

**DEPARTMENT OF STATE
STATE GRANTS ADMINISTRATION**

Operational Audit

July 2006 through February 2008



SECRETARY OF STATE

The Department of State is created by Section 20.10, Florida Statutes. The head of the Department is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. The Secretaries who served during the audit period are shown below.

Secretary	Dates of Service
Sue M. Cobb	January 3, 2006, to January 2, 2007
Kurt S. Browning	From January 2, 2007

The audit team leader was Susan Walthall, CPA, and the audit was supervised by Christi Alexander, CPA. Please address inquiries regarding this report to Nancy C. Tucker, CPA, Audit Manager, by e-mail nancytucker@aud.state.fl.us or by telephone (850) 487-4370.

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DEPARTMENT OF STATE
State Grants Administration

SUMMARY

Our operational audit of the Department of State (Department) for the period July 2006 through February 2008, and selected Department actions through July 2008, focused on the Department’s administration of State grants and selected information technology (IT) functions within the Divisions of Historical Resources, Cultural Affairs, and Library and Information Services. As summarized below, we found that some processes and controls established by Department management for these activities were in need of improvement.

State Grants Administration

FINANCIAL REPORTING PACKAGES

Finding No. 1: The Department did not have uniform procedures for tracking and reviewing financial reporting packages required by the Florida Single Audit Act.

GRANT MONITORING

Finding No. 2: Department procedures for monitoring grantee compliance and enforcing grant requirements were ineffective. In addition, the Department did not always timely apply contractual remedies, such as withholding grant payments or denying subsequent grant awards, when grantees did not comply with reporting requirements.

PANELIST FILES

Finding No. 3: The Department did not always retain records supporting the qualifications and selection of grant application review panelists.

Information Technology Controls

CHANGE MANAGEMENT CONTROLS

Finding No. 4: Change management controls for systems used by the Department to administer grant applications needed improvement.

OTHER SECURITY CONTROLS

Finding No. 5: Application and network security controls needed improvement.

BACKGROUND

The Department is responsible for administering several appropriations for State grants and aids. Grants made from such appropriations are administered through the Division of Historical Resources (historic preservation grants and museum grants), the Division of Cultural Affairs (various arts grants), and the Division of Library and Information Services (library construction, library cooperative, library literacy, and library services and technology grants).

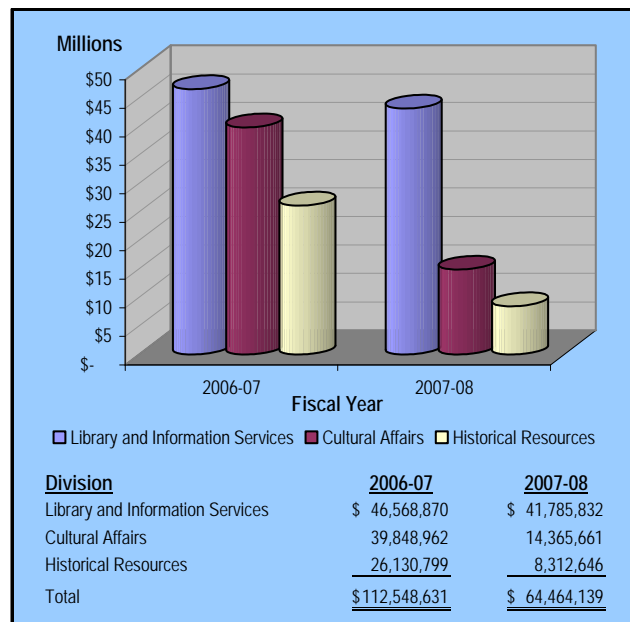
Moneys provided by the Department to grantees through each State grants and aids appropriation are to be used solely for purposes specified by State laws.¹ Accordingly, the Department has a responsibility to perform oversight activities to ensure that grantees use grant moneys consistent with the authorized purposes.

Oversight activities may include reviews of independent audit reports, periodic progress and expenditure reports, and other materials and information that evidence grant objectives were met. In addition, on-site compliance reviews of grantees may be performed.

If a grantee does not comply with grant requirements, oversight activities may require the application of certain appropriate remedies. Such remedies may include withholding grant payments and subsequent grant awards during periods of noncompliance. Also, as some entities may be awarded grants from more than one Department division, to effectively apply remedies, it is imperative that grant administering divisions communicate instances of grantee noncompliance to the other divisions.

According to Department records, during the 2006-07 and 2007-08 fiscal years, the Department administered State grants and aids appropriations totaling approximately \$112.5 million and \$64.5 million, respectively, as shown in Chart 1:

Chart 1
Grants and Aids Appropriations by Division



Source: Department accounting records.

FINDINGS AND RECOMMENDATIONS

State Grants Administration

As noted under the **BACKGROUND** heading of this report, the Department is responsible for administering several appropriations for State grants and aids. As part of our audit, we reviewed the Department’s administration of grants

¹ Chapter 257, Florida Statutes, Public Libraries and State Archives; Chapter 265, Florida Statutes, Memorials, Museums, and Fine Arts; Chapter 267, Florida Statutes, Historical Resources.

to determine the extent to which the Department has implemented procedures to reasonably ensure the accomplishment of its grant administration responsibilities.

Finding No. 1: Financial Reporting Packages

All Divisions

To establish accountability over State resources provided to non-State organizations, the 1998 Legislature enacted the Florida Single Audit Act² (FSAA). The purpose of the Act is to establish uniform State audit requirements for non-State entities receiving State Financial Assistance (SFA); promote audit economy and efficiency; ensure State agency monitoring, use, and follow-up of audits of SFA; provide identification of SFA; promote sound financial management of SFA; and improve coordination between State agencies providing SFA and non-State entities receiving SFA.

The FSAA³ requires each non-State entity (recipient) that expends \$500,000 or more of SFA in any fiscal year to obtain a State single audit (audit of the financial statements and SFA) or a project-specific audit conducted by an independent auditor. The FSAA also requires the SFA recipient to provide a copy of a financial reporting package (FRP) to the State awarding agency. Among other matters, the FRP is to address the recipient's compliance with State project requirements, deficiencies in internal controls, and the amount of SFA expended by the recipient in conducting the State project.

To ensure FRPs are timely received and appropriately reviewed, corrective actions are taken, and reliable information is available for future funding and policy decisions, an effective FRP review process is essential. Such a process should include the development of written policies, guidelines, and checklists to facilitate the review of FRPs; a method to track FRPs that are due, received, and reviewed; documentation of agency actions to obtain FRPs not received; and follow-up on noncompliance or other noted deficiencies.

The Department, through the Divisions of Historical Resources, Cultural Affairs, and Library and Information Services, disbursed over \$132 million in SFA to recipients during the period July 1, 2006, through February 29, 2008. Such moneys were to be administered in accordance with the FSAA.

Our review of Department procedures disclosed that an effective FRP review process had not been implemented or documented, as described below:

- The Department had not adopted final written policies and procedures for monitoring recipients and reviewing FRPs. According to Department staff, preliminary policies and procedures had been developed.
- During the audit period, Department staff logged FRPs received; however, they did not verify that all the FRPs due were received and did not review the FRPs received to identify SFA recipient accountability and compliance issues and matters requiring Department attention.

Absent evidence of monitoring and review, the Department has reduced assurance that State project funds have been properly administered by SFA recipients.

Recommendation: To ensure effective oversight and compliance with the FSAA, the Department should finalize and implement comprehensive policies and procedures. In addition, the Department should implement a mechanism to track when FRPs are due, received, and reviewed.

² Chapter 98-91, Laws of Florida.

³ Section 215.97, Florida Statutes.

Finding No. 2: Grant Monitoring

During the audit period, the Department had direct administrative oversight of State grant appropriations and was responsible for ensuring that only eligible applicants received funding, grantees used funds for the purposes authorized by law,⁴ and that the rules and guidelines established by each Division were followed.⁵ Department procedures required that divisions routinely review periodic progress and expenditure reports and support materials which evidence that grant objectives were met. Also, for selected grants, site visits and grant compliance reviews were to be conducted.

If the organization or individual did not comply with reporting and administrative requirements, grant agreement provisions generally authorized the Department to deny future grant payments and awards. Additionally, Department procedures provided that, for some grants, staff could request a return of funds and initiate collection procedures through the Office of the General Counsel or the Department of Financial Services. To demonstrate that an appropriate level of monitoring was provided, staff were to enter into public record the dates of review and acceptance of required reports and documents.

All Divisions

As indicated above, Department procedures required that site visits and grant compliance reviews be conducted for selected grants. In response to our audit inquiries, Department management indicated that while all grants were subjected to a desk review, due to budget limitations, site visits were not routinely required as part of grant administration. However, rather than utilizing a documented risk assessment process to identify those grants that should be selected for site visits, the Department conducted site visits when such visits coincided with other required travel, or after compliance issues or other problems were identified.

A risk assessment process that takes into consideration, among other matters, the dollar value of the grant, the nature of the grant and associated inherent risks, and past performance of the grantee would enhance the Department's efforts to ensure that grantees comply with applicable laws, rules, and grant provisions, and Department travel money designated for site visits is used judiciously.

Division of Cultural Affairs

Procedures provided by the Division of Cultural Affairs indicated that program managers were to monitor the timeliness of the interim or final reports of all open grants. *Report Reminder Letters*, *Report Late Letters*, or *Return Funds Letters* (letters) were to be mailed to grant recipients when interim or final reports were not submitted as required by the grant award agreement. Additionally, Division procedures provided that organizations and individuals who did not comply with the Division's reporting and other administrative requirements be placed in "Stop Funds" status and added to a Stop Funds List. Individuals and organizations on the Stop Funds List were not eligible for future funding from the Division and no further payments were to be made until the instances of noncompliance were resolved.

Our review of 15 grant files found that the Division's established procedures for monitoring grantee compliance were not always followed:

- For 4 of 15 grant files reviewed, the Division failed to timely send the appropriate letters and place the individuals or organizations on the Stop Funds List when final reports and any grant balances due were not received by the dates specified. The amount of these 4 awards totaled \$649,930. For 2 of the 4 grants, the

⁴ Chapter 257, Florida Statutes, Public Libraries and State Archives; Chapter 265, Florida Statutes, Memorials, Museums, and Fine Arts; Chapter 267, Florida Statutes, Historical Resources.

⁵ Department of State Rules 1A-35 and 1A-43, 1B-2.011, and 1T-1.001, Florida Administrative Code; Division of Cultural Affairs: *Fiscal Monitoring Procedures for Grants and Grants Collection Policy and Procedure*.

Division was not aware until our inquiry that the reports had not been received. In 1 of the 4 instances, the Division did not seek collection⁶ through the Department of Financial Services until February 6, 2008, 191 days after the final report's July 30, 2007, due date.

- For 4 of 15 grants, including 1 of the 4 above, the Division did not timely review the final reports submitted. The staff reviews for these 4 grants were made 66 to 122 days after the final reports were received.

In response to audit inquiry, Department management stated that a majority of these instances were due to workload issues and, in all but one instance, recipients were found to be in compliance with Division requirements when reports were finally reviewed.

Division of Historical Resources

During the audit period, the Division of Historical Resources was statutorily responsible for administering historic preservation grants and historical museum grants.⁷

- Historic preservation grant award agreements generally required that, when a grantee entered into an agreement with a subcontractor, certain specified provisions be included either as an attachment to the agreement or as provisions incorporated into the body of the agreement. These provisions included requirements for subcontractor compliance with Federal Equal Employment Opportunity laws; retention of and Department access to project-related records; specification of project duration; and contract termination in accordance with the grant award agreement. Our review of Division grant files disclosed that for two of five selected historic preservation grants with award payments totaling \$370,160, the applicable grantee agreements with subcontractors did not include the required provisions as either attachments or terms of the agreements.
- Historical museum grant award agreements⁸ required that the total amount of the awards be made to grantees in four quarterly installments and that grantees submit quarterly progress and expenditure reports and advance payment requests. For three of four historical museum grants reviewed, with award payments totaling \$103,445, the grant files lacked evidence of grantee compliance with one or more of the grant reporting requirements.

In the absence of sufficient monitoring, the Department cannot ensure that State grant funds are always used in a manner consistent with governing laws, rules, and other guidelines, and when necessary, timely apply appropriate remedies for noncompliance.

Recommendation: We recommend that the Department enhance grant monitoring procedures for the Divisions of Historical Resources, Cultural Affairs, and Library and Information Services to ensure that sufficient grant oversight is provided. Such enhancements should include:

- Utilization of a risk assessment methodology when selecting grants for site visits.
 - Appropriate allocation of workload resources to ensure that all required grantee reports are reviewed timely and that proper follow-up action is taken when instances of noncompliance are noted.
 - Application of appropriate remedies when grantees have not demonstrated compliance with reporting and administrative requirements.
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⁶ Section 17.01, Florida Statutes.

⁷ Sections 267.0617 and 267.0619, Florida Statutes (2007).

⁸ Effective July 1, 2008, Chapter 2008-199, Laws of Florida, transferred to the Division of Cultural Affairs the responsibility for administering historical museum grants.

Finding No. 3: Panelist Files

Division of Cultural Affairs

As established in laws and rules,⁹ grant review peer panels are to apply established criteria to evaluate requests for grants and are appointed for one-year terms by the Secretary of State. Review peer panels are to be comprised of artists, arts-related professionals, educators, or other persons with current or prior active involvement in various artistic disciplines. Collectively, the members of the review panels are to make funding recommendations to the Florida Arts Council, a 15-member advisory board that advises the Secretary of State who makes final decisions on the distribution of grant awards.¹⁰

As part of our audit, we attempted to examine grant review peer panelist files for the grant applications we selected for testing. However, the Division was unable to provide files containing qualifications documentation for 6 of 22 panelists who were appointed to review grant applications submitted during the audit period. Division staff stated that the files containing public records for panelists with last names beginning with letters “S” through “Z” had been discarded. The Division was also unable to provide a records retention schedule applicable to panelist files that was in effect during the audit period.

Documentation demonstrating that panelists possess the appropriate qualifications and evidencing Department deliberations related to the selection of panelists is necessary to support grant award decisions. Absent appropriate retention schedules for such documentation, there is an increased risk that public records will not be available.

Recommendation: The Department should take actions to ensure that records describing the qualifications of panelists are retained for the public record.

Information Technology Controls
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Finding No. 4: Change Management Controls

Division of Library and Information Services

To be effective, program change management controls should be in writing; require that program changes be documented, reviewed, tested, and approved; and require that the responsibility for moving program changes into the production environment be separated from that relating to developing program changes.

Our audit disclosed that the Division of Library and Information Services had not established written change management control policies and procedures and that procedures followed did not separate the responsibilities for program change development and movement. We noted that upon receipt of an approved project request form, the Division network administrator made modifications to the Library Data Manager (LDM) System. Such changes included new tables, views, or code. However, upon acceptance by the user, the network administrator also moved the modifications into production. The LDM System was used to manage library and information services grants.

To minimize the risk of unauthorized or erroneous program changes, it is imperative that program change management responsibilities be appropriately assigned. Additionally, without effective written communication of the change management policies and procedures, the risk is increased that unauthorized or untested program changes may be applied to Department data.

⁹ Section 265.285(1)(c), Florida Statutes; Department of State Rule IT-1.001(6), Florida Administrative Code.

¹⁰ Pursuant to Section 265.285(1)(a), Florida Statutes, members of the advisory board are appointed by the Governor, President of the Senate, and Speaker of the House of Representatives.

Recommendation: To ensure that the change management process operates appropriately, the Department should establish written change management control procedures. Such procedures should provide for separating the responsibility for moving approved program changes from the responsibility for developing the changes.

Finding No. 5: Other Security Controls

Effective security practices include the restriction of logical access to and use of information technology resources. Without adequate application and network security controls, the risk of unauthorized access, modification, or destruction of grant information is increased.

Our tests of Department controls over the systems used to process State grants disclosed that the Department's implementation of application and network security controls needed enhancement. Specific details of the enhancements needed are not disclosed in this report to avoid the possibility of compromising Department data and information technology resources. However, appropriate Department personnel have been notified of these issues.

Recommendation: To reduce the risk of unauthorized access to, modification of, or destruction of grant application information, the Department should strengthen certain application and network security controls.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational 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.

This operational audit focused on the Department's administration of State grants and selected information technology (IT) functions. The overall objectives of the audit were:

- To evaluate the effectiveness of established controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2006 through February 2008, and selected actions through July 2008. In conducting our audit, we:

- Interviewed Department personnel.

- Obtained an understanding of internal controls and tested key processes and procedures related to State grants administration and selected information technology controls.
- Tested the Department’s application, award, and close-out process for 30 State grants administered through the Divisions of Historical Resources (10 grant awards totaling \$2,443,078), Cultural Affairs (15 grant awards totaling \$980,667), and Library and Information Services (5 grant awards totaling \$844,017) to determine compliance with controlling laws.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.




David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a response letter dated November 14, 2008, the Secretary of State concurred with our audit findings and recommendations. The Secretary’s response is included as Exhibit A.

**EXHIBIT A
MANAGEMENT'S RESPONSE**

MEMORANDUM**Florida Department of State**

TO: David W. Martin, Auditor General
FROM: Kurt S. Browning,  Secretary of State
DATE: November 14, 2008
SUBJECT: *State Grants Administration within the Divisions of Cultural Affairs, Historical Resources, and Library and Information Services*

In connection with your operational audit of the Department of State (DOS) Grants Administration for the period of July 1, 2006 through February 29, 2008, and selected Department actions through July 2008, I am responding to your letter dated October 14, 2008.

State Grants Administration

Audit Finding No. 1: Financial Reporting Packages

The Department did not have uniform procedures for tracking and reviewing financial reporting packages required by the Florida Single Audit Act (FSAA).

Recommendation:

To ensure effective oversight and compliance with the FSAA, the Department should finalize and implement comprehensive policies and procedures. In addition, the Department should implement a mechanism to track when financial reporting packages are due, received and reviewed.

Agency Response:

The Department of State concurs with this finding. To finalize and implement our comprehensive policies and procedures applicable to the FSAA, we have held four of the six coordinating workshops necessary to obtain information and assign responsibilities. Currently, we are coordinating with the Department's Chief Information Officer to develop a database to track and reconcile financial information necessary to comply with the Florida Single Audit Act. Until such time as the database is completed, we have created an electronic spreadsheet to record financial reporting packages due, received and reviewed. Also, we are developing a reconciliation process necessary to determine if reporting packages are due to the Department of State. We anticipate completion of our interim corrective actions by January 31, 2009, and completion of our final corrective actions by June 30, 2009.

Finding No. 2: Grant Monitoring

Department procedures for monitoring grantee compliance and enforcing grant requirements were ineffective. In addition, the Department did not always timely apply contractual remedies, such as withholding grant payments or denying subsequent grant awards, when grantees did not comply with reporting requirements.

Recommendation: We recommend that the Department enhance grant monitoring procedures for the Divisions of Historical Resources, Cultural Affairs and Library and Information Services to ensure that sufficient grant oversight is provided. Such enhancements should include:

EXHIBIT A
MANAGEMENT'S RESPONSE (Continued)

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- Utilization of a risk assessment methodology when selecting grants for site visits.
- Appropriate allocation of workload resources to ensure that all required grantee reports are reviewed timely and that proper follow-up action is taken when instances of noncompliance are noted.
- Application of appropriate remedies when grantees have not demonstrated compliance with reporting and administrative requirements.

Agency Response: The Department of State concurs with this finding.

Division of Cultural Affairs

In response to the Auditor General's recommendations, the Division of Cultural Affairs will develop a formal Risk Assessment Process to be implemented before the next grant funding cycle that will consider such factors as the level of funding, previous compliance history and organizational profile among others. It is also the Division's practice to review with grant review panels an applicant's history of compliance problems prior to considering funding a new cycle.

In addition, the Division of Cultural Affairs currently has in place a process that includes an annual random grant compliance exercise which consists of requiring a percentage of the previous fiscal year's grantees to provide documentation of state and matching fund expenditures made during the grant period. The Division also has in place a collections referral policy in cooperation with Department of State, Office of the General Counsel and the Department of Financial Services for those grantees that fail to resolve compliance issues in the mandated time period.

The Division of Cultural Affairs has also taken steps to implement a structured tracking system calling for more frequent compliance reports tracking grant status triggered by the final report deadline. This process was implemented for the final reporting period for FY 07-08 grants with a July 30 project end date. Staff has been retrained to focus on the timeliness of reporting deadlines and the corrective steps required ensuring that grant funds were expended and reported in the time prescribed with appropriate follow up. Program managers report their progress weekly to supervisors who are responsible for monitoring deadlines. This tracking process will also alert management to workload problems and allow them to quickly address this issue.

As of July 1, 2008, the Historical Museum Grant Program was statutorily transferred to the Division of Cultural Affairs. The rules, guidelines and program monitoring procedures are in the process of being revised to conform to the standard and universal administrative requirements for other grants administered by the Division of Cultural Affairs. These rules will be in place by January 21, 2009.

Division of Historical Resources

In response to these recommendations, the Division of Historical Resources has developed a Risk Assessment Process, which will be implemented immediately. Criteria for risk assessment include the dollar value of the grant, the nature of the grant and associated inherent risks and past performance of the grantee.

It has been standard procedure for the Division of Historical Resources grants staff to review all grants periodically for risk factors. This review normally takes place on review of quarterly (for Small Matching grants) or semi-annually (for Special Category grants) Progress and Expenditure Reports. These reports must include documentation of all expenditures, both grant funded and match.

Certain deadlines also trigger reviews for compliance. These would include the submission of initial documents such as the executed Grant Award Agreement with required attachments. Competitive selection documents, consultant contracts, project schedules, as well as deliverables in the form of draft and final reports or products must be submitted by stated deadlines.

EXHIBIT A
MANAGEMENT'S RESPONSE (Continued)

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During grant application review, the Division of Historical Resources grants staff routinely informs the Florida Historical Commission and appointed grant panels when there are administrative problems with an applicant's previous or current grants. That information is then taken into account in the panels' recommendations for funding. This information has had a significant effect in recent grant reviews.

Every attempt is made on the part of the Historic Preservation Grants Supervisor and those in supervisory positions above her to distribute workloads evenly and in proportion to the needs of responsible grants administration. Previous delays in responses to report submissions were due to staff turnover and a shortage of trained grants personnel. This situation has been rectified in part, through the hiring of an OPS assistant whose responsibilities have been dedicated to eliminating the back-log of grants that had built up as a result of the personnel shortage.

In addition, the Division of Historical Resources has developed a formal process for dealing with non-compliance with grant requirements. This process establishes specific deadlines for correction of deficiencies and a clear protocol for dealing with unresolved compliance issues involving the Division Director, Office of General Counsel, and finally suit or referral to the Department of Financial Services for collection.

Division of Library and Information Services

The Division of Library and Information Services concurs with the audit findings and is in the process of implementing a risk assessment methodology to select grants for site visits in order to ensure that grantees comply with applicable laws, rules and grant provisions.

The Division of Library and Information Services has processes in place that requires that the review process for all grantee reports are started no later than 30 days after receipt of the reports. Following the reviews, the Division has procedures in place for follow-up if additional information, clarification or other action is needed as a result of the review.

Before grants are awarded or payments made on a grant, the Division of Library and Information Services checks to determine if the grantee is in non-compliance with reporting and administrative requirements. If at the time an application is submitted, the applicant is notified that they are in noncompliance and the grant application continues through the review process. Prior to an award being made, if the applicant is still in noncompliance, then they will not receive the grant award and the funds will be reallocated to other grants. Prior to requesting any grant payments, the Division will check to see if the grantee is on the noncompliance list. If they are, the grant payments will not be requested until the organization is in compliance.

Office of Cultural Historical and Information Programs

Recently, the Grant Programs Administrator in the Office of Cultural, Historical and Information Programs initiated a comprehensive reporting process whereby non-compliant grantees in the Divisions of Historical Resources, Cultural Affairs and Library and Information Services are reported monthly to a central listing that will soon be shared among all grant funding programs within the Department of State via the DOS Intranet. Should a grantee become compliant during the following month, that grantee is deleted from the non-compliance list. Chronic or continued appearance on the list will trigger the initiation of legal remedies, which may include withholding of grant payments until projects are brought into compliance and, when problems are not remedied, demand for return of grant funds. The Grant Programs Administrator is currently working with the Department's Office of the General Counsel to finalize a list of non-compliance grantees and to confirm procedures for withholding or requesting return of grant funds.

EXHIBIT A
MANAGEMENT'S RESPONSE (Continued)

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Audit Finding No. 3: Panelist Files

The Department did not always retain records supporting the qualifications and selection of grant application review panelists.

Recommendation: The Department should take actions to ensure that records describing the qualifications of panelists are retained for the public record.

Agency Response: The Department of State concurs with this finding.

Division of Cultural Affairs

The Division of Cultural Affairs is working with Records Management to include panelist qualification documentation in the retention schedule of a grant file (funded and non-funded) as defined in GS1-SL, Item #109. All 2009 panelist records will be maintained per this schedule (five years) starting immediately.

Information Technology Controls

Audit Finding No. 4: Change Management Controls

Change management controls for systems used by the Department to administer grant applications needed improvement.

Recommendation: To ensure that the change management process operates appropriately, the Department should establish written change management control procedures. Such procedures should provide for separating the responsibility for moving approved program changes from the responsibility for developing the changes.

Agency Response: The Department of State concurs with this finding.

Division of Library and Information Services

The Division will establish a written change management control policy and procedure that will track changes and modifications to the legacy Library Data Manager (LDM) System. The procedure will also address the separation of responsibilities for program change development, testing in quality assurance and movement to the production environment. This change will be implemented by the end of the 2008 calendar year. In addition, the Division has contracted with CommerNet, Inc. to replace the legacy system with a new Web based library directory, data manager and online grant application system. This new system will implement new software change management control procedures that are auditable (i.e. all changes will be logged). The first phase of that project should be in production by March 2009.

Audit Finding No. 5: Other Security Controls

Application and network security controls needed improvement.

Recommendation: To reduce the risk of unauthorized access to, modification of, or destruction of grant application information, the Department should strengthen certain application and network security controls.

Agency Response: The Department of State concurs with this finding.

EXHIBIT A
MANAGEMENT'S RESPONSE (Continued)

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Thank you for the opportunity to respond to your findings in the Operational Audit of the Department of State Grants Administration and Department actions. Should you have any questions regarding our response or need additional information on any of the items listed above, please contact my office.

KSB/as

cc: Ms. Dawn Roberts, Assistant Secretary of State
Mr. Kirby Mole, Inspector General, Department of State
Ms. JuDee Pettijohn, Deputy Secretary, Office of Cultural, Historical and Information Programs
Ms. Sandy Shaughnessy, Director, Division of Cultural Affairs
Mr. Fred Gaske, Director, Division of Historical Resources
Ms. Judith Ring, Director, Division of Library and Information Services
Ms. Alissa Slade, Grant Programs Administrator, Office of Cultural, Historical and Information Programs

