

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**The State of Arizona'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 Arizona's Management of State Homeland Security Grants awarded during Fiscal Years 2004 through 2006. We contracted with the independent public accounting firm Williams, Adley & Company, LLP to perform the audit. The contract required that Williams, Adley & Company, LLP perform its audit according to generally accepted government auditing standards. Williams, Adley & Company, LLP's report identifies two reportable conditions where State management of the grant funds could be improved, resulting in two recommendations addressed to the Administrator, Federal Emergency Management Agency. Williams, Adley & Company, LLP 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



Williams, Adley & Company, LLP
Certified Public Accountants/Management Consultants

September 2, 2008

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

Dear Ms. Richards:

Williams, Adley & Company, LLP performed an audit of the State of Arizona'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-07-0014-0001, dated September 25, 2007. This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Grant Programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2003 revision. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the 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 Arizona's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of any further assistance, please call me at (202) 371-1397.

Sincerely,

Williams, Adley & Company, LLP

A handwritten signature in cursive script that reads "Jocelyn Hill".

Jocelyn A. Hill
Partner

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Abbreviations

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

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

Williams, Adley & Company, LLP completed an audit of the Department of Homeland Security State Homeland Security Grant Programs awarded to the State of Arizona during Fiscal Years 2004 through 2006. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the State Homeland Security Grant Programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The audit included a review of approximately \$103.1 million in Homeland Security Grants awarded by the Federal Emergency Management Agency to the State of Arizona in Fiscal Years 2004 through 2006.

Overall, the State Administrative Agency did an efficient and effective job of administering the program requirements, distributing grant funds, and ensuring that all of the available funds were used. The State used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and complied with cash management and status reporting requirements. Also, the State generally spent the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities, and priorities. The procurement methodology was in conformance with the State's strategy.

However, the State withheld portions of local units' funding without proper documentation and did not perform adequate programmatic monitoring of subgrantees. Our recommendations call for the Administrator, Federal Emergency Management Agency, to require the State to implement control procedures regarding approval and documentation of funds withheld for centralized procurements, and implement a full-scope subgrantee monitoring program. Federal Emergency Management Agency officials verbally concurred with the recommendations, while State officials only concurred with the recommendation on withholding funding without proper documentation. State officials also provided a written response to the recommendations included as Appendix C. Based on clarifying information provided by Federal Emergency Management Agency officials, we deleted from this report an issue and recommendation originally included in the draft report on maintaining detailed equipment lists, which has been resolved.

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 Programs

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

State Homeland Security Grant Program provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from acts of terrorism. The program supports the implementation of the State Homeland Security Strategy to address the 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 the department's 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 the 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 the urban areas are consistent with the State Homeland Security Program and funding is expended based on the 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 to mass casualty events during the first hours of a response. This includes the planning, organizing, training, and equipping concepts, principles, and techniques, which enhance local jurisdictions' 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 the 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 the 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

State governors appoint 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. The State Administrative Agency is also responsible for allocating funds subgranted to local, regional, and other state government agencies.

In 1999, the Governor designated the Arizona Division of Emergency Management as the State Administrative Agency for Arizona's Homeland Security Grant Program. The Homeland Security Grants Management section within the Arizona Division of Emergency Management was the central point of contact for the Homeland Security Grant Program. However, other sections within the Arizona Division of Emergency Management aided in planning and managing the program by conducting exercises in areas such as counterterrorism and emergency preparedness, and by providing training to state agency and local jurisdiction personnel.

During 2003 through 2006, the Arizona Office of Homeland Security, Arizona Department of Emergency and Military Affairs, and the Arizona Division of Emergency Management served as the liaisons between DHS and state agencies and local jurisdictions within Arizona. The Arizona Office of Homeland Security coordinated the process of allocating federal funding to state and local jurisdictions, approved projects ensuring compliance with federal grant guidelines, and supported Arizona's homeland security strategy. Based on approved projects, the Arizona Division of Emergency Management distributed federal monies to all participating jurisdictions in the State, including other State agencies, counties, cities and towns, fire districts, and Native American tribes.

In September 2006, the Arizona Office of Homeland Security was converted to the Arizona Department of Homeland Security as established by Arizona Revised Statute Title 41. In conjunction with this conversion, oversight of the State Homeland Security Grant Program was transferred from the Arizona Division of Emergency Management to the Arizona Department of Homeland Security effective fiscal year 2007, including the designation as State Administrative Agency. The Arizona Division of Emergency

Management and the Arizona Department of Homeland Security's organizational structure are detailed in Appendix B.

Grant Funding

The State of Arizona received approximately \$103.1 million in funds from the Homeland Security Grant Program during Fiscal Years (FY) 2004 through 2006. During that timeframe, the Arizona Division of Emergency Services awarded subgrants to 15 counties within 5 Regions. The State used the grant funds primarily to purchase equipment for law enforcement, fire rescue, medical emergency, and other personnel, and to provide preparedness training and exercises. Table 1 shows a breakdown of the grant funds by year and funded activity. Note that not all funded activities were part of the Homeland Security Grant Program during each of the fiscal years.

Table 1

| Arizona 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 | \$ 31,304 | \$ 20,022 | \$ 8,660 | \$ 59,986 |
| Law Enforcement Terrorism Prevention Program | \$ 9,289 | \$ 7,281 | \$ 6,290 | \$ 22,860 |
| Citizen Corps Program | \$ 650 | \$ 254 | \$ 372 | \$ 1,276 |
| Metropolitan Medical Response System Program | Not Included | \$ 910 | \$ 929 | \$ 1,839 |
| Urban Areas Security Initiative | Not Included | \$ 9,996 | \$ 3,920 | \$ 13,916 |
| Emergency Management Performance Grant | Not Included | \$ 3,242 | Not Included | \$ 3,242 |
| Total | \$ 41,243 | \$ 41,705 | \$ 20,171 | \$ 103,119 |

Williams, Adley & Company, LLP completed an audit of the State of Arizona's Management of State Homeland Security Grants

awarded during FYs 2004 through 2006. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented State Homeland Security grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of Arizona 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.

Results of Audit

Overall, the State Administrative Agency did an efficient and effective job of administering the program requirements, distributing grant funds, and ensuring that all of the available funds were used. The Arizona Division of Emergency Management used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs and complied with cash management and status reporting requirements. Also, the Arizona Division of Emergency Management generally spent the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities and priorities. The procurement methodology was in conformance with the State's strategy.

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 Arizona's financial statements or the funds claimed in the Financial Status Reports submitted to FEMA.

However, as demonstrated by the findings in this report, the State Administrative Agency did not ensure that:

- Documentation was maintained to support allocating less than 80% of grant funds to the local government units; and
- Full-scope subgrantee program monitoring was performed.

State Withheld Portion of Local Units' Funding Without Proper Documentation

During FYs 2004 through 2006, the Arizona Division of Emergency Management withheld a total of \$7,072,016 in grant funds from local units without a written memorandum of understanding to document approval to do so. The grant funds from local units were withheld to provide centrally procured training to local units of government. Table 2, Grant Funds Withheld from Local Units, shows the amount of grants funds withheld by the Arizona Division of Emergency Management:

Table 2

| Arizona Homeland Security Grant Awards Fiscal Years 2004 through 2006 | | | | | |
|--|------------------------------|---------------------|---------------------------------|---|-------------------------------------|
| Grant Funds Withheld From Local Units | | | | | |
| Grant Program | Total Grant Awarded to State | 80% of Grant | Amount Obligated to Local Units | Amount Withheld by State on Behalf of Local Units | Percentage Obligated To Local Units |
| FY 2004 State Homeland Security Grant Program | \$31,304,571 | \$25,043,657 | \$23,729,610 | \$1,314,047 | 75.8% |
| FY 2004 Law Enforcement Terrorism Prevention Program | \$9,288,429 | \$7,430,743 | \$4,465,342 | \$2,965,401 | 48.1% |
| FY 2005 State Homeland Security Grant Program | \$20,021,731 | \$16,017,385 | \$14,230,385 | \$1,787,000 | 71.1% |
| FY 2006 State Homeland Security Grant Program | \$8,660,000 | \$6,928,000 | \$5,922,432 | \$1,005,568 | 68.4% |
| Total | \$69,274,731 | \$55,419,785 | \$48,347,769 | \$7,072,016 | |

The State Domestic Preparedness Program Guidelines and Application for FYs 2004 through 2006 direct that each State shall obligate not less than 80% of the total amount of the grant to local units of government within 60 days after the grant award. If

requested in writing by a local unit of government, the State may retain some or the entire local units of government's allocation of grant funds for purchases made by the State on behalf of the local unit of government. States holding grant funds must enter into a memorandum of understanding with the local unit of government specifying the amount of funds to be withheld by the State for purchases. This agreement must be kept on file with the State Administrative Agency.

The Arizona's Division of Emergency Management was unable to provide written documentation to support its agreement with local units of government to provide training.

The Arizona Division of Emergency Management is not in compliance with grant program guidelines that require a written memorandum of understanding between the Arizona Division of Emergency Management and local units of government specifying the amount of funds to be withheld by the State for purchases. Without such documentation, we cannot determine whether local units of government gave authorization to the State to spend a portion of their grants funds on centrally procured training.

Recommendation

Recommendation #1: We recommend that the Administrator, Federal Emergency Management Agency, require the State Administrative Agency to implement control procedures to ensure that any funds withheld by the State have been properly requested in writing by the local government unit and the State keep such agreement in their records.

Management Comments and Auditor's Analysis

We received verbal concurrence on the recommendation from FEMA officials. Officials within the Arizona Division of Emergency Management and the Arizona Department of Homeland Security also concurred with the recommendation.

In their written comments, State officials said they implemented control procedures during 2006 to ensure that any funds withheld by the State on behalf of the local units of government are properly requested in writing by the local units, and that such documentation is maintained in State records. State officials have incorporated DHS template documents into the grant process to help comply with this requirement.

We agree that this action addresses the intent of the recommendation. As such, this recommendation is now resolved and closed.

Subgrantee Program Monitoring Needs Improvement

During FYs 2004 through 2006, Arizona Division of Emergency Management program planners did not perform full-scope subgrantee monitoring to ensure performance in accordance with program goals. Although the Arizona Division of Emergency Management has developed some program monitoring guidance, subgrantee monitoring was not fully implemented. The Arizona Division of Emergency Management personnel performed desk reviews of subgrantees' financial records which were financial reviews of subgrantee spending and financial recordkeeping. In addition, Arizona Division of Emergency Management performed equipment reviews, but there is no evidence that regular monitoring of full program compliance occurred. This condition was previously noted in FYs 2005 and 2006 Single Audit Reports as well as in the FEMA monitoring visit report dated October 18, 2007.

In accordance with Code of Federal Regulations Title 28 § 66.40 *Monitoring and reporting program performance*, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Furthermore, according to the DHS Office of Grant Operations *Financial Management Guide*, dated January 2006, a recipient has full responsibility for the conduct of the project or activity supported and for the results achieved. The recipient must monitor the performance of the project to assure adherence to performance goals, time schedules or other requirements as appropriate to the project or the terms of the agreement. The recipient is responsible for monitoring the activities of and pass-through requirements to any subrecipients.

If the State does not adequately monitor subgrantee program performance, the State cannot determine if program goals are met

and assets purchased are used as intended. Further, lack of adequate programmatic monitoring prevents the State from being able to measure improved preparedness in several areas:

- Equipment: Emergency responders' capacity to respond with new equipment to incidents that pose a threat to homeland security;
- Training: Number of emergency responders who have increased skills needed to respond to threats to homeland security and use the new equipment properly; and
- Exercises: Number of task forces, counties, or emergency responders that participated in exercises.

Recommendation

Recommendation #2: We recommend that the Administrator, Federal Emergency Management Agency, require the State Administrative Agency to implement a full-scope program monitoring plan that includes review of program and financial reports, site visits, teleconferences, and other means as appropriate.

Management Comments and Auditor's Analysis

We received verbal concurrence with the recommendation from FEMA officials. Officials within the Arizona Division of Emergency Management and the Arizona Department of Homeland Security did not concur with the recommendation and requested that the auditor review additional documentation as evidence of programmatic monitoring.

Subsequent to the exit conference, the auditor reviewed additional documentation provided by the Arizona Division of Emergency Management and the Arizona Department of Homeland Security and contends that the finding and recommendation continue to be relevant for the scope of this audit which covers FYs 2004 through 2006 of the State Homeland Security Grant Programs. In their written comments, State officials said they currently employ various methods to monitor subgrantees, including equipment monitoring, fiscal desktop reviews, and review of supporting documentation justifying reimbursement requests. Specifically, the Arizona Department of Homeland Security maintains that beginning in January 2007, a monitoring tool was developed, pilot-tested and incorporated as policy. This tool includes financial, equipment, and programmatic components for a monitoring

program that includes site visits, telephone and/or email contact, progress/program reports, and financial reports. Also beginning November 2008, the Arizona Department of Homeland Security will implement a policy of conducting site visits for 100% of subgrantees that have expended more than \$100,000 per award.

The auditor maintains that while the Arizona Department of Homeland Security appears to have made significant progress since FY 2006 with development and implementation of its program monitoring plan, full-scope program monitoring did not occur during the scope of our audit.

The Arizona Department of Homeland Security further states in its written comments that it strongly disagrees that subgrantee program monitoring should be a finding because of the lack of clarity in the Office of Management and Budget Circular A-102 and grant program guidance.

The auditor has removed reference to Office of Management and Budget Circular A-102, but continues to support the relevancy of the program guidance, the intent of which is to require full program monitoring of financial, equipment, and programmatic performance.

The Administrator, Federal Emergency Management Agency, needs to provide corrective actions and a plan to implement these actions within 90 days.

Appendix A

Purpose, Scope, and Methodology

The purpose of the audit was to determine whether the State of Arizona effectively and efficiently implemented the state homeland security grant program, achieved the goals of the program, and spent funds according to grant requirements. The goal of the audit was to identify problems and solutions that can help the State of Arizona better 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 the 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 Arizona's offices responsible for the management of the grants, and various subgrantee locations. To achieve our audit objectives we analyzed data, reviewed documentation, and interviewed the key state and local officials directly involved in the management and administration of the State of Arizona's Homeland Security Grant Programs. We conducted 48 site visits and held discussions with appropriate officials from all 15 counties, representing all 5 regions, in order to determine if program grant funds were expended according to grant requirements and State-established priorities.

We conducted site visits to the following 48 first responders and local jurisdictions:

- Maricopa County Sheriff's Office
- Goodyear Police Department
- Maricopa County
- City of Mesa
- American Red Cross Arizona
- City of Scottsdale
- City of Tempe Fire and Police Departments
- Arizona Division of Emergency Management
- Arizona Department of Liquor License and Control
- City of Phoenix
- Peoria Fire and Police Departments
- Arizona Department of Public Safety
- Arizona Criminal Justice Commission
- Glendale Fire and Police Departments
- Arizona Department of Transportation
- City of Gilbert
- Maricopa Medical Center
- Flagstaff Police and Fire Departments

Appendix A

Purpose, Scope, and Methodology

- Hopi Tribe Emergency Management
- Navajo Sheriff's Office
- Apache Tribe County Emergency Management
- Springerville Police Department
- Eagar Police Department
- White Mountain Apache Tribe Fire Department
- Page Fire Department
- Bisbee Police Department (also includes Cochise County Sheriff's Office)
- Town of Santa Cruz
- Tucson Police and Fire Departments
- Douglas Fire Department
- Northwest Fire District
- Pima County Office of Emergency Management
- Pima County Sheriff's Office
- City of Sierra Vista
- Town of Tohono O'odham Emergency Management
- Yuma Emergency Management, Sheriff's Office, and Police Department
- Pinal County Emergency Management
- Casa Grande Emergency Management
- Greenlee Emergency Management
- Graham County Emergency Management
- City of Kingman
- Fort Mohave County
- La Paz County
- City of Lake Havasu
- Mohave County
- City of Prescott
- Town of Quartzsite
- Yavapai County
- City of Nogales

At each location, we interviewed responsible officials, reviewed documentation supporting the State and subgrantees' management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds. We reviewed prior audit reports and coordinated our work with both the Arizona Division of Emergency Management and Arizona Department of Homeland Security. We conducted the fieldwork between January 2008 and March 2008 in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2003 Revision). Although this audit included a review of costs claimed, we did not perform a financial audit of those costs.

Appendix A
Purpose, Scope, and Methodology

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 the costs claimed for the 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 Arizona.

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

**Appendix B
Organizational Charts**

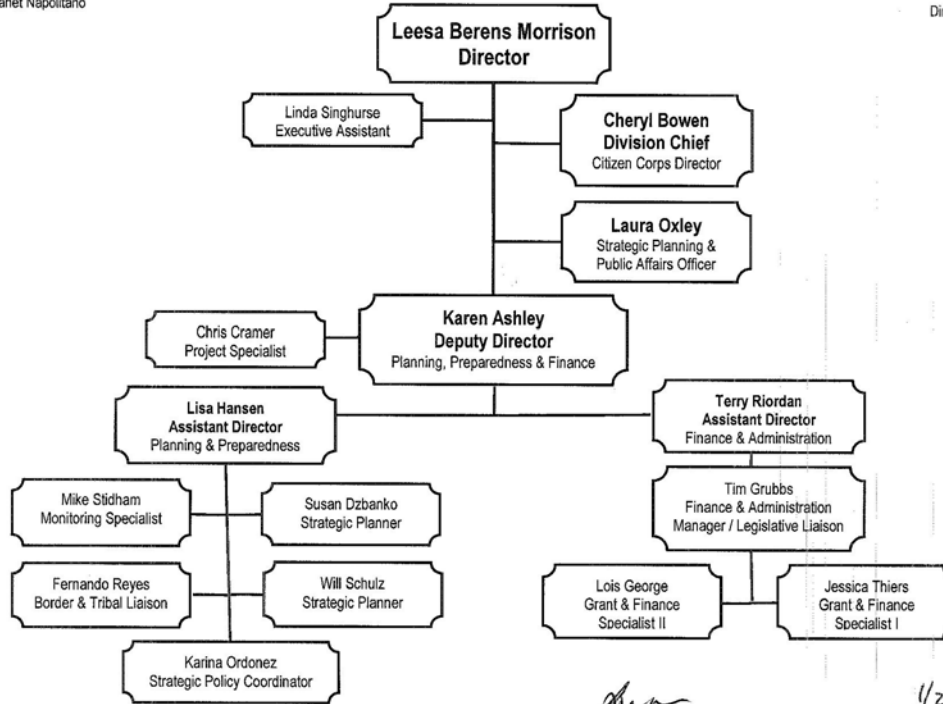


**State of Arizona
Department of Homeland Security**

Effective January 1, 2008



Director Leesa Berens Morrison

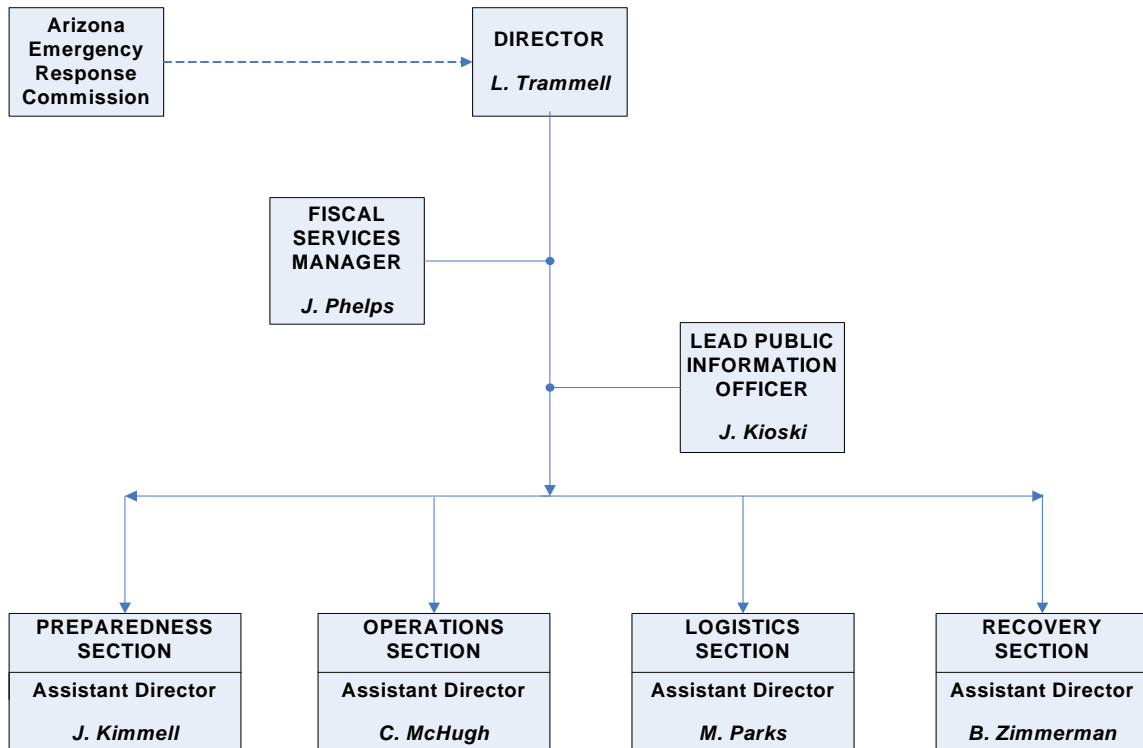


Leesa Berens Morrison
Leesa Berens Morrison

1/2/08
Date

Appendix B
Organizational Charts

Arizona Division of Emergency Management



Appendix C
Management Comments to the Draft Report



Governor Janet Napolitano

State of Arizona
Department of Homeland Security



Director Leesa Berens Morrison

August 20, 2008

Ms. Jocelyn Hill
Williams, Adley & Company
1250 H Street, Suite 1150
Washington, D.C. 20005

Dear Ms. Hill:

Please find enclosed the State of Arizona's response to the Fiscal Year 2004 through 2006 Audit Report completed by your office. The response includes separate responses from the Arizona Division of Emergency Management (ADEM) and the Arizona Department of Homeland Security (AZDOHS).

We appreciate the work done by your office to assist the State of Arizona in improving the management of homeland security grants.

Please advise if we can provide further information or clarification.

Sincerely,

A handwritten signature in cursive script that reads "Leesa Berens Morrison".

Leesa Berens Morrison
Director

cc: Michael Sivi, Director, Grants Management, Office of Inspector General
Barry Bruner, Auditor, Office of Inspector General
Lou Trammell, Director, Arizona Department of Emergency Management

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Appendix C

Management Comments to the Draft Report

The following constitutes the Arizona Division of Emergency Management and the Arizona Department of Homeland Security response to the audit conducted by Williams, Adley & Company on behalf of the Office of Inspector General, covering Homeland Security Grants to Arizona from federal fiscal year 2004 through 2006.

Agency: Arizona Department of Emergency Services and Military Affairs; Arizona Division of Emergency Management (ADEM)

Arizona Department of Homeland Security (AZDOHS)

CFDA No: 97.067 Homeland Security Grant Program

Date: August 19, 2008

Finding #1: State withheld portion of local units' funding without proper documentation (FY2004, 2005 and 2006).

Arizona Division of Emergency Management Response: For the FY2004 and FY2005 grants, control procedures were not in place to ensure that any funds withheld by the State were properly requested in writing by the local government units and kept in the State's records. Memorandums of agreement were obtained for the FY2004 LETPP grant.

Local funds were retained by the State solely for the purpose of centralizing the management, integration and completion of projects on behalf of the jurisdictions within the five local regions having regional or state-wide implications. ADEM did utilize funds from its 20% share of training and exercise to pay for local training and exercises.

In March 2006, the Office of Grant and Operations provided grant training to the Arizona Office of Homeland Security (AOHS) and ADEM to develop policies, procedures and templates. In 2006, the Arizona Department of Homeland Security (AZDOHS) became the State Administering Agency (SAA) for FY2006 and all future grants. For the FY2006 grant program, AZDOHS implemented these control procedures to ensure that any funds withheld by the State were properly requested in writing by the local government unit and has kept such agreements in their records.

Arizona Department of Homeland Security Response: AZDOHS concurs with this finding and the issue has been fully corrected.

For grant years 2006 and all future grants, the responsibility of the Homeland Security Grant Program was transferred to AZDOHS as the new SAA. AZDOHS will continue to require appropriate agreements with local units of governments if the Department manages local funds on behalf of local units of government. The Department has incorporated DHS template documents into the grant process in order to help comply with this requirement.

Finding #2: Sub-grantee program monitoring procedures were not prepared or implemented (FY 2004, 2005 and 2006).

Arizona Division of Emergency Management Response: As stated above, in March 2006, the Office of Grant and Operations provided grant training to AOHS and ADEM to develop formalized policies,

Appendix C

Management Comments to the Draft Report

procedures and templates. Formal monitoring procedures were developed. Currently equipment monitoring and fiscal desktop monitoring are conducted on a regular basis. Equipment monitoring is done through site visits by the AZDOHS Equipment Specialist to ensure equipment purchased is being utilized in accordance with the project goals and grant guidance. In 2006, AZDOHS became the SAA for FY2006 and all future grants. For the FY2006 grant program, AZDOHS continues to implement the formalized policies, procedures and templates.

Arizona Department of Homeland Security Response: AZDOHS strongly disagrees that this should be a finding because of the lack of clarity in the OMB circular as to what comprises a compliant program monitoring policy. OMB A-102 states that “agencies shall conduct site visits only as warranted by program or project need” and grant program guidance states that “recipient must monitor the performance of the project to assure adherence to performance goals, time schedules or other requirements.” However, the guidance does not provide a specific definition of the standards for “program or project need” or what constitutes monitoring to “assure adherence to performance goals, time schedules or other requirements”.

AZDOHS currently employs various methods to monitor sub-grantees. Since September of 2006, AZDOHS has conducted approximately 35 equipment monitoring site visits. AZDOHS also monitors sub-grantees by requiring supporting documentation justifying all reimbursement requests. In January 2007 a monitoring tool was developed and later pilot-tested and incorporated into AZDOHS policy. The tool includes financial, equipment, and programmatic components. The monitoring program includes site visits, telephone and/or email contact, progress/program reports, and financial reports. AZDOHS is planning a survey to measure emergency responders increased capacity related to training or equipment. Further, AZDOHS is integrating use of the Target Capabilities List to measure effectiveness in prioritized areas of the state.

AZDOHS is responsible as the SAA for all Homeland Security grants commencing in federal fiscal year 2006 and going forward. Although, as stated, the Department does not concur that this should be a finding, AZDOHS is responding by implementing a more comprehensive site visit and monitoring policy. The Department currently requires supporting documentation for all expenditures prior to reimbursement, verifying that expenditures are within the scope of the project and are allowable by the Authorized Equipment List, applicable OMB and CFR regulations, and are for authorized purposes as required by the grant agreements. Beginning November 2008, the Department will implement a policy of conducting site visits for 100% of sub-grantees expending over \$100,000 per award. Since October of 2006, the Department has required all sub-grantees to submit an A-133 audit or certification that an A-133 audit was not required. New policies are being drafted and will be implemented to ensure that all findings are addressed.

Finding #3: Detailed equipment lists for each sub-grantee were not maintained.

Arizona Division of Emergency Management Response: ADEM maintained fiscal detailed records of all of the jurisdictions' equipment purchased and reimbursed with FY2004 and FY2005 grant funds according to the required grant guidance. Local jurisdictions maintain detailed equipment lists at their level. Equipment monitoring is done through site visits by the AZDOHS Equipment Specialist to ensure equipment purchased was being utilized in accordance with the project goals and grant guidance. In 2006,

Appendix C

Management Comments to the Draft Report

AZDOHS became the SAA for FY2006 and all future grants. AZDOHS will be the lead for this recommendation.

Arizona Department of Homeland Security Response: AZDOHS does not concur with this finding and asked for clarification from Office of Inspector General on July 22, 2008 on this issue. In response, the Office of Inspector General has requested an interpretation from FEMA on behalf of the Arizona Department of Homeland Security.

Arizona has complied with the intent of CFR 28 § 66.32 relating to equipment records and disposition for the grant years covered by this audit.

CFR 28 § 66.32(b) says "A State will use, manage, and dispose of equipment acquired under a grant in accordance with State laws and procedures. *Other grantees and subgrantees will follow paragraphs (c) through (e) of this section*" (emphasis added). If property is owned by the state, the state is required to follow its own procedures. If the property is owned by an appropriate non-state entity, that agency follows procedures set forth in 66.32(c) through (e). Accordingly, the inventory requirements listed in the audit report are set forth in paragraph (d) and do not apply to a State, but rather to other grantees and subgrantees.

Detailed equipment lists are and have been maintained at the sub-grantee level. Per sub-grantee agreements with AZDOHS, local jurisdictions are already required to comply with CFR 28 § 66.32(d). Since June of 2006, FY2004 through FY2006 Homeland Security Grant Program subgrantee equipment purchases and documentation have been regularly monitored by AZDOHS through equipment site visits and by way of the reimbursement process.

Arizona maintains a regionalized structure for the prioritization of grant funding. Regional Advisory Councils from 5 geographical regions in Arizona are required to make recommendations on Homeland Security Grant funding. The members of these Regional Advisory Councils ensure that funding is allocated towards the investments that meet the greatest need. An inventory of the overall equipment in the state available for purposes of preparing for major hazards is captured as part of the NIMSCAST reporting process. An additional detailed list of Homeland Security Grant Program equipment purchases would be duplicative of the NIMSCAST report and incomplete for the purpose of "analyzing equipment inventory state-wide to ensure that the State is prepared to handle a major catastrophe" as it would not account for any purchases made through other funding sources. Equipment purchased with Homeland Security Grants comprises only a small portion of the overall equipment in the inventory in the State.

Appendix D
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