial system and is properly using the funds.

The U.S. Department of Education uses the Single Audit reports for identifying at-risk grantees. The agency reviews the audit report and determines whether there is increased risk with the grantee and if additional monitoring is required. A grantee may also be considered at-risk and need additional monitoring if it has not submitted the required Single Audit report. If a grantee is considered high risk, it is entered into the grant management system and the system alerts staff to the high-risk status.

U.S. Department of the Interior Guidance

Many of the above promising practices are reflected in The Office of Acquisition and Property Management (PAM) U.S. Department of the Interior Guidance Release 2011-03, "Financial Assistance Monitoring Protocol." This policy conveys the expectations of the Department and PAM that bureau and office heads hold recipients accountable for the timely receipt of financial and programmatic reports; proactively address recipient problems; and ensure that public funds are properly expended. The policy implements mandatory use of pre-award risk assessment checklist and post-award monitoring.

Potential Conflict of Interest

A BLM employee was elected as Secretary of NVFSC's Board of Directors in April 2009. The employee prepared the minutes from February 2010 to August 2010 and October 2010 to May 2011. On May 8, 2012, we notified BLM of this situation and they submitted an inquiry to their Office of Law Enforcement. A determination has not been made as of the date of this report.

Suggestions

We suggest that BLM officials take the following actions:

- (1) Develop a system that tracks the due dates of each recipient's Single Audit, SF-425s, and other reporting required by the financial-assistance agreements. Once the reports are received, they should be thoroughly reviewed for adequacy and appropriate action should be taken for identified issues.
- (2) Implement DOI "Financial Assistance Monitoring Protocol" and consider other promising practices.
- (3) Document the determination of the conflict of interest issue in the agreement files.

We did not conduct the management advisory in accordance with standards, such as the Government Auditing Standards issued by the Comptroller General of the United States or the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency. We did, however, plan and perform research to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions. We do not require a formal response to this advisory, but we would appreciate being apprised of any actions that BLM takes on this issue.