

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

**The State of Washington's Management
of State Homeland Security Grants
Awarded During
Fiscal Years 2004 through 2006**





Homeland
Security

September 26, 2008

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

The attached report presents the results of the audit of the State of Washington's Management of State Homeland Security Grants awarded during Fiscal Years 2004 through 2006. We contracted with the independent public accounting firm Cotton & Company LLP to perform the audit. The contract required that Cotton & Company perform its audit according to generally accepted government auditing standards. Cotton & Company's report identifies one reportable condition where State management of the grant funds could be improved, resulting in three recommendations addressed to the Administrator, Federal Emergency Management Agency. It also identifies two processes for possible use by other jurisdictions. Cotton & Company is responsible for the attached auditor's report dated September 2, 2008, and the conclusions expressed in the report.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



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September 2, 2008

Ms. Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of Homeland Security
245 Murray Drive, SW, Building 410
Washington, DC 20528

Dear Ms. Richards:

Cotton & Company LLP performed an audit of the State of Washington's Management of the Department of Homeland Security's State Homeland Security Grants for Fiscal Years 2004 through 2006. The audit was performed in accordance with our Task Order No. TPD-ARC-BPA-07-0016 dated January 16, 2008. This report presents audit results and includes recommendations to help improve the State's management of the audited State Homeland Security Grant Programs.

We conducted our audit in accordance with applicable *Government Auditing Standards*, 2007 revision. The audit was a performance audit as defined by Chapter 1 of the *Standards* and it included a review and report of program activities with a compliance element. Although this audit report comments on costs claimed by the State, we did not perform a financial audit, the purpose of which would be to render an opinion on the State of Washington's financial statements or funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. If you have questions, or require further assistance, please contact me at 703.836.6701 or mikeg@cottoncpa.com.

Sincerely,

COTTON & COMPANY LLP

A handwritten signature in blue ink, appearing to read "Michael W. Gillespie".

Michael W. Gillespie, CPA, CFE
Operations Managing Partner

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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
OIG	Office of Inspector General

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

Cotton & Company LLP completed an audit of the State of Washington's Management of the Department of Homeland Security State Homeland Security Grants awarded during Fiscal Years 2004 through 2006. The objectives of the audit were to determine if the State Administrative Agency (1) effectively and efficiently implemented State Homeland Security Grant Programs, (2) achieved program goals, and (3) spent funds in accordance with grant requirements. The audit included a review of approximately \$121.6 million in Homeland Security Grants awarded by the Federal Emergency Management Agency.

Overall, the State Administrative Agency effectively and efficiently implemented the State Homeland Security Grant Programs. The State used reasonable methodologies for assessing threats, vulnerabilities, capabilities, and prioritized needs, and allocated funding accordingly. It complied with requirements for managing and reporting cash, obligating funds to local jurisdictions, and expending funds within performance periods. For expenditures tested, grant funds were expended according to grant requirements and in alignment with the State Homeland Security Strategy. The State and its subgrantees did not have adequate control and accountability systems over personal property purchased with grant funds.

The recommendations call for the Administrator, Federal Emergency Management Agency, to require the State of Washington to develop guidance and ensure implementation of federal regulations governing controls over personal property. Federal Emergency Management Agency officials provided verbal concurrences with the recommendations. The State's officials concurred with the recommendations and provided a written response, included as Appendix C.

Background

The Homeland Security Grant Program is a federal assistance grant program administered by the U.S. Department of Homeland Security (DHS), Grant Programs Directorate within the Federal Emergency Management Agency (FEMA). The current Grant Programs Directorate, hereafter referred to as FEMA, began with the Office of Domestic Preparedness, which was transferred from the Department of Justice to DHS in March 2003. The Office of Domestic Preparedness was subsequently consolidated into the Office of State and Local Government Coordination and Preparedness which, in part, became the Office of Grants and Training, and which subsequently became part of FEMA.

Although the grant program was transferred to DHS, applicable Department of Justice grant regulations and legacy systems were still used, as needed, to administer the program. For example, the State Administrative Agency entered payment data into the Office of Justice Programs' Phone Activated Paperless Request System, which was a drawdown payment system for grant funds.

Homeland Security Grant Program

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism. The Homeland Security Grant Program encompassed several federal grant programs, and depending on the fiscal year, included some or all of the following programs, which are briefly described below: State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program, Citizen Corps Program, Urban Areas Security Initiative, Metropolitan Medical Response System Program, and Emergency Management Performance Grants.

State Homeland Security Grant Program provides financial assistance directly to each state and territory to prevent, respond to, and recover from acts of terrorism. The program supports implementation of the State Homeland Security Strategy to address identified planning, equipment, training, and exercise needs.

Law Enforcement Terrorism Prevention Program provides law enforcement communities with funds to support the following prevention activities: information sharing to preempt terrorist attacks, target hardening to reduce vulnerability of selected high value targets, recognition and mapping of potential or developing

threats, counterterrorism and security planning, interoperable communications, interdiction of terrorists before they can execute a threat, and intervention activities that prevent terrorists from executing a threat. These funds may be used for planning, organization, training, exercises, and equipment.

Citizen Corps Program is DHS' grass-roots initiative to actively involve all citizens in hometown security through personal preparedness, training, and volunteer service. Funds are used to support Citizen Corps Councils with efforts to engage citizens in preventing, preparing for, and responding to all hazards, including planning and evaluation, public education and communication, training, participation in exercises, providing proper equipment to citizens with a role in response, and management of Citizen Corps volunteer programs and activities.

Urban Areas Security Initiative provides financial assistance to address unique planning, equipment, training, and exercise needs of high-risk urban areas, and to assist them in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism. Allowable costs for urban areas are consistent with the State Homeland Security Program, and funding is expended based on Urban Area Homeland Security Strategies.

Metropolitan Medical Response System Program supports jurisdictions in further enhancement and sustainment of their integrated, systematic, mass-casualty incident preparedness to respond during the first hours of a mass-casualty event. This includes planning, organizing, training, and equipping local jurisdictions with concepts, principles, and techniques that enhance preparedness to respond to the range of mass casualty incidents – from chemical, biological, radiological, nuclear, and explosive events to epidemic outbreaks, natural disasters, and large-scale hazardous materials incidents.

Emergency Management Performance Grant funds are used to support comprehensive emergency management at the state and local levels and to encourage improvement of mitigation, preparedness, response, and recovery capabilities for all hazards. DHS is responsible for leading and supporting the nation in a comprehensive risk-based, all-hazards emergency management program, and these performance grant funds are a primary means of ensuring development and maintenance of such a program. Funds may also be used to support activities for managing consequences of acts of terrorism.

State Administrative Agency

Each state governor appoints a State Administrative Agency to administer the Homeland Security Grant Program. The State Administrative Agency is responsible for managing these grant programs in accordance with established federal guidelines and allocating funds to local, regional, and other State government agencies.

The Governor of Washington heads the State Homeland Security Infrastructure, which is a team comprised of the following components:

- State Administrative Agency, Washington Military Department
- Domestic Security Executive Group
- State Emergency Management Council
- Emergency Management Council Committee on Homeland Security
- Regional Homeland Security Coordination Districts

The Homeland Security Infrastructure's mission is to "protect the people, property, environment, culture, and economy of Washington State from acts of terrorism, enhance Statewide all-hazards disaster resistance and minimize the effects of a terrorist attack, major disaster or other emergencies." Within the Homeland Security Infrastructure, multi-discipline and multi-jurisdictional working groups, including the Strategy Development Working Group and the Committee on Homeland Security Equipment Subcommittee, were created to conduct functions such as strategy development and equipment review and approval.

The Governor of the State of Washington designated the Washington Military Department, headed by The Adjutant General, as the State Administrative Agency. The Washington Military Department is comprised of four major operational divisions, including the Emergency Management Division, which administers the DHS grant program.

The State is divided into nine regions, or Regional Homeland Security Coordination Districts, each with a designated region lead and a Homeland Security Coordinator. The Emergency Management Division awards DHS grant funds to the region lead, which, in turn, subawards funds to other local jurisdictions within the region. Two regions, however, are single-county regions due to their population density. The State's regional approach was

developed to allocate grant funds, develop a prioritized list of equipment needs, develop and implement training and exercises, and create volunteer programs.

The Washington Military Department and its Emergency Management Division's Homeland Security organizational structure is depicted on the organizational chart in Appendix B.

Grant Funding

The State of Washington received approximately \$121.6 million in funds from the Homeland Security Grant Program during Fiscal Years (FYs) 2004 through 2006. A breakdown of grant funds by year and funded activity is provided in Table 1. Note that not all funded activities were part of the Homeland Security Grant Program during each of the fiscal years.

Table 1

Washington Homeland Security Grant Awards Fiscal Years 2004 through 2006				
Grant Programs ('000s)				
Funded Activity	2004 Homeland Security Grant Program	2005 Homeland Security Grant Program	2006 Homeland Security Grant Program	Total
State Homeland Security Grant Program	\$ 33,408	\$ 21,211	\$ 12,730	\$ 67,349
Law Enforcement Terrorism Prevention Program	\$ 9,913	\$ 7,713	\$ 9,260	\$ 26,886
Citizen Corps Program	\$ 694	\$ 269	\$ 385	\$ 1,348
Urban Areas Security Initiative	Not Included	\$ 11,994	\$ 9,150	\$ 21,144
Metropolitan Medical Response System Program	Not Included	\$ 683	\$ 697	\$ 1,380
Emergency Management Performance Grant	Not Included	\$ 3,459	Not Included	\$ 3,459
Total	\$ 44,015	\$ 45,329	\$ 32,222	\$ 121,566

Cotton & Company completed an audit of the State of Washington's Management of State Homeland Security Grants awarded during FYs 2004 through 2006. The audit objectives were to determine if the State Administrative Agency (1) effectively and efficiently implemented State Homeland

Security grant programs, (2) achieved program goals, and (3) spent funds in accordance with grant requirements. The audit goal was to identify problems and solutions that would help the State of Washington prepare for and respond to terrorist attacks. Nine researchable questions provided by the DHS Office of Inspector General (OIG) established the framework for the audit. The researchable questions were related to the State Administrative Agency's planning, management, and results evaluations of grant activities. Appendix A provides additional details on the purpose, scope, and methodology of this audit, including the nine researchable questions.

Although this audit included a review of some of the costs claimed with grant funds, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on the State of Washington's financial statements or funds claimed in Financial Status Reports submitted to FEMA.

Cotton & Company coordinated all audit efforts with the Emergency Management Division, where we initially conducted an entrance conference and performed subsequent test work. We also reviewed subgrantee operations at three State agencies, four region leads, and 11 local jurisdictions (listed in Appendix A).

Results of Audit

Overall, the State Administrative Agency effectively and efficiently implemented the grant programs, using reasonable methodologies for assessing threats, vulnerabilities, capabilities, and prioritized needs, and allocated funding based upon them. The State has adopted the eight National Priorities, the Target Capabilities List, and its performance metrics. Each project submitted for grant funding identifies the priorities and capabilities it addresses and is scored on a prioritization matrix used to award funds. On a periodic basis, each project's assigned region lead assesses its progress and reports to the State's Emergency Management Council Committee on Homeland Security. Homeland Security project progress is monitored on the State's Balanced Scorecard, which identifies the State Strategy objective, its project lead, performance measure target, related action plan, and project status.

The State utilizes a combination of centralized and local procurement methods. For example, the Equipment Subcommittee, a multi-discipline committee under the Committee

on Homeland Security, evaluates all equipment proposals. It includes a representative from the State General Services Administration, who identifies equipment that can be purchased under State contracts.

The State Administrative Agency complied with requirements for managing and reporting cash, obligating funds to local jurisdictions, and expending funds within performance periods. For expenditures tested, grant funds were expended according to grant requirements and in alignment with the State Homeland Security Strategy.

The State Administrative Agency has policies and procedures in place to monitor funds and activities at local levels to ensure that grant funds are spent according to grant requirements and State-established priorities. For those monitoring site visit reports we reviewed, however, the monitoring procedures performed by the State Administrative Agency were adequate.

As demonstrated by the finding in this report, however, the State Administrative Agency did not ensure that personal property purchased with grant funds was recorded and maintained properly.

Personal Property Controls Need Improvement

The State Administrative Agency did not ensure that subgrantees established and maintained effective control and accountability systems to ensure that property was (1) used solely for authorized purposes and (2) in a ready state for response purposes. These conditions existed because the State Administrative Agency did not provide clear guidance to subgrantees. As a result, personal property procured with DHS funding was not ready for response and could be at risk for unauthorized use.

Code of Federal Regulations Title 44 § 13.3, *Definitions*, defines equipment and supplies as being personal property. Code of Federal Regulations Title 44 § 13.20, *Standards for financial management*, requires that effective control and accountability must be maintained for all such personal property procured with federal funds. Grantees and subgrantees must adequately safeguard personal property and ensure that it is used solely for authorized purposes.

Equipment, being part of personal property, is defined by Code of Federal Regulations Title 44 § 13.3, *Definitions*, as tangible, non-expendable property having a useful life of more than 1 year and

an acquisition cost of \$5,000 or more per unit. Under Code of Federal Regulations Title 44 § 13.32, *Equipment*, the recipient is required to maintain property records on all equipment, to include cost, description, identification number, location, use, condition, and ultimate disposition state of the property. The regulation also requires that a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of property.

Personal property, regardless of equipment or supply status, must be ready for response and used for its intended and authorized purposes. Property items that do not qualify as equipment may still be costly, attractive, and portable. As such, it is important to maintain adequate controls over personal property that it is susceptible to theft; e.g., satellite radios, global positioning units, and cameras.

During our site visits to State agencies and regions, we conducted property testing over personal property to ensure that it was in use, supported by financial documentation, approved by the State, allowed by the State-Approved Equipment List, and recorded according to Code of Federal Regulations Title 44 § 13.32, *Equipment*. We used different methods to select property at each site due to varying local inventory or property recordkeeping methods. Three of the four regions and one of the three State agencies we visited had inadequate control and accountability for personal property procured with DHS grant funds.

In general, we were only able to locate personal property selected for physical inspection with the help of regional or State agency emergency management staff. They were able to recall where items were and who had possession of the property, or were able to track down persons with knowledge of the property after multiple phone calls over the course of hours or days.

Complete documentation did not exist at every site visited that would have enabled us to locate property quickly and easily. A state agency or region must be able to quickly and easily identify the location of equipment needed for response in the event of a disaster. A detailed discussion of these results follows.

Property Controls at Regions. One region visited did not have a county asset tag or other identifier for three items tested. We were unable to trace one of the three items back to property records, because records for that item lacked a unique identification number. We also identified several radios purchased in April 2007

that had yet to be tagged and had been kept in a storage room for more than a year after purchase.

When the region purchases property, it records the property's location on a Receipt of Equipment Form signed by the subgrantee that takes possession of the property. The property form does not, however, reflect the property's physical location; it only identifies the initial recipient of the property. It also does not necessarily include the property's final recipient or final location. The region uses the grant's Catalog of Federal Domestic Assistance number to record the use of the property.

A monitoring visit conducted by the State Administrative Agency in March 2008 indicated that the State was aware that this particular region did not have a "regional equipment inventory methodology." The State Administrative Agency recommended that the region begin to track "equipment distributed through the region somehow," but provided no specific guidance.

At the time of our visit, the region was in the process of developing stronger property controls and conducting a full inventory of all personal property (not just equipment) purchased with DHS grant funds. As part of the inventory, the region was updating and completing its property records by asking its subgrantees to provide serial numbers, date received, date inventoried, disposal status, and total cost of all property. The Regional Coordinator was developing policies and procedures to barcode and track all property items. However, the inventory was not completed as of the end of our fieldwork. Once all property is eventually barcoded, subgrantees will be required to scan equipment every 2 years to verify its existence.

A second region visited had a detailed inventory system that provided information on all personal property and could be queried. The system had the capability to create hand receipts for subgrantees to sign when property passed into their possession. The system could also create certification letters used by the local jurisdictions biennially to certify that all property purchased under grant funds was still in their possession. Although certification letters contained fields for subgrantees to record the current condition of their property, those fields were not complete on all of the certification letters returned to the region. The Program Coordinator in charge of the inventory system and property purchasing was unaware of this omission. He also told us that equipment use was not recorded, because its use was self-evident.

Of the 13 property items inspected, 7 were not tagged, and 3 of the items could not be traced back to property records by a serial number. The region required two business days to locate two ballistic shields despite using the detailed inventory system. Property location is typically recorded in the inventory system as either the receiving agency or the receiving team within the agency. The physical location of the property was not recorded.

Therefore, although the ballistic shields belonged to the bomb team, it was difficult to locate a contact within the bomb team and then locate the actual storage location of the shields. This could be due in part to the Program Coordinator's absence for training during the time of our site visit. In a later interview, the Program Coordinator remarked that he was surprised by how long it took and how many people were required to locate pieces of property without his assistance. While the Program Coordinator thought he could have located the equipment readily, the region should not be dependent on one person's memory or abilities to locate property.

During our site visit to a third region, we selected for inspection a Holmatro Combi Tool (a pneumatic-powered rescue tool) held by a local fire department. We were told that all of the Holmatro Combi Tools were being used in a training event, so we visited the training site. The particular Holmatro Combi Tool we were trying to identify by serial number was not present at the training site. The Fire Department captain aiding us in our search contacted five other fire stations before locating an employee who could identify the tool and the serial number for our comparison.

This situation is an example of a potentially larger issue. A significant number of similar tools available for rescue response cannot be tracked at the fire station level. In the event of an emergency, multiple calls would have to be placed to locate a fire station or fire department with the property needed to respond to the emergency.

Property Controls at a State Agency. One of the three State agencies visited had inadequate control and accountability for personal property procured with DHS grant funds. This State agency's property inventory system was developed for training and exercise purposes and to allow a training instructor to track property constantly being moved to meet various training needs. It is also used to perform an inventory of response property during a tabletop exercise, whereby participants discuss problems and procedures, simulating an emergency situation. The inventory

system was not initially intended to include all DHS grant-funded property, but only property used for training and exercises.

The State agency inventoried only 3 of 40 Breathe Easy Hoods purchased (budgeted at \$578.27 per unit) and none of the 39 Rapid Response Air Purifying Systems purchased (budgeted at \$679.57 per unit). The inventory system used by this agency was incomplete and did not include price, use, condition, disposition, or identification number of the items inventoried. Furthermore, most of the invoices, purchase orders, and bid documentation are not maintained by the agency, because the majority of purchases are made centrally by the State and shipped directly to the agency.

During our review of this State agency's property inventory, we identified three unassigned satellite phones and four unassigned Global Positioning System units. The Program Coordinator described these items as being cached (or in reserve) for use when agency personnel need additional phones or Global Positioning System units during a response to an incident or disaster. We later learned through a review of correspondence between this State agency and the Emergency Management Division that these items and others were added to the agency's State-Approved Equipment List. This occurred after the agency was notified that it was approximately \$12,000 under budget for equipment due to price reductions on proposed equipment.

Grant agreements between the State Administrative Agency and State agencies, and between the State Administrative Agency and regions contained references to federal regulations requiring controls over personal property to varying degrees. The State's subgrantees, however, did not fully comply with requirements, and State Administrative Agency officials did not ensure such compliance.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Washington's Emergency Management Division to:

Recommendation #1: Develop guidance for subgrantees that clarifies control requirements for personal property purchased with DHS grant funds.

Recommendation #2: Direct subgrantees to establish and maintain specific property records, as required by federal

regulations, for equipment purchased with DHS grant funds that meets the \$5,000 and 1-year life thresholds.

Recommendation #3: Direct subgrantees to establish and maintain property records for all other personal property purchased with DHS grant funds, with special emphasis on sensitive and portable equipment.

Management Comments and Auditor's Analysis

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with the three recommendations. In their written comments, included in Appendix C, the State officials said that language used in contracts since 2006 provides clear guidance as to expectations in personal property/equipment control. The State officials noted that they continue to strengthen practices, improve written agreements, and enhance involvement with subgrantees.

We agree that this action addresses the intent of the recommendations. As such, these recommendations are now resolved and closed.

Washington's Linking of Projects to the State Strategy and Instituting an Equipment Subcommittee are Best Practices

During the course of this performance audit of DHS grant funds awarded to the State of Washington, we identified two processes as best practices. The Administrator, Federal Emergency Management Agency, should consider evaluating the advantages and benefits of these processes for possible use by other jurisdictions.

Project Link to State Strategy. As mentioned above, State agencies and regions submit proposed projects to be evaluated for grant funding. The State of Washington adopted and linked its State Strategy to the National Priorities and Target Capabilities List and established goals to support them. For each project submitted for funding, the agency or region must link its proposed project to the State Strategy, indicate which National Priority and Target Capability it addresses, and establish action plans to execute project objectives. This linking of individual projects to the State Strategy is a best practice, because it ensures that funds are used to advance State-established strategic goals and objectives. Establishing step-by-step action plans linked to goals and objectives increases the likelihood of successful implementation.

Equipment Subcommittee. Another best practice highlighted is the formation of the Committee on Homeland Security Equipment Subcommittee. All equipment purchases proposed by state agencies, regions, and local jurisdictions are reviewed by the Equipment Subcommittee to verify eligibility with the DHS Authorized Equipment List. Where applicable, a representative from the State General Services Administration indicates when the equipment is available through a State contract. When contracts are executed between the State Administrative Agency and a subrecipient, proposed equipment items have already been reviewed and evaluated, thereby reducing the risk of ineligible equipment purchases and achieving cost efficiencies by utilizing centralized State procurement contracts.

Appendix A

Purpose, Scope, and Methodology

The purpose of the audit was to determine if the State of Washington effectively and efficiently implemented the State Homeland Security Grant Program, achieved program goals, and spent funds according to grant requirements. The goal of the audit was to identify problems and solutions that could help the State of Washington prepare for and respond to terrorist attacks. The audit further enabled us to answer the following researchable questions:

- Did the State use reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs?
- Did the State appropriately allocate funding based on threats, vulnerabilities, capabilities, and priorities?
- Has the State developed and implemented plans to measure improvements in preparedness as a result of the grants and have such measurement efforts been effective?
- Are the State's procurement methodologies (centralized, local, or combination) reasonable and in conformance with its homeland security strategies?
- Does the State Administrative Agency have procedures in place to monitor the funds and activities at the local level to ensure that grant funds are spent according to grant requirements and the State-established priorities? Have these monitoring procedures been implemented and are they effective?
- Did the State comply with cash management requirements and DHS financial and status reporting requirements for the grant programs and did local jurisdictions spend grant funds advanced by the State in a timely manner and, if not, what caused the delays?
- Were grant funds used according to grant requirements and State-established priorities?
- Was the time it took the State to get funds/equipment to first responders (from the time the funds/equipment were available to the State until they were disbursed/provided to the jurisdiction) reasonable (auditor judgment), and if not, what caused the delays?

Appendix A

Purpose, Scope, and Methodology

- Are there best practices that can be identified and shared with other states and the DHS?

The scope of the audit included the following grant programs, described in the Background section of this report.

- FY 2004 State Homeland Security Grant Program
-
- FY 2005 State Homeland Security Grant Program
-
- FY 2006 State Homeland Security Grant Program

The audit methodology included work at DHS Headquarters, State of Washington offices responsible for grant management, and various subgrantee locations. To achieve our audit objective, we analyzed data, reviewed documentation, and interviewed key State and local officials directly involved in managing and administering the State of Washington's Homeland Security Grant Programs.

We conducted site visits to the following 4 region leads, 11 local jurisdictions, and 3 State agencies:

- Region 2, Kitsap County Emergency Management (Region Lead)
 - Bainbridge Island Fire Department
 - Central Kitsap Fire & Rescue
 - Kitsap County Sheriff's Office
- Region 5, Pierce County Emergency Management (Single-County Region)
 - Region 5, Regional Intelligence Group
 - Tacoma Fire Department
 - Pierce County Bomb Team
 - Fife Fire Department – Hazmat Team
 - Pierce County Sheriff's Department – Air Operations
- Region 6, King County Emergency Management (Single-County Region)
 - Bellevue Fire Department
 - Seattle Police Department
- Region 9, Spokane County Emergency Management (Region Lead)
 - Spokane County Sheriff's Office

Appendix A

Purpose, Scope, and Methodology

- Washington State Patrol (State Agency)
- Department of Agriculture (State Agency)
- Department of Health, Public Health Lab (State Agency)

At each location, we interviewed responsible officials, reviewed documentation supporting State and subgrantee management of awarded grant funds, and physically inspected a sample of equipment procured with grant funds.

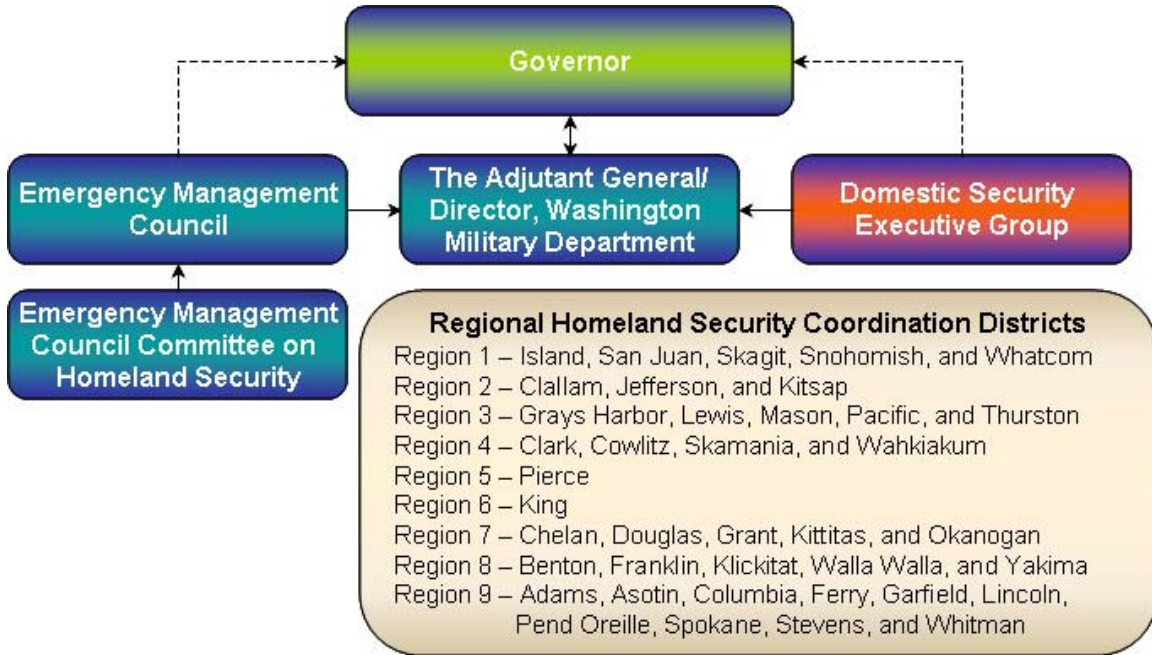
We conducted the audit between January 2008 and June 2008 in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book, 2007 Revision). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence 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.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to, nor expressed, an opinion on costs claimed for grant programs included in the scope of the audit. Had we been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of Washington.

While the audit work was performed and the report was prepared under contract, results are being reported by the DHS Office of Inspector General to appropriate Federal Emergency Management Agency officials and State of Washington officials.

**Appendix B
Organization Chart**

Washington State Homeland Security Infrastructure



Appendix C Management Comments to the Draft Report



STATE OF WASHINGTON
MILITARY DEPARTMENT
EMERGENCY MANAGEMENT DIVISION
MS: TA-20 Building 20
Camp Murray, Washington 98430-5122
Phone: (253) 512-7000 • FAX: (253) 512-7200

August 13, 2008

Michael W. Gillespie, CPA, CFE
Cotton & Company, LLP
635 Slaters Lane, 4th floor
Alexandria, VA 22314

Dear Mr. Gillespie:


We have reviewed the draft DHS/OIG audit report with the following comments:
The three recommendations presented to further develop equipment controls are accepted.
Specifically:

- Recommendation 1: Develop guidance for sub-grantees that clarifies control requirements for personal property purchased with DHS grant funds.
- Recommendation 2: Direct sub-grantees to establish and maintain specific property records, as required by federal regulations, for equipment purchased with DHS grant funds that meets the \$5,000 and 1-year life thresholds.
- Recommendation 3: Direct sub-grantees to establish and maintain property records for all other personal property purchased with DHS grant funds, with special emphasis on sensitive and portable equipment.

The attached contract extract contains the language developed and used as part of 2006 and later contracts which we believe satisfies the three recommendations as well as provides clear guidance as to expectations in personal property/equipment control. Although not part of this audit, the sub-grantee contract revision was a result of our ongoing sub recipient monitoring program, and recommend it be included in the final DHS/OIG audit report.

Overall we continue to strengthen our practices and improve our written agreements; additionally we are enhancing our involvement with sub-grantees through monitoring activities, technical assistance, information bulletins, local on-site meetings, and training conducted by our grant managers to include clear and complete guidance on equipment control.

Sincerely,


James M. Mullen, Director



Appendix C

Management Comments to the Draft Report

(Excerpt from WA State HLS standard 2007-2008 contract template)

ARTICLE VI – EQUIPMENT MANAGEMENT:

All equipment purchased under this contract, by the Contractor or a Sub-Contractor, will be recorded and maintained in an equipment inventory system.

1. Upon successful completion of the terms of this contract, all equipment purchased through this contract will be owned by the Contractor, or a recognized sub-contractor/sub-grantee for which a contract, sub-grant agreement, or other means of legal transfer or ownership is in place.
2. The Contractor, or a recognized sub-contractor/sub-grantee, shall be responsible for any and all operation, maintenance, replacement, and for the safe operation of the equipment, including all questions of liability.
3. The Contractor shall maintain equipment records that include: a description of the property; the manufacturer's serial number, model number, or other identification number; the source of the equipment, including the Catalogue of Federal Domestic Assistance (CFDA) number; who holds title; the acquisition date; the cost of the equipment and the percentage of federal participation in the cost; the location, use and condition of the equipment at the date the information was reported; and disposition data including the date of disposal and sale price of the property.
4. Records for equipment shall be retained by the Contractor for a period of six (6) years from the date of the disposition, replacement or transfer. If any litigation, claim, or audit is started before the expiration of the six year period, the records shall be retained by the Contractor until all litigations, claims, or audit findings involving the records have been resolved.
5. The Contractor shall take a physical inventory of the equipment and reconcile the results with the property records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the records shall be investigated by the Contractor to determine the cause of the difference. The Contractor shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.
6. The Contractor shall develop a control system to ensure adequate safeguards to prevent loss, damage, and theft of the property. Any loss, damage or theft shall be investigated and a report generated.
7. The Contractor will develop adequate maintenance procedures to keep the property in good condition.
8. If the Contractor is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
9. When original or replacement equipment is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:
 - a. Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of by the Contractor with no further obligation to the awarding agency.
 - b. Items of equipment with a current per-unit fair market value of more than \$5,000 may be retained or sold and the Contractor shall compensate the federal-sponsoring agency for its share.
10. As sub-grantees of federal funds, the Contractor must pass on equipment management requirements that meet or exceed the requirements outlined above for all sub-contractors, consultants, and sub-grantees who receive pass-through funding from this contract.

Appendix D

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