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FRANK F. NAVARRETE
DIRECTOR

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Office of the Auditor General
ATTN: Debra K. Davenport, CPA, CGFM, CFE
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Auditor General's Report on Arizona's Homeland Security Grant Program

Dear Ms. Davenport,

I am in receipt of the Report on Arizona's Homeland Security Grant Program by the Arizona Office of the Auditor General. I appreciate the thoroughness of the auditing staff that participated in this process. The Arizona Department of Homeland Security is currently implementing changes that address the four recommendations made in this report.

Below please find our response.

RECOMMENDATIONS:

1. The AOHS and the ADEM should maintain complete documentation for all grant projects to help secure accountability for the State's homeland security grant monies.

Corrective Actions:

- A thorough and standardized filing system for the grant program has been established. This system incorporates all documentation for current grant years (2003-2006)
- The management of the Homeland Security Grant Program is being consolidated under the new Arizona Department of Homeland Security (ADOHS). A deputy director for finance and administration has been hired (start date: September 27, 2006) to provide focused oversight to all financial operations of the grant program. Three financial specialists, a financial monitoring specialist, and an equipment monitoring specialist will report to the deputy director. Among the duties of the finance and administration staff will be to ensure that proper documentation is maintained for each project. A new policy

in place requires any request to re-allocate funding for an approved project to be submitted in writing. No re-allocation will be permitted until the written submittal is reviewed and approved by the respective region's strategic planner. This documentation will be kept on file by our finance and administration staff.

- In July 2006 the State received additional guidance on standardizing and improving documentation from the U.S. Department of Homeland Security's (DHS) Office of Grants and Training and is implementing these recommendations.

2. The ADEM should compare reimbursement requests submitted by state agencies and local jurisdictions to project files to help ensure homeland security monies are only expended for authorized purposes.

Corrective Actions:

- New Standard Operating Guidelines will require all reimbursement requests to be reviewed by the respective strategic planner to ensure compliance with grant guidelines and that monies are only expended for authorized purposes. Reimbursements will not be made until this compliance is checked.
- The consolidation of the grant program within one agency (ADOHS) allows strategic planners to take full ownership of grant/project management from "cradle to grave" to ensure appropriate expenditures.
- A new desk-based and on-site monitoring program reviews programmatic and financial aspects of grant management to ensure equipment accountability and conformity between the intent of the project award and expenditures by grant recipients. Since July 2006 there have been five monitoring visits performed. Four of these visits were conducted on site and one was a desk based

3. The ADEM should prepare written monthly reconciliations of expenditures recorded on the State's accounting system to the detailed projects spreadsheets to help ensure the accuracy of the expenditure information by project.

Corrective Actions:

- Reconciliations, which ensure consistency of data in the project files and in the Arizona Fiscal Information System, are now performed weekly by the ADEM fiscal services manager. The resulting reports are shared with the strategic planners for concurrence.

- A combined AOHS/ADEM team began a comprehensive review of all 2002-2005 grant files in January 2006. The 2002, 2003 and 2005 grant files have now been fully reconciled. The 2004 grant files are expected to be fully reconciled by the end of October 2006. These reconciliations ensure that the Arizona Fiscal Information System is a mirror image of the jurisdiction project files.

4. The AOHS and the ADEM should better coordinate the administration of the homeland security grants to help ensure compliance with federal rules and regulations.

Corrective Action:

- Starting in September 2006 the entire grants administration process is being consolidated under one agency (ADOHS).

If you require any further information, please contact me anytime at (602) 542-7052.

Regards,

Frank F. Navarrete, Director
Department of Homeland Security