



**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
NATIONAL INSTITUTE OF JUSTICE
COOPERATIVE AGREEMENTS AWARDED TO THE
NATIONAL LAW ENFORCEMENT TELECOMMUNICATIONS
SYSTEM
PHOENIX, AZ**

U.S. Department of Justice
Office of the Inspector General
Audit Division

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July 2013

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NATIONAL INSTITUTE OF JUSTICE COOPERATIVE
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ENFORCEMENT TELECOMMUNICATIONS SYSTEM
PHOENIX, AZ**

EXECUTIVE SUMMARY

The U.S. Department of Justice, Office of the Inspector General (OIG), Audit Division, has completed an audit of four cooperative agreements totaling \$2,131,986, awarded by the Office of Justice Programs (OJP), National Institute of Justice (NIJ) to the National Law Enforcement Telecommunications System (NLETS), as shown in Exhibit 1.

**EXHIBIT 1: COOPERATIVE AGREEMENTS AWARDED TO THE
NATIONAL LAW ENFORCEMENT TELECOMMUNICATIONS
SYSTEM**

AWARD NUMBER	AWARD DATE	PROJECT START DATE	PROJECT END DATE	AWARD AMOUNT
2007-RG-CX-K003	09/12/07	08/01/07	12/31/09	\$ 791,961
2009-DE-BX-K014	09/23/09	10/01/09	09/30/12	249,777
2009-IJ-CX-K015	09/23/09	01/01/10	09/30/12	670,705
2009-SQ-B9-K102	09/21/09	01/01/09	09/30/12	419,543
Total:				\$2,131,986

Source: OJP Grants Management System (GMS)

Background

OJP's mission is to increase public safety and improve the fair administration of justice across the United States through innovative leadership and programs. OJP seeks to accomplish its mission by disseminating state-of-the-art knowledge and practices across the United States by providing grants for the implementation of these crime fighting strategies. To support this mission, the NIJ provides objective and independent knowledge and tools to reduce crime and promote justice, particularly at the state and local levels.

According to its website, the National Law Enforcement Telecommunications System (NLETS) is an interstate justice and public safety network for the exchange of law enforcement, criminal justice, and public safety-related information. The NLETS is a 501(c)(3) non-profit organization owned by all of the states and was created over 40 years ago by the law enforcement agencies of the United States. The user population

is composed of all the United States and territories, all federal agencies with a law enforcement component, selected international agencies, and a variety of strategic partners that serve the law enforcement community-all cooperatively exchanging data. The types of data being exchanged vary from motor vehicle and drivers' data, to Canadian and INTERPOL databases, to state criminal history records and driver's license and corrections images.

For Cooperative Agreement No. 2007-RG-CX-K003, the NLETS used the Information-Led Policing program to build the infrastructure to add geospatial information system (GIS) capability for use by the law enforcement community and to build a prototype of the proposed system.¹ The proposed system would allow users the ability to access an interactive map where they can exchange messages, public safety alerts, and other forms of location-based law enforcement information with all of the relevant federal, state, and local law enforcement agencies. According to the NLETS, these powerful "location-intelligence" tools hold significant potential to aid criminal investigation and intelligence analysis.

For Cooperative Agreement No. 2009-DE-BX-K014, the NLETS is using the Technology Research and Development program to enhance its systems in order to enable interstate image sharing for corrections photos to law enforcement officials over the NLETS network. With this added functionality, law enforcement officers will have added identification tools in cases where a person of interest may not have a driver's license or their appearance has changed drastically since his or her license photo was taken.

For Cooperative Agreement No. 2009-IJ-CX-K015, the NLETS is using the Technology Research and Development program to expand and enhance GIS capabilities while building on the foundation established by Cooperative Agreement No. 2007-RG-CX-K003. In addition, this program is being used to geocode AMBER alerts for interstate distributions.² The National Center for Missing and Exploited Children (NCMEC) will help test the various features.

For Cooperative Agreement No. 2009-SQ-B9-K102, the NLETS is using the Recovery Act: Law Enforcement Technology Research and Development program to expand the NLETS' justice web portal to provide a proactive capability to alert law enforcement on active warrants and people and

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² "Geocoding" is the process of converting addresses (such as "1600 Amphitheatre Parkway, Mountain View, CA") into geographic coordinates (such as latitude 37.423021 and longitude -122.083739), which can be used to place markers or position the map.

vehicles of interest. The NLETS plans to pilot with the NCMEC to utilize the proactive alerting capability to identify unregistered sex offenders. For example, when an individual is pulled over, NCMEC is instantly alerted if the person is an unregistered sex offender. NCMEC then proceeds to alert the officer to arrest this person.

Our Audit Approach

The purpose of the audit was to determine whether costs claimed under the cooperative agreements were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the cooperative agreements. The objective of the audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) cooperative agreements expenditures, including personnel and indirect costs; (4) budget management and control; (5) matching; (6) property management; (7) program income; (8) financial and Progress Reports; (9) cooperative agreement requirements; (10) program performance and accomplishments; and (11) monitoring of subgrantees and contractors. We tested compliance with what we consider to be the most important conditions of the cooperative agreements. Unless otherwise stated in this report, the criteria we audit against are contained in the *OJP Financial Guide* and the award documents.

We examined the NLETS' accounting records, Financial and Progress Reports, and operating policies and procedures and found:

- Cumulative drawdowns exceeded overall expenditures by \$2,776 for Cooperative Agreement No. 2007-RG-CX-K003; cumulative expenditures exceeded drawdowns for all the remaining awards.
- Two transactions totaling \$10,381 that were double-counted in the NLETS' accounting records.
- The NLETS did not follow the federal travel policy as required in the *OJP Financial Guide* on 11 occasions.
- Hourly rates charged to the cooperative agreements for payroll exceeded the rates in which the NLETS employees are actually paid, resulting in questioned costs totaling \$80,207.
- The NLETS did not adhere to the 10-percent rule for Cooperative Agreement No. 2007-RG-CX-K003; the NLETS was in compliance with the rule for all of the other remaining awards.
- Equipment was shown in inventory, shown as federally funded, and used as shown in the cooperative agreements.

- Documentation showing the need to award contracts without open and free competition was not maintained.
- Contractors were improperly classified as consultants in the contractual agreements.
- For Cooperative Agreement No. 2007-RG-CX-K003, we found that all of the Federal Financial Reports (FFR) submitted in the last 4 quarters were inaccurate. FFR No. 6 was overstated by \$11,700, FFR No. 7 was overstated by \$26,189, FFR No. 8 was overstated by \$1,747, and FFR No. 9 was overstated by \$4,801; the FFRs submitted for the remaining three cooperative agreements were generally accurate.
- Categorical Assistance Progress Report (Progress Report) Nos. 2 and 3 were submitted 223 and 39 days late, respectively, for Cooperative Agreement No. 2009-SQ-B9-K102; for the other three cooperative agreements, the Progress Reports from the last 2 years were submitted in a timely manner.
- For Cooperative Agreement No. 2007-RG-CX-K003, the final FFR was submitted, the final Progress Report was submitted, and the final drawdowns were in compliance with terms and conditions required by the *OJP Financial Guide*.

These items are detailed in the Findings and Recommendations section of the report. Our audit objective, scope, and methodology are discussed in Appendix I.

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INTRODUCTION

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The American Recovery and Reinvestment Act of 2009 (Recovery Act) was created to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advances in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Cooperative Agreement Programs

For the Information-Led Policing program, NIJ seeks projects that improve on existing information and data technologies or develop new and innovative solutions for criminal justice application. NIJ is specifically interested in concepts for development in one of the following areas related to information-led policing: (1) Identity matching and entity resolution, (2) sharing positive identification information (such as photos, fingerprints, etc.), (3) implementing Global Justice XML Data Model (GJXDM) based messaging for law enforcement, (4) data analysis tools for multidiscipline data sharing systems, and (5) alert system mechanisms to notify law enforcement agencies of "hits."

For the Technology Research and Development program, NIJ seeks research and development of technologies and devices for law enforcement and corrections application providing: (1) improved means to confirm an individual's identity in real time from surveillance video or through multijurisdictional database queries; (2) improved situational awareness through automated video surveillance technology capable of identifying and, ideally, predicting criminal behavior; (3) improved means to locate and track cooperative or non-cooperative individuals within and without structures in both urban and rural environments, with particular emphasis on the ability to locate and track offenders released into the community in real time; and (4) improved data analysis tools, including, but not limited to, the areas of general analysis, spatial and temporal analysis and visualization that examine data in new and unique ways, that extend current capabilities of exploring crime-related databases or the operationalization of crime theories.

For the Recovery Act: Law Enforcement Technology Research and Development program, NIJ seeks to fund projects via a limited competition among invited applicants that support the goals of the Recovery Act and the purposes of the Byrne Justice Assistance Grant (JAG) Program by helping to increase the economic efficiency and effectiveness of law enforcement

activities. Project areas will address among other law enforcement technology requirements and priorities officer safety, public safety, communications (including interoperable communications) and decision-making, information sharing, electronic crime, less lethal devices, and concealed weapons detection.

The National Law Enforcement Telecommunications System

According to its website, the National Law Enforcement Telecommunications System (NLETS) is an interstate justice and public safety network for the exchange of law enforcement, criminal justice, and public safety-related information. The NLETS is a 501(c)(3) nonprofit organization owned by all of the states and was created over 40 years ago by the law enforcement agencies of the United States. The user population is composed of all the United States and territories, all federal agencies with a law enforcement component, selected international agencies, and a variety of strategic partners that serve the law enforcement community all cooperatively exchanging data. The types of data being exchanged vary from motor vehicle and drivers' data, to Canadian and INTERPOL databases, to state criminal history records and driver's license and corrections images.

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For Cooperative Agreement No. 2009-DE-BX-K014, the NLETS is using the Technology Research and Development program to enhance its systems in order to enable interstate image sharing for corrections photos to law enforcement officials over the NLETS network. With this added functionality, law enforcement officers will have added identification tools in cases where a person of interest may not have a driver's license or their appearance has changed drastically since his or her license photo was taken.

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For Cooperative Agreement No. 2009-IJ-CX-K015, the NLETS is using the Technology Research and Development program to expand and enhance GIS capabilities while building on the foundation established by Cooperative Agreement No. 2007-RG-CX-K003. In addition, this program is being used to geocode AMBER alerts for interstate distributions.² The National Center for Missing and Exploited Children (NCMEC) will help test the various features.

For Cooperative Agreement No. 2009-SQ-B9-K102, the NLETS is using the Recovery Act: Law Enforcement Technology Research and Development program to expand the NLETS justice web portal to provide a proactive capability to alert law enforcement on active warrants and people and vehicles of interest. With this cooperative agreement, NLETS plans to pilot with the NCMEC to utilize the proactive alerting capability to identify unregistered sex offenders. For example, when an individual is pulled over, NCMEC is instantly alerted if the person is an unregistered sex offender. NCMEC then proceeds to alert the officer to arrest this person.

Our Audit Approach

We tested compliance with what we considered to be the most important conditions of the cooperative agreements. Unless otherwise stated in our report, the criteria we audited against are contained in the *OJP Financial Guide* and the cooperative agreement award documents. We tested the NLETS':

- **Accounting and Internal Control Environment** to determine whether the grantee had sufficient accounting and internal controls in place for the processing and payment of funds and controls were adequate to safeguard cooperative agreements funds and ensure compliance with the terms and conditions of the cooperative agreements;
- **Cooperative Agreement Drawdowns** to determine whether cooperative agreement drawdowns were adequately supported and if the NLETS was managing cooperative agreements receipts in accordance with federal requirements;
- **Cooperative Agreement Expenditures** to determine the accuracy and allowability of costs charged to the cooperative agreements;

² "Geocoding" is the process of converting addresses (such as "1600 Amphitheatre Parkway, Mountain View, CA") into geographic coordinates (such as latitude 37.423021 and longitude -122.083739), which can be used to place markers or position the map.

- **Budget Management and Control** to determine the NLETS' compliance with the costs approved in the cooperative agreements budgets;
- **Property Management** to determine the existence of capital property purchased using cooperative agreements funds as well as reasonable assurance that the property was used properly in accordance with cooperative agreements requirements;
- **Contractors** to determine if contractors and consultants were procured and compensated in adherence with applicable guidelines;
- **Federal Financial Reports (FFRs) and Categorical Assistance Progress Reports (Progress Reports)** to determine if the required FFRs and Progress Reports were submitted in a timely manner and accurately reflect cooperative agreements activity;
- **Accomplishment of Cooperative Agreement Requirements and Objectives** to determine if the cooperative agreements objectives have been met or if the NLETS is capable of meeting the cooperative agreement's objectives; and
- **Closeout Activity** to determine that appropriate action has been taken to administratively close cooperative agreements that have reached their end date.

We also performed limited work and confirmed that the NLETS was not required to contribute any local matching funds, did not receive reimbursement for indirect costs, did not have any sub-grantees, and did not generate any program income. Therefore, we did not perform testing in these areas.

The findings and recommendations are detailed in the Findings and Recommendations section of this report. Our audit objective, scope, and methodology appear in Appendix I.

FINDINGS AND RECOMMENDATIONS

Overall our work did not identify any indication that NLETS was not on track to complete the objectives of the cooperative agreements. However, we determined that cumulative drawdowns exceeded overall expenditures by \$2,776 and the NLETS did not adhere to the 10-percent rule for Cooperative Agreement No. 2007-RG-CX-K003. We also identified two transactions totaling \$10,381 that were double-counted in the NLETS' accounting records. The NLETS did not have written travel policies pertaining to rates and on 11 occasions did not fully comply with the federal travel policy as required in the *OJP Financial Guide*. Hourly payroll rates charged to the cooperative agreements exceeded the rates in which the NLETS' employees are actually paid resulting in questioned costs of \$80,207. Contractors were improperly classified as consultants in the contractual agreements and the NLETS did not maintain documentation showing the need to award contracts without open and free competition. For Cooperative Agreement No. 2007-RG-CX-K003, we found that all of the FFRs submitted in the last 4 quarters were inaccurate. Progress Report Nos. 2 and 3 were submitted 223 and 39 days late, respectively, for Cooperative Agreement No. 2009-SQ-B9-K102.

Prior Audits

Single Audit

The *Office of Management and Budget (OMB) Circular A-133* requires that non-federal entities that expend \$500,000 or more per year in federal awards have a single audit performed annually. We determined that the three most recent single audits were for fiscal years (FY) 2009, 2010, and 2011. After review of these single audits, we determined that for FY 2009, the NLETS was issued an unqualified opinion for both its financial statements and its federal awards. For FY 2010, the NLETS was issued an unqualified opinion for its financial statements and a qualified opinion for its federal awards. The NLETS was given a qualified opinion for its federal awards due to questioned costs of \$49,935. This finding related to all four of the cooperative agreements included in our audit. The auditors found that the NLETS failed to reconcile payroll and related expenditures to the amounts recorded in the general ledger resulting in the over reporting of federal expenditures in the quarterly financial status reports (FSRs)(SF-269). The auditors stated that the expenses included in the quarterly reports were

overstated by \$49,935 which was the amount of questioned costs. They believed that this error was caused due to the "misunderstanding of OMB Circular No. A-122, Cost Principles for Non-Profit Organizations, management of NLETS believed that estimated payroll costs could be used for quarterly SF-269 reporting purposes." The auditors recommended that that NLETS report its allowable costs, payroll and related expenses at the actual rate for the services performed for each program rather than the estimated amount. In response to the finding, the NLETS stated that they "began recording payroll and related expenses at actual rates paid in March 2011 and will continue to do so in the future. Subsequent quarterly SF-269 reporting up through the end of 2011 will reflect appropriate changes to bring inception to date billing to actual levels and in agreement with the general ledger."

During fieldwork, we spoke with an official at the NLETS concerning this single audit finding. From our interview, we learned that the payroll amounts in the general ledger were inaccurate as well. Officials at the NLETS believed that the previous Director of Finance created a "loaded hourly rate" to be charged for each employee to the cooperative agreement. The current staff believes that this rate was composed of the employee's regular hourly rate plus all fringe combined into one. Since the single audit finding stated that the expenses of employees working on federal programs should be charged at rates consistent to that of their actual compensation, the staff made a series of adjustments in the ledgers for Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102 to ensure that the correct rate was charged. The NLETS told us that adjustments could not be made to Cooperative Agreement No. 2007-RG-CX-K003; therefore, the amount of omission is unknown. Since this finding would have an effect on our audit, we expanded testing on the payroll portion of our audit. The results of our testing can be found in the "Cooperative Agreement Expenditures - Payroll" section of this report.

For FY 2011, the NLETS was issued an unqualified opinion for both its financial statements and federal awards although there was one finding concerning the NLETS' financial statements. The finding pertained to the Executive Director of the NLETS' ability to withdraw and/or transfer funds between the NLETS' investment accounts without any additional authorization from another individual in the organization. To prevent misappropriation of funds, the auditors recommended that two or more separate authorizations should be required. In response, the NLETS claimed to have instituted controls to prevent this. This finding did not relate to our audit, so no further testing on this matter was performed.

Site Visits and Desk Reviews

We also noted that the NIJ Program Manager performed a site visit in September 2010 pertaining to Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102. The purpose of the site visit was "to ascertain progress under the awards as well as any outstanding issues and/or problems since the last face-to-face meeting in regards to the operations of the NIJ awards with the NLETS". According to the site visit report, the NIJ Program Manager stated that "the site visit was very positive. The grantee provided all of the materials requested and was able to answer questions regarding the program managers concerns. Meetings with the NLETS staff were very productive and informative as to the oversight of the awards currently open. The site visit was productive in answering questions raised by both the program manager and the grantee."

In addition to the site visit, there were two desk reviews performed for Cooperative Agreement No. 2007-RG-CX-K003 and three desk reviews each performed for Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102. We examined the desk reviews and did not find any information related to our audit.

Internal Control Environment

We reviewed the NLETS' internal control environment, including procurement, receiving, payment, and payroll procedures to determine compliance with the terms and conditions of the cooperative agreements and to assess risk. In addition, we performed a limited review of the NLETS' financial management system. We determined that the NLETS had procedures that provided for segregation of duties, transaction traceability, and system security. Based on our review of the NLETS' policies and procedures and interviews with the NLETS' personnel, we did not identify any internal control issues that would affect compliance with applicable requirements of the cooperative agreement programs.

Drawdowns

The *OJP Financial Guide* states that "Recipient organizations should request funds based upon immediate disbursement/reimbursement requirements.... Recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within 10 days." We determined that the NLETS requested drawdowns on a reimbursement basis, maintained supporting documentation for each drawdown, and received funds drawn down as an electronic deposit into their bank account.

For each cooperative agreement, we evaluated whether the total actual expenditures recorded in the general ledgers were equal to or greater than the cumulative drawdowns as reported by the awarding agency. As shown in Exhibit 2, for Cooperative Agreement No. 2007-RG-CX-K003, we found that cumulative drawdowns exceeded the overall expenditures by \$2,776. This was partially caused by the two transactions totaling \$10,381 that we found to be duplicated in the NLETS' financial records (see the "Cooperative Agreement Expenditures" section of this report). We recommend that OJP ensure that the NLETS implements policies in order to accurately drawdown funds as needed.

EXHIBIT 2: DRAWDOWNS VERSUS EXPENDITURES³

DATE OF DRAWDOWN PER OJP	AMOUNT DRAWN DOWN PER OJP	ACTUAL EXPENDITURES FOR THE DRAWDOWN PERIOD	DIFFERENCE BETWEEN AMOUNT DRAWN DOWN AND THE ACTUAL EXPENDITURES
COOPERATIVE AGREEMENT NO. 2007-RG-CX-K003			
11/14/2007	\$ 700	\$ 925	\$ 225
01/02/2008	535	4,601	4,066
02/01/2008	3,494	733	(2,761)
03/17/2008	5,696	1,182	(4,514)
04/01/2008	11,612	165	(11,447)
04/14/2008	7,133	627	(6,506)
06/02/2008	11,991	3,481	(8,510)
06/16/2008	72,961	1,436	(71,525)
07/22/2008	10,407	2,413	(7,994)
08/01/2008	21,939	1,095	(20,844)
08/21/2008	3,533	2,217	(1,316)
	17,900	-	(17,900)
09/23/2008	35,165	4,852	(30,314)
10/01/2008	17,040	1,604	(15,436)
11/03/2008	24,822	3,671	(21,151)
12/01/2008	33,838	5,713	(28,125)
02/17/2009	32,193	307,144	274,951
02/26/2009	20,486	4,200	(16,286)
03/16/2009	21,315	68,866	47,551
04/01/2009	47,692	12,987	(34,706)
05/12/2009	22,151	9,064	(13,087)
06/15/2009	71,622	62,460	(9,163)
07/06/2009	13,023	15,844	2,821
08/03/2009	6,994	14,021	7,028
09/10/2009	13,860	7,187	(6,673)
11/06/2009	7,920	7,153	(767)
12/16/2009	8,371	13,116	4,745
03/04/2010	247,569	227,381	(20,189)
07/16/2010	-	5,050	5,050
TOTAL	\$791,961	\$789,185	\$(2,776)

Source: OJP Grants Management System (GMS) and the NLETS

For Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102, we found that the overall expenditures exceeded cumulative drawdowns.

³ Differences in totals throughout the report are due to rounding (the sum of individual numbers prior to rounding may differ from the sum of the individual numbers rounded).

Cooperative Agreement Expenditures

Direct Costs

According to the *OJP Financial Guide*, all financial records, supporting documents, statistical records, and all other records pertinent to the award shall be retained by each organization for at least 3 years following notification by the awarding agency that the cooperative agreement has been programmatically and fiscally closed or for at least 3 years following the closure of its single audit report covering the entire award period, whichever is later.

For Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102, we reviewed a total of 120 transactions (30 for each of the cooperative agreements) to determine if costs were adequately supported, the costs were reasonable, and the costs were approved and allowable under the terms and conditions of the cooperative agreement.

For Cooperative Agreement No. 2007-RG-CX-K003, as shown in Exhibit 3, we found two transactions totaling \$10,381 that were double-counted in the NLETS' accounting records. Therefore, we have questioned these expenditures. We recommend that OJP remedy the \$10,381 in questioned costs related to the two transactions.

EXHIBIT 3: QUESTIONED TRANSACTIONS

TRANSACTION	COST	STATUS
COOPERATIVE AGREEMENT NO. 2007-RG-CX-K003		
AT&T Datacomm	\$ 8,005	Duplicate
AT&T Datacomm	2,376	Duplicate
Total	\$10,381	

Source: The NLETS

The *OJP Financial Guide* states "Recipients may follow their own established travel rates. However, the Office of the Chief Financial Officer (OCFO) reserves the right to determine the reasonableness of those rates. If a recipient does not have a written travel policy, the recipient must abide by the federal travel policy." After we examined the NLETS' procedures manuals and had discussions with individuals at the NLETS, we determined that the NLETS does not have a written travel policy that pertains to rates, therefore federal travel policy must be followed. Federal travel policy is administered using rates provided by the General Services Administration (GSA) for travel within the continental United States. GSA provides per diem rates that specify the maximum allowable nightly hotel rates and the

maximum allowable rates for daily meals and incidental expenses. Per GSA guidelines, for meals and incidental expenses, the first and last calendar day of travel is calculated at 75 percent of the normal rate. In reviewing transactions related to travel, we compared the GSA rates to the actual rates for all travel transactions in order to find discrepancies.

For Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-IJ-CX-K015, and 2009-SQ-B9-K102, based on our on-site review of transactions, we found that on 11 occasions, the NLETS did not follow GSA rules for travel. We recommend that OJP ensure that the NLETS implements travel policies that adhere to OJP Financial Guide rules.

For Cooperative Agreement No. 2009-DE-BX-K014, we found that all 30 transactions were adequately supported, the costs were reasonable, and the costs were approved and allowable under the terms and conditions of the cooperative agreement.

For Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-IJ-CX-K015, and 2009-SQ-B9-K102, the remaining 28 transactions, 26 transactions, and 26 transactions respectively, were adequately supported, the costs were reasonable, and the costs were approved and allowable under the terms and conditions of the cooperative agreements.

Payroll

As mentioned previously in our analysis of the NLETS' 2010 single audit, the auditors found that the NLETS reported inaccurate payroll rates in its financial reports. When speaking with an official from the NLETS, we determined that there were also inaccurate payroll rates in their accounting records and that adjustments were made to Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102 to ensure that the correct amounts were charged to the cooperative agreements. We were able to confirm that these adjustments were made. Since adjustments could not be made to Cooperative Agreement No. 2007-RG-CX-K003, we performed expanded testing on payroll for this cooperative agreement.

For Cooperative Agreement No. 2007-RG-CX-K003, we judgmentally selected one pay period during the cooperative agreement period to determine if labor charges were computed correctly, properly authorized, accurately recorded, and properly allocated to the cooperative agreement. In addition, as shown in Exhibit 4, we examined time sheets and compared the employee's normal hourly rate to that of the rate charged to the cooperative agreement to determine if the proper rate was charged. We found that for all employees tested, the rate charged to the cooperative

agreement exceeded the employee’s actual hourly rate. Since the rates charged to the cooperative agreements exceeded the actual rates and the NLETS could not provide sufficient documentation as to how the rates charged to the cooperative agreement were derived, we have questioned the entire \$80,207 charged to payroll for this cooperative agreement. We recommend that OJP remedy the \$80,207 in questioned costs related to unallowable payroll expenditures.

EXHIBIT 4: VERIFICATION OF PAYROLL RATES

EMPLOYEE ⁴	HOURLY RATE CHARGED TO COOPERATIVE AGREEMENT	EMPLOYEES ACTUAL HOURLY RATE
1	\$40	\$34
2	92	78
3	73	46
4	60	44
5	66	45
6	92	63
7	73	44

Source: The NLETS

Budget Management and Control

According to the *OJP Financial Guide*, movement of dollars between approved budget categories without a Grant Adjustment Notice (GAN) is allowable up to 10 percent of the total award amount for awards greater than \$100,000. As noted in Exhibit 1, the NLETS received four awards, all of which were greater than \$100,000. For all four cooperative agreements, we compared the approved budgets for these awards to the actual expenditures as shown in the NLETS’s accounting records.

As shown in Exhibit 5, for Cooperative Agreement No. 2007-RG-CX-K003, we determined that the NLETS spent in excess of the budgeted amount in five of the seven approved budget categories, totaling \$340,679. The 10-percent threshold for this cooperative agreement was \$79,196. The difference between the amount over spent and the 10-percent threshold is \$261,483. The NLETS did not adhere to the 10-percent rule. We recommend that OJP ensure that the NLETS implements procedures to ensure compliance with the 10-percent rule.

⁴ Employee names have been replaced with assigned numbers to protect the identity of these individuals.

EXHIBIT 5: BUDGET MANAGEMENT AND CONTROL FOR COOPERATIVE AGREEMENTS 2007-RG-CX-K003

BUDGET CATEGORY	BUDGET CATEGORY AMOUNT	ACTUAL COSTS	AMOUNT OVER BUDGET
Personnel	\$ 63,300	\$ 80,207	\$ 16,907
Fringe Benefits	19,623	24,866	5,243
Travel	30,396	44,898	14,502
Equipment	50,000	353,775	303,775
Supplies	1,000	1,252	252
Contractual	627,142	284,188	(342,955)
Other	500	-	(500)
TOTAL DIRECT COSTS	\$791,961	\$789,185	\$340,679
Indirect Costs	-	-	N/A
TOTAL AMOUNT	\$791,961	\$789,185	\$340,679
10-Percent Threshold for 2007-RG-CX-K003:			\$ 79,196
Difference Between Over Budget Amounts and Ten Percent Threshold:			\$261,483

Source: OJP Grants Management System (GMS) and the NLETS

For Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, 2009-SQ-B9-K102, the NLETS was in compliance with the 10-percent rule.

Property Management

The NLETS' approved award budget for Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-IJ-CX-K015, and 2009-SQ-B9-K102 included expenditures for equipment. The criteria that officials at the NLETS use to define equipment purchase as accountable property is any purchase over \$2,000 and a useful life of more than 1 year. We reviewed the list of equipment paid with cooperative agreement funds and we judgmentally selected seven items to review. All seven of the items we selected were shown in inventory, shown as federally funded, and used as shown in the cooperative agreements. We were able to physically verify four of the seven items but the remaining three items were located at the NLETS' server offices in Kentucky. Since we could not physically verify these items, officials at the NLETS were able to remotely locate the equipment, show that it was in use, and that it was shown in inventory. We did not note any issues with our verification of accountable property.

Contractors and Consultants

The 2006 and 2009 *OJP Financial Guides* state "Adequate Competition. All procurement transactions, whether negotiated or competitively bid and without regard to dollar value, shall be conducted in a manner so as to

provide maximum open and free competition. All sole-source procurements in excess of \$100,000 must receive prior approval from the awarding agency." The NLETS was required to have open and free competition for all contracts regardless of dollar value. In our analysis of the contractual agreements, we found a total of 21 contractual agreements that were not awarded with free and open competition. Based on our discussions with officials at the NLETS, we determined that all of the contracts were awarded on a sole source basis without open and free competition due to the technical nature associated with the cooperative agreement programs. According to the NLETS, there are few individual contractors with the expertise and experience in developing these law enforcement systems. In our judgment, in consideration of the technical nature of the cooperative agreements, the use of a sole source procurement could be an important consideration for accomplishing required tasks since ongoing projects could potentially be disrupted with a change in existing technical knowledge and approach. However, the NLETS could not provide any documentation showing that the item or service is available only from a sole source or reflecting that competition was considered inadequate. We recommend that OJP ensure that the NLETS adopts policies in order to document and maintain information concerning the need to award contracts without open and free competition.

Contractors versus Consultants

In our judgment, consultant services are generally acquired to obtain information, advice, opinions, alternatives, conclusions, recommendations, or direct assistance, such as studies, analyses, evaluations, liaison with government officials, or other forms of representation.

In reviewing all of the contractual agreements relating to the cooperative agreements, we found that many of the NLETS' contractors were incorrectly classified as consultants. We found that many of the contracts were titled "Consultant Agreements" and throughout these documents, the contractors were referred to as "consultants" when in reality, the contractors were not to provide consulting services. When speaking with an official at the NLETS, we learned that this was due to a misclassification. In effect, many of the contracts were improperly titled. We recommend that OJP ensure that the NLETS adopts policies to ensure that contractors are accurately classified in its contractual agreements.

Cooperative Agreement Reporting

The *OJP Financial Guide* states that the recipients of cooperative agreements must submit FFRs and Progress Reports. FFRs provide

information on monies spent and the unobligated amounts remaining in the cooperative agreement. Progress Reports provide information on the status of cooperative agreement funded activities and other pertinent information. In addition, since Cooperative Agreement No. 2009-SQ-B9-K102 involves the awarding of Recovery Act funds, the recipient is also required to submit Recovery Act reports for this cooperative agreement.

Financial Reporting

According to the *OJP Financial Guide*, prior to October 1, 2009, Federal Status Reports were to be submitted within 45 days of the end of the calendar quarter. As of October 1, 2009, recipients are required to submit quarterly Federal Financial Reports (FFR) within 30 days of the end of the calendar quarter.⁵ We reviewed the four most recent FFRs for each cooperative agreement and determined that financial reporting had been submitted in a timely manner.

In addition, we also reviewed financial reporting for the last 4 quarters for accuracy. In our analysis, we compared the expenditures reported in the FFRs to the actual amounts found in the NLETS' accounting records. As shown in Exhibit 6, for Cooperative Agreement No. 2007-RG-CX-K003, we found that all of the FFRs submitted in the last 4 quarters were inaccurate. FFR No. 6 was overstated by \$11,700, FFR No. 7 was overstated by \$26,189, FFR No. 8 was overstated by \$1,747, and FFR No. 9 was overstated by \$4,801. We recommend that OJP ensure that the NLETS implements procedures to ensure that the information submitted in the FFRs is accurate.

EXHIBIT 6: FEDERAL FINANCIAL REPORT EXPENDITURE ACCURACY

REPORT No.	REPORT PERIOD FROM - TO DATES	EXPENDITURES PER REPORT	EXPENDITURES PER ACCOUNTING RECORDS	DIFFERENCE BETWEEN REPORTS & ACCOUNTING RECORDS
COOPERATIVE AGREEMENT NO. 2007-RG-CX-K003				
6	01/01/09 - 03/31/09	\$121,686	\$109,986	\$(11,700)
7	04/01/09 - 06/30/09	112,727	86,538	(26,189)
8	07/01/09 - 09/30/09	24,808	23,061	(1,747)
9	10/01/09 - 12/31/09	251,498	246,697	(4,801)

Source: OJP Grants Management System (GMS) and the NLETS

⁵ For report consistency, we use the acronym "FFR" to refer to both types of reports.

For Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102, we found that for the last 4 quarters of FFRs submitted, the actual expenditures were either equal to or exceeded the amounts reported.

Progress Reports

According to the *OJP Financial Guide*, Progress Reports are due semiannually on January 30 and July 30 for the life of the award. To verify the timely submission of Progress Reports, we reviewed the last four Progress Reports submitted for each of the cooperative agreements to determine if the report had been submitted as required by the *OJP Financial Guide*. As shown in Exhibit 7, for Cooperative Agreement No. 2009-SQ-B9-K102, we determined that Progress Reports Nos. 2 and 3 were submitted 223 and 39 days late, respectively.

EXHIBIT 7: CATEGORICAL ASSISTANCE PROGRESS REPORT HISTORY

REPORT NO.	REPORT PERIOD FROM - TO DATES	DUE DATE	DATE SUBMITTED	DAYS LATE
COOPERATIVE AGREEMENT NO. 2009-SQ-B9-K102				
2	01/01/10 - 06/30/10	07/30/10	03/10/11	223
3	07/01/10 - 12/31/10	01/30/11	03/10/11	39
4	01/01/11 - 06/30/11	07/30/11	07/27/11	0
5	07/01/11 - 12/31/11	01/30/12	01/30/12	0

Source: OJP Grants Management System (GMS)

To determine an exact cause, we contacted officials from the NLETS. We learned that for Progress Report No. 2, the quarterly Recovery Act reports were mistakenly submitted to GMS in lieu of the required semi-annual Progress Reports. Therefore, the corrected semi-annual reports were submitted on March 10, 2011, 223 days late. For Progress Report No. 3, we were told that there was an issue with GMS that affected the NLETS' ability to upload the report. Progress Reports Nos. 4 and 5 were submitted in a timely manner. We recommend that OJP ensure that the NLETS implements procedures to ensure that the Progress Reports are submitted in a timely manner.

For Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-DE-BX-K014, and 2009-IJ-CX-K015, all four Progress Reports submitted over the last 2 years were submitted in a timely manner.

Recovery Act Reports

In order to determine if the NLETS complied with Recovery Act reporting requirements for Cooperative Agreement No. 2009-SQ-B9-K102,

we obtained the most recent recovery act report. We determined that the report accurately reported expenditures and accurately reported jobs created.

Program Performance and Accomplishments

Program Goals and Objectives

As mentioned previously, the goals and objectives for Cooperative Agreement No. 2007-RG-CX-K003, were to build the infrastructure to support GIS capability to the law enforcement community and to build a prototype of the proposed system. The proposed system would allow for better alerting, operational/situational awareness, resource allocation, visualization and insight, and an advanced analytical framework.

For Cooperative Agreement No. 2009-DE-BX-K014, the goals and objectives were to enhance the systems in order to enable interstate image sharing for corrections photos to law enforcement officials over the NLETS network. This will enable nearly 1 million users of NLETS to access photos of inmates that are currently under arrest at a state and local prison.

For Cooperative Agreement No. 2009-IJ-CX-K015, the goals and objectives were to expand and enhance GIS capabilities while building on the foundation established by Cooperative Agreement No. 2007-RG-CX-K003. In addition, this cooperative agreement program was used in conjunction with NCMEC to geocode AMBER alerts for interstate distributions.

For Cooperative Agreement No. 2009-SQ-B9-K102, the goals and objectives were to expand the NLETS justice web portal to provide a proactive alerting capability to alert law enforcement on active warrants and people and vehicles of interest. With this cooperative agreement, NLETS plans to pilot with the NCMEC to utilize the proactive alerting capability to identify unregistered sex offenders.

Analysis of Program Performance

In order to determine if the cooperative agreements have effectively met end user needs, we administered three questionnaires to agencies that have collaborated with the NLETS. We received a response from two of the agencies. From the feedback presented by these questionnaires, the collaborators believed that these projects have allowed law enforcement officers to protect citizens and themselves in a more effective manner. In addition, one respondent stated that their state would never have been able

to provide the capabilities created by the cooperative agreements without being able to collaborate with the NLETS. Further, the respondent stated “funding a single entity for projects that can benefit ‘all’ criminal justice agencies in the nation is the smart and fiscally responsible way to do business.”

Due to the technical nature associated with the cooperative agreements, we could not determine if all of the specified goals and objectives have been or are in process of being accomplished. However, based on discussions with the NLETS’ management, feedback from agencies who have collaborated with the NLETS, documentation of the success stories, and review of the various update reports, we did not find anything that would lead us to believe that the NLETS is not on track to accomplish the goals and objectives specified for Cooperative Agreement Nos. 2009-DE-BX-K014, 2009-IJ-CX-K015, 2009-SQ-B9-K102. For the only cooperative agreement that had ended as of the start of field work, Cooperative Agreement No. 2007-RG-CX-K003, we did not find anything that would lead us to believe that the goals and objectives of the cooperative agreement program were not accomplished.

Closeout Activity

According to the *OJP Financial Guide*, award recipients have 90 days after the end date of the award to close out the award. For the final closeout package, award recipients are to perform a cash reconciliation, submit the final FFR, and submit the final Progress Report to the granting agency. In addition, the award recipient is required to perform a final drawdown before the end of the award period.

As shown in Exhibit 8, only Cooperative Agreement No. 2007-RG-CX-K003 had reached its end date at the time of this audit. We verified that the final FFR was submitted, the final Progress Report was submitted, and that final drawdowns were in compliance with the terms and conditions required by the *OJP Financial Guide*.

EXHIBIT 8: CLOSEOUT STATUS OF COOPERATIVE AGREEMENTS AWARDED TO THE NATIONAL LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM

AWARD NUMBER	PROJECT START DATE	PROJECT END DATE	REQUIRED PROJECT CLOSEOUT DATE	CLOSEOUT STATUS PER OJP COOPERATIVE AGREEMENTS MANAGEMENT SYSTEM
2007-RG-CX-K003	08/01/07	12/31/09	03/31/2010	Approved Final Archived

Source: OJP Grants Management System (GMS)

Conclusion

The purpose of this audit was to determine whether reimbursements claimed for costs under the cooperative agreements were allowable, supported, and in accordance with applicable laws, regulations, guidelines, terms and conditions of the cooperative agreements, and to determine program performance and accomplishments. We performed detailed transaction testing and examined the NLETS' accounting records, budget documents, financial and Progress Reports, and operating policies and procedures. Specifically, we found that:

- Cumulative drawdowns exceeded overall expenditures by \$2,776 for Cooperative Agreement No. 2007-RG-CX-K003; cumulative expenditures exceeded drawdowns for all the remaining awards.
- Two unallowable transactions totaling \$10,381 that were double-counted in the NLETS' accounting records.
- The NLETS did not follow the federal travel policy as required in the *OJP Financial Guide* on 11 occasions.
- Hourly rates charged to the cooperative agreements for payroll exceeded the rates in which the NLETS employees are actually paid, resulting in questioned costs totaling \$80,207.
- The NLETS did not adhere to the 10-percent rule for Cooperative Agreement No. 2007-RG-CX-K003; the NLETS was in compliance with the rule for all of the other remaining awards.
- Equipment was shown in inventory, shown as federally funded, and used as shown in the cooperative agreements.
- Documentation showing the need to award contracts without open and free competition was not maintained.
- Contractors were improperly classified as consultants in the contractual agreements.
- For Cooperative Agreement No. 2007-RG-CX-K003, we found that all of the FFRs submitted in the last 4 quarters were inaccurate. FFR No. 6 was overstated by \$11,700, FFR No. 7 was overstated by \$26,189, FFR No. 8 was overstated by \$1,747, and FFR No. 9 was overstated by \$4,801; the FFRs submitted for the remaining three cooperative agreements were generally accurate.

- Progress Report Nos. 2 and 3 were submitted 223 and 39 days late, respectively, for Cooperative Agreement No. 2009-SQ-B9-K102. For the other three cooperative agreements, the Progress Reports from the last 2 years were submitted in a timely manner.
- For Cooperative Agreement No. 2007-RG-CX-K003, the final FFR was submitted, the final Progress Report was submitted, and the final drawdowns were in compliance with terms and conditions required by the *OJP Financial Guide*.

Views of Responsible Officials

We discussed the results of our review with officials at the NLETS throughout the audit and at a formal exit conference, and we have included their comments as appropriate.

Recommendations

We recommend that OJP:

1. Ensure that the NLETS implements policies in order to accurately drawdown funds as needed.
2. Remedy the \$10,381 in questioned costs related to the two double-counted transactions.
3. Ensure that the NLETS implements travel policies that adhere to OJP Financial Guide rules.
4. Remedy the \$80,207 in questioned costs related to unallowable payroll expenditures.
5. Ensure that the NLETS implements procedures to ensure compliance with the 10-percent rule.
6. Ensure that the NLETS adopts policies in order to document and maintain information concerning the need to award contracts without open and free competition.
7. Ensure that the NLETS adopts policies to ensure that contractors are accurately classified in its contractual agreements.
8. Ensure that the NLETS implements procedures to ensure that the information submitted in the FFRs is accurate.

9. Ensure that the NLETS implements procedures to ensure that the Progress Reports are submitted in a timely manner.

APPENDIX I

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of the audit was to determine whether reimbursements claimed for costs under the cooperative agreements were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the cooperative agreements, and to determine program performance and accomplishments. The objective of the audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) cooperative agreement expenditures, including personnel and indirect costs; (4) budget management and control; (5) matching; (6) property management; (7) program income; (8) financial and Progress Reports; (9) cooperative agreement requirements; (10) program performance and accomplishments; and (11) monitoring of subgrantees and contractors. We determined that indirect costs, matching costs, program income, and subgrantees were not applicable to this audit.

We conducted this performance audit 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit concentrated on, but was not limited to, the award date of Cooperative Agreement No. 2007-RG-CX-K003 on September 12, 2007 through April 30, 2012. This was an audit of the NIJ Cooperative Agreement Nos. 2007-RG-CX-K003, 2009-DE-BX-K014, 2009-IJ-CX-K015, and 2009-SQ-B9-K102 awarded to the National Law Enforcement Telecommunication System (NLETS).

We tested compliance with what we consider to be the most important conditions of the cooperative agreements. Unless otherwise stated in our report, the criteria we audit against are contained in the *OJP Financial Guide* and the award documents.

In conducting our audit, we performed sample testing in three areas, which were cooperative agreements expenditures (including personnel expenditures), Financial Reports, and Progress Reports. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the awards reviewed, such as dollar amounts, expenditure category, or risk. However, this non-statistical sample design

does not allow a projection of the test results for all cooperative agreements expenditures or internal controls and procedures.

In addition, we evaluated internal control procedures, performance to cooperative agreement objectives, cooperative agreement drawdowns, property management, and evaluated the recipient's monitoring of contractors. However, we did not test the reliability of the financial management system as a whole and reliance on computer based data was not significant to our objective.

APPENDIX II

SCHEDULE OF DOLLAR-RELATED FINDINGS⁶

QUESTIONED COSTS:	<u>AMOUNT</u>	<u>PAGE</u>
Unallowable Direct Cost Expenditures	\$ 10,381	11
Unallowable Payroll Expenditures	80,207	13
TOTAL QUESTIONED COSTS:	\$ 90,588	
TOTAL DOLLAR-RELATED FINDINGS	\$ 90,588	

⁶ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

NATIONAL LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM'S RESPONSE TO THE DRAFT REPORT

Nlets Responses to Conclusions and Recommendations in Draft Audit Report dated May 28, 2013

Nlets has read, digested and discussed the findings and recommendations contained in the OIG Draft Audit report covering Award Numbers 2007-RG-CX-K003 (Nlets acronym LOGIC), 2009-DE-BX-K014 (NCIEN), 2009-IJ-CX-K015 (GeoSOAPS) and 2009-SQ-B9-K102 (EPORT). Following is our response to the conclusions and recommendation listed in the report.

Nlets is grateful for the federal funding of the projects approved in these awards. Our stated vision is "To be the premier provider of secure information services that will enable a totally standardized, integrated, international justice and public safety system. Acting primarily as a network and information provider, Nlets will serve every stratum of the justice and public safety communities." Everything Nlets does is done to further the accomplishment of that vision. Each of the four grants covered in the audit have advanced information sharing capabilities in the law enforcement and public safety communities. We believe that the Grant Award managers associated with these grants would agree with us.

The audit experience is a demanding one, but all Nlets staff associated with these grant awards learned from the audit. Nlets agrees in principle with all the conclusions detailed in the draft audit. Our comments on each of these conclusions follow. We will be better compliant in the future from what we have learned through this audit process.

From an overall perspective, the audit revealed two sets of conditions at Nlets and somewhat different compliance results associated with each. Cooperative Agreement No 2007-RG-CX-K003, which Nlets calls LOGIC (Live Operational Geospatial Information Capability), was awarded in 2007. At that time, Nlets was in the process of establishing greater financial reporting capabilities, including the hiring of a new Director of Finance and Administration and converting the accounting system from Quickbooks to an ERP application, Epicor Enterprise. The system conversion process was substantial in time and effort and went live on November 1, 2008. As the audit results reveal, there were some missteps along the way for the LOGIC grant that was active during the time frame before process improvements went into effect. None of the current accounting staff was employed with Nlets during this time frame. For this award, then, Nlets staff can only observe the same documentation that the grant auditors staff saw.

The other three grants, NCIEN, GeoSOAPS and EPORT, originated in 2009. The audit results for these grants reflect that Nlets had at that point fully implemented the policies and routines that were not fully operational for the earlier grant. By the end of 2009, Nlets' accounting department was fully staffed with the same positions that exist today.

Of the nine points that were noted in the audit report, five (Nos. 1, 2, 4, 5 and 8) were specific to the LOGIC grant, before all of Nlets' current systems, processes and procedures were in place. The other four were errors on Nlets' part that have been corrected since the discussions

with the grant auditors about proper interpretation of the grants' specific requirements. On a number of occasions relative to point 3 on not following OJP travel guidelines, Nlets proceeded in ways that made sense from a business perspective, i.e, they saved time and money, but which did not comply with grant accounting protocol. We have learned that the grant rules are to be followed specifically, regardless of business considerations.

Following are specific responses to each of the nine points raised in the draft audit report. If any further clarification is required, please let us know.

1) Cumulative drawdowns exceeded overall expenditures by \$2,776 for Cooperative Agreement No. 2007-RG-CX-K003; cumulative expenditures exceeded drawdowns for all the remaining awards.

Nlets response – Agree

- This was the LOGIC grant. The reason that drawdowns exceeded recorded overall expenditures was the discovery of \$10,381 of duplicated expenditures that occurred when Nlets cut over from Quickbooks to Epicor. More detail about this duplication flows out of the discussion of the second point that immediately follows this answer. There was no overdraw apparent at the time it was taken.
- The report recommendation about this point is to ensure that Nlets implements policies in order to accurately draw down funds as needed. Nlets' issue in this case was not a policy issue, but simply an error peculiar to the accounting system transition that was being implemented at the time of this error. The error occurred because one invoice from AT&T Datacomm was entered into Quickbooks, then mistakenly journal entried into the Epicor job cost system. The control features in Epicor, along with internal accounting controls that are part of Nlets' daily routines, prevent this from happening again. In addition, drawdowns have, for the last several years, been done on a monthly basis based on expenditures incurred in the prior month. These reports are generated from the job cost system and reviewed in detail by two accounting personnel before the draw is requested.
- As noted in the language in point 1, in every case, including LOGIC, Nlets overspent the amount of the award. Prior management decided to quit recording costs against a grant after incurred costs exceeded the award amount. There were additional LOGIC costs never recorded in the grant, but absorbed into Nlets expense. LOGIC stopped recording costs at \$799,566 (reduced by this audit to \$789,185) against the \$791,961 award amount. Nlets now continues to record costs against grants even after reimbursement against the full award amount is complete, in order to fully understand the total cost of the grants. On the two audited grants that are now closed (No. 2009-DE-BX-K014 and No. 2009-SQ-B9-K102), Nlets has overspent the awards by a total of over \$56,000. Also, Nlets now contributes to implementation of these grant capabilities with a program that has devoted over \$1,000,000 to state application awards.

2) Remedy the \$10,381 in questioned costs related to two unallowable transactions.

Nlets response – Agree, but would note that the nature of the transaction was allowable. The error is in the duplication of recording.

- This again is related to the LOGIC grant. It results from one invoice from AT&T Datacomm, split into two pieces, one for software and another for the software maintenance. It was recorded through the Accounts Payable module in Quickbooks, then mistakenly entered by journal entry into the job cost system in Epicor. These were allowable transactions. The error was that allowable transactions were entered twice.
- The report recommends that Nlets remedy this inadvertent duplication. Point number one already provides the remedy. The grant award was \$791,961. Nlets recorded \$799,566 in costs against this award. When we remove the \$10,381 in duplicated costs from what was recorded, we are left with \$789,185 in allowable expenditures. Having now removed the duplication, Nlets overdraw the grant by the \$2,776 noted in point 1.

3) The Nlets did not follow the federal travel policy as required in the OJP Financial Guide on 11 occasions.

Nlets response – Agree

- We agree that Nlets did not adhere to policy. In the introduction to Nlets response to the audit, we talked about making some appropriate business decisions that did not technically comply with grant guidelines. On most of the 7 occasions related to lodging rates (the other 4 relate to Meals & Incidental Expenses), Nlets personnel attended conferences related to the advancement of grant objectives. These conferences were held at out-of-state hotels. Cost efficiency dictated that those personnel attending the conferences stay at the conference hotel to avoid the cost of renting cars and wasting the compensable contractor time it would take to drive to/from a hotel that complied with federal travel policy guidelines. It was Nlets' belief that the decisions to stay at the conference hotels were appropriate as stewards of the federal award dollars. Nlets discovered through the audit process, though, that we should abide specifically by the OJP Financial Guide, and we will do so in all future travel reimbursements.
- Nlets made the same error on each of the four cases of non-compliance with OJP policy regarding reimbursement of Meals & Incidental Expenses. Guidelines call for 75% reimbursement on all travel days. On each of the four noted occasions, Nlets paid 100% of the authorized per diem allowance on travel days. All appropriate operational and accounting staff have been notified of the need to adhere to this policy.

- 4) **Hourly rates charged to the cooperative agreements for payroll exceeded the rates in which the Nlets employees are actually paid resulting in questioned costs totaling \$80,207.**

Nlets response – Agree, with two limitations. First, the conclusion applies to a single cooperative agreement, not all of them. Award No. 2007-RG-CX-K003 (LOGIC) was already closed out when Nlets discovered the issue and therefore not readily correctible. The other three audited grants, along with two more active grants that were not included in the audit, were all corrected before the grant audit was requested. **Second**, while we agree with the idea that Nlets charges exceeded the charges associated with actual rates, the amount in question is actually \$33,979 as detailed below.

- Nlets' prior Director of Finance believed it was proper, after a number of discussions with federal personnel associated with the grant, to record staff time charges to the grant at an average rate. This idea was consistent with the detailed budget approved with the award of the grant. The rates used were loaded with the cost of fringe benefits. Nlets also inappropriately issued separate charges for fringe benefits at year end. After the issue arose during the 2010 financial audit, Nlets corrected all active grants to include actual rates for each hour of Nlets personnel activity. These actual hours are individually and accurately tracked into the Epicor job cost system directly from our time-keeping system. The corrections were made, for both staff time and benefits. LOGIC was already closed out by then and did not appear to be available for correction.
- Nlets has recalculated the actual LOGIC payroll, applying actual rates paid for all the personnel hours recorded. The costs reported in the audit for LOGIC were \$80,207 for payroll and \$24,866 for fringe benefits. The actual numbers should have been \$54,270 for actual wages paid and \$16,824 for associated fringe benefits. The difference between reimbursements paid and actual costs is therefore \$33,979.

- 5) **The Nlets did not adhere to the 10 percent rule for Cooperative Agreement No. 2007-RG-CX-K003; the Nlets was in compliance with the rule for all the other remaining awards;**

Nlets response – Agree

- Again, the issue exists with LOGIC only and is related to the transition time for personnel and the new accounting system.
- The recommendation is that Nlets implements policies to ensure compliance with the 10 percent rule. Nlets believes that the fact that the three subsequent grants comply with the rule demonstrates that Nlets already has the necessary policies and procedures in place to ensure future compliance.

6) Documentation showing the need to award contracts without open and free competition was not maintained.

Nlets response – Agree

- Because the audited activity relates to grants that investigate and develop capabilities that were not in existence at the time of the awards, there is not a readily available competitive pool of useful talent. Nlets is engaged in activity that builds on prior successes and finds efficiency in furthering new capabilities with personnel who already know all that it took to build those new capabilities. Hiring new contractors would necessitate a lengthy learning curve to bring them up to the knowledge level of current project managers.
- Bonnie Locke, Nlets Director of Business Development (and Nlets manager of grant activity), discussed the ongoing use of this experienced talent with NIJ Program Managers regularly along the process. Nevertheless, Nlets agrees that we did not comply with requirements by documenting these decisions and conversations in the proper way. Discussions with these federal grant managers subsequent to the audit have specifically addressed this issue, and Nlets will not have undocumented use of sole source contractors in the future.

7) Contractors were improperly classified as consultants in the contractual agreements.

Nlets response – Agree that the contracts were improperly titled

- Nlets believes the point is better stated by saying that contractor agreements were improperly titled consultant agreements. Nlets used an existing document entitled "Consultant Agreement" to retain the contractors who served as day-to-day project managers for the steps involved in accomplishing the goals of the grants. The title of the documents did not fit their role. They never were consultants and the content of the agreements, including fairly specific Statements of Work, accurately described their contracting activities. Nlets will title any future such agreement as a "Contractor Agreement".

8) For Cooperative Agreement No. 2007-RG-CX-K003, we found that all of the FFRs submitted in the last 4 quarters were inaccurate. FFR No. 6 was overstated by \$11,700, FFR No. 7 was overstated by \$26,189, FFR No. 8 was overstated by \$1,747 and FFR No. 9 was overstated by \$4,801; the FFRs submitted for the remaining three cooperative agreements were generally accurate.

Nlets response – Agree

- Once again, the issue here is with the LOGIC grant. Current Nlets staff reviewed the four FFRs and is unable to reconcile. While the four are overstated, the total ultimately claimed was appropriate to the grant amount, with the exception of the errors discussed in points 2 and 4. It was noted that the other three grants

were in compliance. Again, Nlets points to the reporting accuracy of the three subsequent grants as evidence that we already have proper policies and procedures in place to ensure reporting accuracy.

- 9) **Progress Report Nos. 2 and 3 were submitted 223 and 39 days late respectively for Cooperative Agreement No. 2009-SQ-B9-102; for the other three cooperative agreements, the Progress Reports from the last two years were submitted in a timely manner.**

Nlets response - Agree

- The Nlets contracted grant manager associated with the administration of this grant left Nlets in 2011; this appears to be simply a mistake on Nlets part. From the memory of others associated with EPORT, there were online reporting problems where the GMS system would not allow updates, saying the grant was "unavailable". Nevertheless, Nlets did not act in a timely way to resolve the problem. The fact that all subsequent reports for this grant and for the other two 2009 grants included in the audit have been timely demonstrates that Nlets has policies and procedures that ensure compliance.
- Nlets also put into place in 2011 a project management tool, AtTask, that includes templates for required grant activities. All personnel with tasks associated with grant reporting receive proactive email reminders from the system, notifying them of upcoming reporting deadlines.

Submitted by:



Keith R. Meyers, CPA
Nlets Director of Finance & Administration

OFFICE OF JUSTICE PROGRAMS' RESPONSE TO THE DRAFT REPORT



U.S. Department of Justice

Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

JUN 26 2013

MEMORANDUM TO: David M. Sheeren
Regional Audit Manager
Denver Regional Audit Office
Office of the Inspector General

FROM:  Maureen A. Henneberg 
Director

SUBJECT: Response to the Draft Audit Report, *Audit of the Office of Justice Programs, National Institute of Justice Cooperative Agreements Awarded to the National Law Enforcement Telecommunications System*

This memorandum is in response to your correspondence, dated May 28, 2013, transmitting the subject draft audit report for the National Law Enforcement Telecommunications System (NLETS). We consider the subject report resolved and request written acceptance of this action from your office.

The draft audit report contains **nine** recommendations and **\$90,588** in questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

- I. **We recommend that OJP ensure that the NLETS implements policies in order to accurately drawdown funds as needed.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that Federal cash-on-hand is kept at the minimum amount needed for disbursement to be made immediately, or within 10 days of receiving the funds; and amounts requested for reimbursement are based on actual disbursements.

2. **We recommend that OJP remedy the \$10,381 in questioned costs related to the two unallowable transactions.**

OJP agrees with the recommendation. We will coordinate with the NLETS to remedy the \$10,381 in questioned costs related to the unallowable transactions charged to cooperative agreement number 2007-RG-CX-K003.

3. **We recommend that OJP ensure that the NLETS implements travel policies that adhere to OJP Financial Guide rules.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that the NLETS' travel policies adhere to the OJP Financial Guide travel rules.

4. **We recommend that OJP remedy the \$80,207 in questioned costs related to unallowable payroll expenditures.**

OJP agrees with the recommendation. We will coordinate with the NLETS to remedy the \$80,207 in unallowable payroll expenditures charged to cooperative agreement number 2007-RG-CX-K003.

5. **We recommend that OJP ensure that the NLETS implements procedures that comply with the 10 percent rule.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that prior approval is obtained from the Federal granting agency, if cumulative changes to budget categories exceed 10 percent of the total award amount.

6. **We recommend that OJP ensure that the NLETS adopts policies in order to document and maintain information concerning the need to award contracts without open and free competition.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that proper information is maintained when contracts are awarded without open and free competition.

7. **We recommend that OJP ensure that the NLETS adopts policies to ensure that contractors are accurately classified in its contractual agreements.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that contractors are accurately classified in contractual agreements.

8. **We recommend that OJP ensure that the NLETS implements procedures to ensure that the information submitted on the Federal Financial Reports (FFRs) is accurate.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that future FFRs are accurately prepared, and reviewed and approved by management prior to submission; and the supporting documentation is maintained for future auditing purposes.

9. **We recommend that OJP ensure that the NLETS implements procedures to ensure that the progress reports are submitted in a timely manner.**

OJP agrees with the recommendation. We will coordinate with the NLETS to obtain a copy of implemented policies and procedures for ensuring that future progress reports are timely submitted.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

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APPENDIX V

OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The OIG provided a draft of this audit report to OJP and the NLETS. The responses are incorporated into Appendices III and IV of this final report. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendation Number

- 1. Resolved.** OJP concurred with our recommendation that it ensure the NLETS implement policies in order to accurately drawdown funds as needed. In its response, the NLETS also concurred with our recommendation and provided additional explanation regarding the specific nature of the drawdown concern and its relationship to accounting entries that are also described in our report. In our judgment, it is important to establish policy to ensure this type of error can be prevented in the future and to ensure that drawdown amounts are consistent with accounting records and immediate needs.

This recommendation can be closed when we receive updated policies that implement procedures for ensuring accurate drawdowns of grant funds.

- 2. Resolved.** OJP concurred with our recommendation to remedy the \$10,381 in questioned costs related to the two unallowable transactions. In its response, the NLETS also concurred with our recommendation and provided additional information regarding the unallowable transactions. We agree with NLETS and made appropriate adjustments to indicate that the nature of the transaction is allowable; however, it is unallowable to duplicate this charge in determining grant expenditures. The NLETS provides additional analysis of total grant expenditures and the resulting impact on questioned costs. We agree with this analysis, and based on the information provided, the questioned costs are reduced to \$2,776.

This recommendation can be closed when we receive documentation supporting that the remaining \$2,776 in questioned costs have been remedied.

3. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS implements travel policies that adhere to OJP Financial Guide rules. In its response, the NLETS also concurred with our recommendation to implement travel policies. NLETS provided additional discussion describing its intent to minimize costs that would potentially be incurred in complying with travel regulations. We agree with the concept of minimizing costs and in our judgment sufficient policies that include obtaining granting agency approval for any travel that does not fully comply with the *OJP Financial Guide* may address this issue.

This recommendation can be closed when we receive updated travel policies that adhere to OJP Financial Guide rules.

4. **Resolved.** OJP concurred with our recommendation to remedy the \$80,207 in questioned costs related to unallowable payroll expenditures. In its response, the NLETS also concurred with our recommendation and provided further explanation and supplemental analysis of payroll records. Regarding the additional explanation, we were unable to ascertain any approval to deviate from using actual payroll expenditures in determining hourly pay rates resulting in our questioned costs determination. The NLETS also stated that the questioned costs related to unallowable payroll should have been \$33,979, rather than \$80,207. While the supplemental analysis of payroll records is helpful in addressing this recommendation, we will need to obtain and review these records to ensure the validity of the information.

This recommendation can be closed when we receive all records related to unallowable payroll expenditures and questioned costs are fully remedied.

5. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS implements procedures that comply with the 10-percent rule. In its response, the NLETS also concurred with our recommendation and provided additional explanation regarding the specific concern related to the 10-percent rule.

This recommendation can be closed when we receive the policies implemented to ensure NLETS comply with the 10-percent rule.

6. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS adopts policies in order to document and maintain information concerning the need to award contracts without open and

free competition. In its response, the NLETS concurred with our recommendation and provided additional explanation regarding the circumstances surrounding the awarding of contracts without full and open competition. In our judgment, while the NLETS explanation merits consideration, any waiver of the requirement to award contracts without full and open competition should be approved in advance by the granting agency.

This recommendation can be closed when we receive updated policy implemented to ensure appropriate documentation is maintained to describe circumstances of awarding contracts without free and open competition.

7. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS adopts policies to ensure that contractors are accurately classified in its contractual agreements. In its response, the NLETS concurred with our recommendation and offered further explanation to demonstrate the proper intent to classify all agreements as "contractor agreements."

This recommendation can be closed when we receive policy implemented to accurately categorize contractors in contractual agreements.

8. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS implements procedures to ensure that the information submitted on the Federal Financial Reports (FFRs) is accurate. In its response, the NLETS also concurred with our recommendation and provided additional information indicating that this issue was isolated to only one of the grants reviewed.

This recommendation can be closed when we receive policies implemented to ensure information on the FFRs is accurate.

9. **Resolved.** OJP concurred with our recommendation that it ensure the NLETS implements procedures to ensure that the progress reports are submitted in a timely manner. In its response, the NLETS concurred with our recommendation and described policies put in place to ensure progress reports are submitted in a timely manner.

This recommendation can be closed when we receive the policies implemented to ensure progress reports are submitted in a timely manner.