

Office of Inspector General

U.S. Department of Homeland Security
Dallas Field Office, Office of Audits
3900 Karina Street, Room 224
Denton, Texas 76208



**Homeland
Security**

July 30, 2004

MEMORANDUM FOR: Ron Castleman
Regional Director, FEMA Region VI
Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Grant Management: Texas' Compliance
With Disaster Assistance Program's Requirements*
Audit Report Number DD-11-04

This memorandum transmits the results of the subject audit performed by Foxx & Company, an independent accounting firm under contract with the Office of Inspector General. In summary, Foxx & Company determined that the Texas Division of Emergency Management (TDEM) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On May 21, 2004, you responded to the draft audit report, stating that you agreed with the majority of the recommendations. The attached report includes your response, in its entirety, as Attachment C. Your comments are also summarized after each finding in the report, along with additional comments from the auditors. The complete report will be posted on our Intranet and Internet website.

The actions described in your response were adequate to resolve and close Recommendations B.1, B.2.2, and B.3.2. The actions described were also adequate to resolve Recommendations A.1, A.2, B.2.1, B.3.1, B.4, B.5, B.6, B.7.1, B.8 and B.9. However, these ten recommendations will remain open until the described actions have been implemented. Recommendation B.7.2 is unresolved and requires your response indicating concurrence or non-concurrence with the recommendation.

Please advise this office by October 28, 2004, of the actions taken or planned to implement Recommendation B.7.2. Any planned actions should include target completion dates.

We thank your staff and TDEM's staff for the courtesies extended the auditors during their fieldwork. If you have any questions concerning this report, please contact Stuart Weibel or me at (940) 891-8900.

**AUDIT OF DISASTER ASSISTANCE
GRANT PROGRAM MANAGEMENT**

**State of Texas
Division of Emergency Management**

July 8, 2004

Contract No. GS23F9832H

Foxx & Company
Certified Public Accountants



Foxx & Company
Certified Public Accountants

July 8, 2004

Office of Inspector General
Department of Homeland Security
Anacostia Naval Annex
245 Murray Lane, Bldg 410
Washington, D.C. 20528

Foxx & Company performed an audit of the State of Texas Division of Emergency Management's administration and management of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The audit was performed in accordance with our Task Order dated March 19, 2002.

This report presents the results of our audit and includes recommendations to help improve the State's administration of Federal Emergency Management Agency disaster assistance grant programs. In addition, we have included the comments received from the FEMA Regional Office in the body of the report. The written response to the draft report is included in its entirety as Attachment C.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 1999 revision. 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 agency's financial statements or the funds claimed in the Financial Status Reports submitted to FEMA. The scope of the audit consisted of program and financial activities for 13 Presidential disaster declarations that occurred during the period of October 1994 through September 2002. The scope of the audit included Public Assistance, Hazard Mitigation, and Individual and Family Grant Programs for each disaster, as applicable.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

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I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the Texas Division of Emergency Management's (TDEM) administration and management of Federal Emergency Management Agency (FEMA)¹ disaster assistance grant programs. The overall objective of this audit was to determine the effectiveness of TDEM's administration and management of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

This report focuses on the TDEM systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on TDEM's financial statements or the funds claimed in the Financial Status Reports (FSRs) submitted to FEMA. The funds awarded and costs claimed for the disasters included in the audit scope are presented in Attachment A of this report.

Our audit included 13 major disasters declared by the President of the United States between October 1994 and September 2002. Eleven of the disasters involved all three types of grant programs: Public Assistance (PA) Grants, Individual and Family Grants (IFG), and Hazard Mitigation Grants (HMG). Disaster Nos. 1056 and 1434 did not include the Public Assistance Grant Program. The Federal share of obligations for the 13 disasters was over \$834 million. Federal funds claimed through September 30, 2002 were over \$576 million.

The audit concluded that the State of Texas, for the most part, had effectively managed FEMA disaster assistance program funds in accordance with Federal requirements. However, as indicated by the findings from the audit, some weaknesses in internal controls and noncompliance situations were identified. Our report includes recommendations that, if implemented properly, would improve TDEM's management, eliminate or reduce weaknesses in internal controls, and reduce instances of noncompliance with Federal laws and regulations.

The findings summarized below are discussed in detail in the body of the report.

¹ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

Financial Management

- **Financial Status Reporting**

TDEM's financial reporting system did not comply with Federal requirements. Specifically, we identified the following conditions concerning TDEM's quarterly Financial Status Reports (FSRs):

- Non-Federal shares of PA program costs were inconsistently and incorrectly reported.
- Non-Federal shares of HMG program costs were estimated amounts rather than the actual non-Federal contributions.
- Internal controls were not sufficient to ensure that accurate quarterly reports were submitted as required.

As a result, the FEMA Regional Office did not receive timely, accurate, and complete information on the financial status of approved programs.

- **Use of Administrative Allowances**

TDEM did not expend FEMA approved administrative allowances in accordance with Federal requirements. TDEM used \$114,923 of administrative allowance funds for expenses not considered allowable extraordinary expenses or for disaster programs other than those for which the funds had been approved. TDEM loaned funds from the administrative allowance approved for one disaster program to another State agency for expenses incurred in providing fire support. As a result, \$114,923 claimed as administrative allowance costs have been questioned.

Program Management

- **PA Quarterly Progress Reporting**

TDEM did not report the status of individual PA projects in accordance with Federal requirements. TDEM discontinued its quarterly reporting on the status of projects when approved projects were completed rather than after the final payment was made as required by Federal regulations. In addition, TDEM did **not** submit progress reports for 7 of the 20 quarters from December 31, 1998 through September 30, 2002. As a result, the FEMA Regional Office did not receive required status information that was essential for the performance of its oversight responsibilities for the PA programs.

- **PA Project Closures**

TDEM did not close PA projects in a timely manner. TDEM's practice was to close individual projects after the subgrantee submitted a Project Completion and Certification Report (P.4) and TDEM completed the final audits for all of the projects on the P.4. Because subgrantee P.4 Certification Reports usually included more than one project, some individual projects remained open for as many as four years after the project was completed. As a result, the required final accounting for costs of individual projects was not completed in a timely manner.

- **PA Small Project Payments**

TDEM did not always pay subgrantees for small projects in a timely manner. Federal regulations require that payments to subgrantees for small projects be made as soon as practicable after Federal funding is approved. We found that subgrantees for 73 percent of the small projects sampled were paid between 31 and 59 days after Federal funding was approved. Twenty-seven percent of the subgrantees received payment within 30 days after funding approval. Timely payments for small projects are important to prevent unnecessary financial hardship on subgrantees, which could lead to slow payments to vendors and contractors or delays in work.

- **IFG Program Closures**

TDEM did not close IFG programs in a timely manner. TDEM consistently requested time extensions from FEMA for the closure of IFG programs. However, even with the approved extensions, TDEM did not close the IFG programs within the extended period. As a result of delays in the closure of IFG programs, unwarranted administrative expenses were incurred and the reconciliation of program obligations with expenditures was not completed in a timely manner.

- **IFG Outstanding Checks**

TDEM did not have procedures to ensure that funds owed to FEMA from outstanding recipient's checks² were refunded to FEMA. The State had not refunded any of the amounts owed to FEMA for outstanding checks, as required by Federal regulations. As a result, questioned costs of \$38,218 were identified during the audit and should be refunded to FEMA.

² In Texas, checks sent to recipients are referred to as warrants.

- **HMG Programs and Project Closures**

TDEM did not close HMG programs and individual projects in a timely manner. Thirteen HMG programs were open as of September 30, 2002. TDEM had not notified FEMA to close any of the projects within these programs. The oldest HMG program was for Disaster No. 1041, declared in October 1994. This HMG program was still open in May 2003, about 8 ½ years after the Presidential declaration. Delays in the closure of HMG programs and projects resulted in unwarranted administrative expenses, and untimely reconciliations of program obligations with expenditures. Timely closure is necessary to ensure that answers to questions concerning individual projects are obtainable while employees with knowledge of issues and rationale for decisions are available.

- **HMG Quarterly Progress Reporting**

TDEM did not report the status of HMG projects in accordance with Federal requirements. For a period of about two years, TDEM did not send required HMG quarterly progress reports to FEMA. Prior to this time, the reports sent to FEMA did not describe the progress and/or problems being experienced with individual HMG projects. As a result, the FEMA Regional Office did not receive required status information essential for the performance of its oversight responsibilities on the HMG programs.

- **HMG Project Approvals**

TDEM's application packages for HMG projects were not always complete. The Regional Office had to perform additional work, including contacting applicant subgrantees for information not included in the applications. As a result, applicant subgrantees waited for years to receive notification of approval (or disapproval) for proposed mitigation projects.

- **Single Audit Act Requirements**

TDEM did not comply with the requirements of the Single Audit Act. TDEM's guidance and procedures for ensuring that PA and HMG subgrantees comply with the requirements under the Single Audit Act were inconsistent and confusing. While some reports were being received, TDEM did not have effective procedures for determining if all required single audits were performed, single audits reports received were reviewed, and management decisions were made based on the issues identified in the audit reports.

As a result, TDEM could not be certain that the PA and HMG subgrantees were in compliance with the requirements of the Single Audit Act. Compliance with the Single Audit Act is important to ensure that subgrantee internal control systems are adequate to safeguard management and the use of Federal funds.

II. Background

Federal assistance can supplement the State's response efforts after large disasters and emergencies. When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA).³ FEMA, in turn, makes grants to State agencies, local governments, certain other non-profit organizations, private citizens, and other qualifying organizations through a designated agency within the State.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters declared by the President of the United States.⁴ Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The three major disaster assistance grant programs included in the audit were:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the State (25 percent).

Public Assistance (PA) Grants are awarded to State agencies, local governments, private non-profit organizations, Indian tribes or authorized tribal organizations, and Alaska native village or organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. At least 75 percent of approved individual project costs are paid by FEMA and the remainder of the cost is paid by non-Federal sources.

Hazard Mitigation Grants (HMG) are awarded to States to help reduce the potential for future disaster damages. The State, as the grantee, is responsible for setting

³ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

⁴ On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

priorities for the selection of specific projects, but each project must be approved by FEMA. HMG grants can be awarded to State agencies, local governments, private non-profit organizations or institutions, Indian tribes or authorized tribal organizations, and Alaskan native villages or organizations. The FEMA share of project cost shall not exceed 75 percent. The amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act to 15 percent of the estimated aggregate amount of grants to be made (less any associated administrative costs) for a declared disaster.

Texas Division of Emergency Management

The Texas Disaster Act of 1975 established the Texas Division of Emergency Management (TDEM) as the disaster and emergency management agency for the State of Texas. The control and direction of the agency was placed under the Director of the Texas Department of Public Safety. The position of State Coordinator was established to manage TDEM. The State Coordinator reported both to the Governor and to the Director of the Department of Public Safety.

TDEM was organized into two bureaus: the Preparedness and Response Bureau and the Recovery and Mitigation Bureau. TDEM also had a Public Information Office and a Field Operations Section. The Field Operations Section was responsible for planning and coordinating emergency management activities throughout the six Texas Department of Public Safety regions. As of September 30, 2002, TDEM staffing was comprised of 76 full-time and 40 temporary employees.

TDEM was the State grantee for the three disaster programs included in the audit. TDEM managed the activities of the PA and HMG programs. However, the Texas Department of Human Services (TDHS) was designated by the Governor to administer the IFG program. TDHS was responsible for the coordination of the administration of the IFG program with TDEM officials.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine if the State of Texas (the grantee) had:

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- Complied with the FEMA-approved disaster assistance administrative plans,
- Properly accounted for and expended FEMA disaster assistance funds, and
- Operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included the 13 major disaster declarations listed below. These disasters were declared between October 1994 and September 2002. As agreed with the Department of Homeland Security, Office of Inspector General (OIG), we concentrated on the recent disasters for testing the management systems and procedures established by TDEM. As appropriate, we expanded our tests to include other disasters when warranted by the issues identified. All 13 disasters included IFG and HMG programs. However, a PA program was not declared for two of the 13 disasters. A total of 37 disaster assistance programs were included in the scope of the audit.

Declaration			Disaster Programs		
Number	Date	Disaster	IFG	PA	HMG
1041	10/18/94	Severe Thunderstorms and Flooding	Closed	Closed	Open
1056	06/13/95	Thunderstorms, Flooding, Hail, Tornadoes	Closed	Not Declared	Open*
1179	07/07/97	Severe Storms, Flooding	Closed	Open	Open
1239	08/26/98	Tropical Storm Charley	Closed	Open	Open
1245	09/23/98	Severe Storms and Flooding	Closed	Open	Open
1257	10/21/98	Severe Storms, Flooding, and Tornadoes	Closed	Open	Open
1274	05/06/99	Severe Storms and Tornadoes	Closed	Open	Open
1287	08/22/99	Hurricane Bret, Severe Storms and Flooding	Closed	Open	Open
1323	04/07/00	Severe Storms, Flooding, and Tornadoes	Closed	Open	Open
1356	01/08/01	Severe Winter Ice Storm	Open	Open	Open
1379	06/09/01	Tropical Storm Allison	Open	Open	Open
1425	07/04/02	Severe Storms and Flooding	Open	Open	Open
1434	09/26/02	Tropical Storm Fay	Open	Not Declared	Open

*This program was closed in December 2002

The cut-off date for the audit was September 30, 2002. However, we reviewed more current activities related to conditions found during our audit to determine whether appropriate corrective action(s) had been taken.

Our audit planning was initiated in January 2003 at FEMA Region VI in Denton, Texas. Region VI is the Federal Regional Office that implements and administers FEMA's

disaster assistance policies and programs in the State of Texas. The fieldwork at TDEM in Austin, Texas started in February 2003.

Our **methodology** included interviews with FEMA Headquarters, Regional Office, and State officials to obtain an understanding of the State's internal control systems and to identify current issues or concerns relative to TDEM's management of disaster programs. Our audit considered FEMA and State policies and procedures, as well as the applicable Federal requirements. We reviewed documentation received from TDEM, as well as from FEMA Headquarters, the Regional Office, and the Disaster Finance Center in Berryville, Virginia.

We selected and tested individual recipient files and representative projects at TDEM to determine if the disaster assistance programs had been conducted in compliance with applicable regulations. We also reviewed the State's procurement and property management procedures for compliance with Federal regulations. We evaluated current systems and procedures to identify systemic causes of internal control system weaknesses or noncompliance situations. Our review included all aspects of program management including applications for assistance, approval, monitoring, and reporting.

We reviewed prior audits conducted within the timeframe of the disasters included in our scope, including OMB Circular A-133 audit reports and the subgrantee audit reports prepared by the Office of Inspector General. Our audit scope did not include interviews with TDEM subgrantees or visits to project sites. We did not evaluate the technical aspects of the disaster related repairs.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). 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 do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed 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 accounts and items specified. The report does not extend to any financial statements of the Texas Division of Emergency Management or the Department of Public Safety.

IV. Findings and Recommendations

The findings and recommendations focus on TDEM systems and procedures for ensuring that Federal grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned TDEM's financial and program management activities for the PA, IFG, and HMG programs. These findings are detailed below.

The audit concluded that the State of Texas, for the most part, had effectively managed FEMA's disaster assistance program funds in accordance with Federal requirements. However, as indicated by the findings disclosed during the audit, some weaknesses in internal controls and noncompliance situations were identified. Each finding includes recommendations that, if implemented properly, would improve TDEM's management, eliminate or reduce weaknesses in internal controls, and help to correct noncompliance situations.

A. Financial Management

1. Financial Status Reporting

TDEM's financial reporting system did not comply with Federal requirements. Specifically, we identified the following conditions concerning TDEM's quarterly Financial Status Reports (FSRs):

- Non-Federal shares of PA program costs were inconsistently and incorrectly reported.
- Non-Federal shares of HMG program costs were estimated amounts rather than the actual non-Federal contributions.
- Internal controls were not sufficient to ensure that accurate quarterly reports were submitted as required.

As a result, the FEMA Regional Office did not receive timely, accurate, and complete information on the financial status of approved programs.

According to 44 CFR 13.41 (b)(3) and (4), *Financial reporting/Frequency and Due Date*, and FEMA guidance, grantees are required to submit FSRs to the Regional Office within 30 days after the end of each Federal quarter until the grant ends and a final FSR is submitted to the Regional Office as part of the program closeout package. In addition, 44 CFR 13.20, *Standards for financial management systems*, requires that the information included in the FSR be current, accurate, and complete. FEMA's *Guide to Managing Disaster Grants* states that the FSR is a critical component of disaster grant management because it (1) enables FEMA to carry out its financial stewardship duties,

(2) serves as a check to determine if grantees are expending Federal funds on a timely basis, and (3) is the official source for cost-share information.

Non-Federal Share Inconsistently Reported for PA programs

TDEM had not consistently reported costs claimed by subgrantees to FEMA. With the exception of debris removal projects under Disaster No. 1356, the PA program cost sharing ratio was 75 percent Federal and 25 percent non-Federal. The reported non-Federal share for 9 of the 10 open PA programs⁵ through September 30, 2002 ranged from 0 percent to 31 percent. In Texas, the subgrantees were usually responsible for the non-Federal share of project costs.

Because Disaster No. 1379 was the largest of all the disasters included in the audit, we reviewed the FSRs for the quarters ending March 31, 2002 through September 30, 2002 as a further test of TDEM’s financial reporting practices. As expected, the total outlays reported for the PA program had increased significantly over this 9-month period. According to the FSRs, the increase in total program outlays was from about \$68.6 million to about \$95.5 million, with the Federal increasing from \$57.8 million to \$95.5 million. However, as shown in the following table, the reported non-Federal share on the FSRs decreased during this 9-month period from \$10.8 million to \$0.

Quarter Ending	Federal Share Of Outlays	Local/Share Of Outlays	Total Expenditures
03/31/02	\$57,758,981	\$10,828,302	\$68,587,283
06/30/02	\$68,118,426	\$ 5,404,744	\$73,523,170
09/30/02	\$95,546,858	\$0	\$95,546,858

According to TDEM officials, the September 30, 2002 FSR for Disaster No. 1379 PA program did not report the local share because the correct amount could not be determined. TDEM officials said they recognized the inconsistency in the previous quarter reporting and decided not to report a non-Federal share on the September 30, 2002 FSR for this program.

TDEM officials stated the overall reason for the inconsistent reporting was that the Federal share of individual project costs for a PA program must be reported each month and reconciled with the amounts drawn from SMARTLINK. Whereas, the non-Federal shares of individual project costs were not required to be reported until the subgrantee

⁵ In August 1999, FEMA Region VI and TDEM agreed that the non-Federal share of program costs should be reported on the FSRs starting with Disaster No. 1239, declared in August 1998. The agreement waived the requirement that TDEM report the non-Federal share for Disaster No. 1179.

submitted a Project Completion and Certification Report (P.4) and the State completed a final audit of all the large projects included on the P.4 Certification.⁶

The statement by TDEM officials concerning the requirement for non-Federal share reporting was consistent with guidance received from the Regional Office in August 1999.⁷ However, TDEM should not have delayed reporting the non-Federal share until the State audits of all the projects on the P.4 Certification had been completed. The length of time between when the first and last projects was completed and audited could have been several years.

Non-Federal Share Calculated for HMG

The non-Federal share of program costs reported on the FSRs for the HMG programs was not the actual amount contributed by non-Federal sources. The reported non-Federal share was estimated based upon the Federal share of program costs. It did not reflect the actual non-Federal share of expenditures paid by subgrantees for individual projects. As a result, the HMG non-Federal share reported on the FSRs was always 25 percent of the reported program cost, even though some of the program costs were paid with administrative allowance funds. Costs eligible for payment with administrative allowance funds are paid 100 percent with Federal funds.

As stated in FEMA's *Guide to Managing Disaster Grants*, the FSR is the official source for cost-share information. The amounts reported should provide a basis for the Regional Office to ensure that the non-Federal share requirements are being met.

Internal Controls Insufficient to Ensure Compliance with Requirements

The audit also identified other indications of financial reporting problems.

- TDEM did not submit an FSR for the HMG program under Disaster No. 1056 for the quarter ending March 31, 2002,
- TDEM did not submit an FSR for the PA program under Disaster No. 1356 for the quarter ending March 31, 2002,
- The March 31, 2002 FSR for the Disaster No. 1379 PA program incorrectly reported the Federal share of program outlays, and
- The September 30, 2002 FSR for the HMG program under Disaster No. 1056 incorrectly reported the amount of total funds authorized.

⁶ A subgrantee's P.4 Certification may include more than one small or large project. The FEMA Regional Office determines the projects to be included on subgrantee P.4 Certifications during the PA project approval and obligation process.

⁷ In August 1999, FEMA Region VI and TDEM agreed that the non-Federal share of program costs should be reported on the FSRs starting with Disaster No. 1239, declared in August 1998.

Although individually insignificant, we believe these problems clearly indicate that more effective internal controls were needed in TDEM's financial reporting system to ensure compliance with the Federal requirements.

Conclusions and Recommendations:

Financial reports are critical components of the disaster grant management process. FSRs permit FEMA officials to monitor the financial activities of the grantee. Quarterly financial reports, if properly prepared and submitted as required, provide essential information on the grantee's financial activities. Without current, accurate, and complete status reports, FEMA's sources for information concerning the financial activities of a program are limited.

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to:

1. Develop and implement tracking systems to accurately report the non-Federal share of PA and HMG program costs and
2. Establish procedures to improve the agency's internal controls for the preparation, review, and approval of FSRs to ensure that current, accurate, and complete information is reported as required.

Management's Response

We concur with the recommendations. The State is currently developing various quarterly reporting worksheets for sub-grantee applicants to report expenditures for PA and HMGP costs. These will be included in the applicable administrative plans. We will work with the State to ensure they develop written procedures, guidelines, and/or checklists to implement the system and that they track the non-federal share.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the actions being taken are completed.

2. Use of Administrative Allowances

TDEM did not expend FEMA approved administrative allowances in accordance with Federal requirements. TDEM used \$114,923 of administrative allowance funds for expenses not considered allowable extraordinary expenses or for disaster programs other than those for which the funds had been approved. TDEM loaned funds from the administrative allowance approved for one disaster program to another State agency for

expenses incurred in providing fire support. As a result, \$114,923 claimed as administrative allowance costs have been questioned.

Under PA and HMG programs, TDEM may receive funds from FEMA for costs associated with the administration of disaster assistance programs. Federal Regulations 44 CFR 206.228(a)(2), *Statutory Administrative Costs* (PA), and 206.439(b)(1), *Statutory administrative costs* (HMG), restrict the use of the administrative allowance to extraordinary costs. Extraordinary costs include costs incurred by State employees for travel, per diem, and overtime related to the preparation of applications for assistance and quarterly reports, the conduct of final audits and the completion of related field inspections. In addition, OMB Circular A-87 states that a cost is allocable to a cost objective if goods and services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received. OMB Circular A-87 further provides that any cost allocable to a particular Federal award may not be charged to other Federal awards.

Our test of 15 transactions involving \$122,968 of administrative allowance expenditures disclosed that TDEM had used \$114,923 of these funds for purposes other than for the purposes for which the funds were intended. The following list summarizes the questionable uses of the administrative allowances.

- \$70,215 of the administrative allowance for Disaster No. 1379's PA program was used to pay the regular (as opposed to overtime) salaries of State employees.
- \$23,080 of the allowance for Disaster No. 1379's PA program was loaned to the State's Civil Air Patrol for expenses it incurred providing fire support. The loan was to be repaid later by FEMA when the fire support funds were approved.
- \$21,628 of allowances was used to pay travel expenses for disaster assistance programs other than those for which the funds had been approved.

TDEM officials agreed that administrative allowances should only be used for the purpose for which the funds were awarded. The TDEM Fiscal Officer stated that appropriate adjusting entries would be made during the program closure process to ensure that the program costs are reconciled and appropriate.

Conclusions and Recommendations

TDEM did not use approved administrative allowances in accordance with Federal requirements. As a result, the \$114,923 claimed as administrative allowance costs were questioned and should be returned to FEMA.

Accordingly, we recommend that the Regional Director, Region VI, require TDEM to:

1. Reimburse FEMA for the \$114,923 used by TDEM for unallowable administrative costs and
2. Develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for extraordinary costs associated with the disaster program for which the funds were awarded.

Management's Response

We concur that \$114,923 are questionable costs. The State has relied on their interpretation of a November 22, 1990 memo to claim a right to use the funds without regard to FEMA policy or regulation. We have clarified that memo and insist on adherence to Federal regulation. A copy of each of these memos and letters is attached.

The \$70,215 used to pay salaries of State employees is not eligible as an administrative cost. If eligible, it should have been charged as a management cost. We will work with the State to correct that error and will transfer \$70,215 back to Disaster No. 1379.

The State will transfer \$23,080 back to Disaster No. 1379 for funds borrowed to pay the Texas Civil Air Patrol for the 2000 fire season.

We concur that the \$21,628 was used to pay travel expenses for disaster assistance programs for other disasters. The State has reimbursed the costs charged to Disaster No. 1379 by transferring administrative funds from Disaster No. 1425. Supporting documentation is enclosed.

We will expect TDEM to develop and implement effective internal control procedures so that funds are used for the purpose granted.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the remaining \$93,295 is transferred back to Disaster No. 1379 and effective internal control procedures are implemented to ensure compliance with Federal requirements.

B. Program Management

1. PA Quarterly Progress Reporting

TDEM did not report the status of individual PA projects in accordance with Federal requirements. TDEM discontinued its quarterly reporting on the status of projects when

approved projects were completed rather than after the final payment was made as required by Federal regulations. In addition, TDEM did not submit progress reports for 7 of the 20 quarters from December 31, 1998 through September 30, 2002. As a result, the FEMA Regional Office did not receive required status information that was essential for the performance of its oversight responsibilities for the PA programs.

In accordance with 44 CFR 206.204(f), *Progress reports*, grantees are to submit PA quarterly progress reports to the Regional Director. These reports describe the status of projects for which a final payment of the Federal share has not been made and outline any problems or circumstances expected to result in non-compliance with the approved grant conditions.

TDEM's practice was to report the status of PA projects only until the projects were physically completed. The reporting was discontinued after physical completion even though final payment had not been made. Significant delays in the closure process following project completion further compounded the non-reporting problem. Because of this reporting practice, the State submitted quarterly progress reports to the Regional Office that did not include the status of all of the approved PA projects for which final payment had not been made.

In addition, TDEM failed to meet Federal-reporting requirements when it requested and received approval from the Regional Office to waive the quarterly reporting requirement for 7 of the 20 quarters for fiscal years 1998 through 2002. According to TDEM officials, the State requested the waivers because staff was not available to prepare the required reports. The officials said that the frequency of disaster declarations and related workloads resulted in staff being reassigned from their normal duties to support the workloads of new disasters. In this regard, we noted that TDEM had not developed alternative staffing options for accomplishing the workloads of new disasters. It would appear that staffing options, such as the increased use of (1) FEMA disaster assistance employees, (2) employees from other State agencies, (3) temporary employees, and/or (4) contract employees, might be available to accomplish the increased workload without reassigning permanent staff from their normal duties.

FEMA regional officials said they did not know the status of approved PA projects. The officials also said that TDEM had been told the region was concerned with the State's reporting on the status of PA projects. However, TDEM officials told us they were unaware of the Regional Office's concerns.

Conclusions and Recommendations

Grantee's quarterly progress reports on PA projects are an important source of information for FEMA to exercise its management and oversight responsibilities for the PA program. The reports should provide the status of all projects for which final payment has not been made. The reports can alert the Regional Office on a timely basis of the need for action to help prevent or reduce delays in completing and/or closing projects.

As a recipient of Federal grant funds, TDEM was required to comply with the Federal requirements for quarterly status reporting. Accordingly, TDEM should: (1) discontinue its practice of only reporting on projects until construction is completed, and (2) not request waivers of the quarterly reporting requirement. In addition, TDEM, in conjunction with the State legislature, should have reacted to the need for additional staff to comply with Federal requirements and to accomplish the workload of newly declared disasters.

Accordingly, we recommend that the Regional Director, Region VI, require TDEM to:

1. Submit the required PA quarterly progress reports for all open projects until final payment is made and
2. Evaluate the agency's current staffing level and determine if additional staff is needed, or other alternatives might exist, to ensure compliance with Federal requirements and to meet the demands of workloads created by newly declared disasters.

Management's Response

We partially concur with the recommendation. According to 44 CFR 206.204 (f), grantees are required to submit quarterly progress reports on projects that have not received final payment. However, 44 CFR 206.205 (a), states that funding for small projects is fixed and funds are to be made available as soon as the Project Worksheet is approved, regardless of final cost. Therefore the grantee is not required to report on small projects and, consequently, the State would have to report on large projects only.

In late March of this year, FEMA Region VI staff discussed the quarterly reporting requirements in 44 CFR 206.204 (f) and discussed how to use NEMIS for these reports. Regional staff trained State staff on providing the required information and on entering it into the NEMIS module quarterly.

The State has hired additional PA staff and auditors to assist with project monitoring, management, and closeout. There are now six (6) people devoted to this program plus one additional PA staff in the Houston 1379 office dedicated solely to that huge operation.

A copy of the most recent quarterly report and State guidance memorandum is also enclosed.

Auditor's Additional Comment

The actions taken by Regional Office and State management appear adequate to resolve and close the conditions cited.

2. PA Project Closures

TDEM did not close PA projects in a timely manner. TDEM's practice was to close individual projects after the subgrantee submitted a Project Completion and Certification Report (P.4) and TDEM completed the final audits for all of the projects on the P.4. Because subgrantee P.4 Certification Reports usually included more than one project, some individual projects remained open for as many as four years after the project was completed. As a result, the required final accounting for costs of individual projects was not completed in a timely manner. Timely completion of the final accounting for a project is important to ensure that:

- Only allowable costs are claimed,
- Excess advances are promptly recovered,
- Additional obligations or de-obligations are made based upon supporting documentation,
- Unwarranted administrative expenses are not incurred, and
- Answers to questions concerning the project are obtainable while employees with knowledge of issues and rationale for decisions are available.

According to 44 CFR 206.205 (b), *Payment of claims/Large Projects*, a grantee is required to make an accounting to the Regional Director of eligible costs for each approved large project as soon as practicable after the work has been completed and payment has been requested. Although specific criteria was not available for the timeliness of closure for small projects, 44 CFR 206.205 (a), *Small Projects*, and FEMA policy emphasize the need for expeditious management of small projects, including the payment of funds to the applicant as soon as possible after the funds are obligated. The FEMA Region VI Public Assistance Officer said that all projects, small and large, should be closed as soon as possible after the completion of the work.

We reviewed 21 P.4 Certifications from Disaster No. 1257 to evaluate the timeliness of TDEM's closing of projects. Each of the 21 Certifications was submitted after the last project in the P.4 package was completed. The 21 P.4 Certifications included 80 projects. Some of the projects were large projects and some were small. We found that the project closures ranged from 19 to 47 months after the date TDEM received the Certifications from the subgrantees.⁸

Because the project completion dates for individual projects were not the same as the date of the P.4 Certification, we compared the individual project completion dates with

⁸ The range for the 10 large projects was 19 to 44 months. The range for 70 small projects was from 19 to 47 months.

the closure dates for 24 of the 80 projects. This comparison showed that project closures occurred on an average of 42 months after the projects were completed. The range for project closure was from 32 to 48 months. Within the average and range, about 10 months passed between when the projects were completed and when the subgrantees submitted the P.4 Certifications.

According to TDEM officials, poor subgrantee record keeping, a lack of funds, the activation of TDEM program officials to work on newly declared disasters, and other administrative requirements contributed to the delayed closings. TDEM officials also said that some of the closure delays were caused by a backlog in the completion of the final audits and inspections. TDEM did not provide documentation that supported the extent of the backlog.

The Regional Office Public Assistance Officer (PAO) agreed that there was a problem with the closeout of PA projects in the State of Texas. The PAO also agreed that all projects should have been closed as soon as possible after the work was completed.

Conclusions and Recommendations

Inordinate delays occurred from when PA projects were completed to when the projects were closed. We believe TDEM's policy of closing individual projects after the subgrantee submitted a P.4 Certification and TDEM completed the final audits for all of the projects on the P.4 was the primary cause for the untimely closure of the projects. However, some of the closure delays may have been caused by a backlog in the completion of the TDEM's final audits and inspections. The activation of program officials and auditors to help with the workload for new disasters also contributed to the delay in project closures.

Accordingly, we recommend that the Regional Director, FEMA Region VI, require TDEM to develop and implement procedures for closing individual projects as soon as possible after the work is completed rather than after P.4 Certifications are received. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is also applicable to this finding concerning the timeliness of PA project closures.

Management's Response

We concur with the recommendation. We believe that the previous delays and backlog with closing projects will improve with the recent hiring of additional PA staff. The lack of new disaster activity has allowed the State to train the new staff and to concentrate on the backlog. We will require adequate quarterly reports to monitor open projects and to implement closeout procedures as needed to ensure that individual projects are closed promptly.

Target completion date September 15, 2004.

Auditor’s Additional Comment

The actions described by Regional Office and State management are adequate to resolve the conditions cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures.

3. PA Small Project Payments

TDEM did not always pay subgrantees for small projects in a timely manner. Federal regulations require that payments to subgrantees for small projects be made as soon as practicable after Federal funding is approved. We found that subgrantees for 73 percent of the small projects sampled were paid between 31 and 59 days after Federal funding was approved. Twenty-seven percent of the subgrantees received payment within 30 days after funding approval. Timely payments for small projects are important to prevent unnecessary financial hardship on subgrantees, which could lead to slow payments to vendors and contractors or delays in work.

In accordance with 44 CFR 206.205 (a), *Payment of claims/Small Projects*, final payment of the Federal share of the cost of small projects will be made to the grantee upon approval of the Project Worksheet. The regulations also state that the grantee will make payment of the Federal share to the subgrantee as soon as practicable after Federal approval of funding. For the purpose of determining what is practicable, we considered the 30-day requirement set forth in the Federal Prompt Pay Act and the Texas Department of Public Safety requirement that all obligations be paid by State agencies within 30 days.

We reviewed 33 small projects for compliance with the timely payment requirements. Of the 33 projects, 22 were from Disaster No. 1425, six were from Disaster No. 1356 and five were from Disaster No. 1379. The average number of days from the date FEMA obligated the funds to the date payment was made to the subgrantee for the 33 projects was 39. The range of days was from 21 to 60. As shown in the table below, based upon the 30-day benchmark described above, 73 percent of the 33 small projects sampled were not paid in a timely manner.

Obligation Date to Payment Date	Number of Small Projects	Percent of Small Projects
Within 30 days	9	27%
Between 31 and 40 days	11	33%
Between 41 and 50 days	5	15%
Between 51 and 60 days	8	25%
		100%

According to TDEM, inadequate staffing and the frequency of disasters declared in Texas resulted in TDEM staff not being available to administer payments for small projects because the staff was assigned to work on newly declared disasters. Nevertheless, TDEM officials agreed that improvements were needed in the timeliness

of payments to subgrantees for small projects. Regional Office officials said that part of the timeliness problem resulted from the multiple review and approval steps in the State's payment process. Although this might be true, we could not quantify the extent to which this process contributed to the payment delays.

Conclusions and Recommendations

TDEM did not comply with the requirement to make small projects payments as soon as practicable after the funds were approved. While the workload associated with the frequency of disasters declared in Texas contributed to the untimely payments, other factors, such as the complexity of the State's review and approval process for payments to subgrantees could also have affected the timeliness of payments.

Accordingly, we recommend that the Regional Director, FEMA Region VI, require TDEM to develop and implement procedures for improving the efficiency of the payment process for small projects. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is applicable to this finding concerning the timeliness of payments for small projects.

Management's Response

We concur with this recommendation. We will work with the State to develop and implement procedures that expedite the payments for small projects.

It is our understanding that the State PA staff requests payments from financial personnel promptly after small Project Worksheets are obligated. Thereafter, the payment process slows down, possibly because of the many levels of administration. With the increased number of PA staff, the State should be able to request payments promptly and track the payments more efficiently.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures.

4. IFG Program Closures

TDEM did not close IFG programs in a timely manner. TDEM consistently requested time extensions from FEMA for the closure of IFG programs. However, even with the approved extensions, TDEM did not close the IFG programs within the extended period. As a result of delays in the closure of IFG programs, unwarranted administrative expenses were incurred and the reconciliation of program obligations with expenditures was not completed in a timely manner.

According to Federal Regulation, 44 CFR 206.131 (j), *Time limitations*, all IFG application processing and administrative work must be completed within 270 days, or nine months, from the date of the declaration. However, the Regional Director may approve a grantee's request for any time limitation not to exceed 90 days. FEMA Headquarters may approve any request for a further extension of the time limitations.

We reviewed the IFG programs for the ten most recent disasters included in the scope of our audit to evaluate the timeliness of TDEM's program closures. For eight of these ten disasters, TDEM requested time extensions for the closure of the programs. These extensions were requested, in most cases, to facilitate additional time for (1) application processing, (2) completion of administrative activities, and (3) submission of the final reports and vouchers to the Regional Director.

For example, under Disaster No. 1239, TDEM requested and received a five-month extension for the completion of grant activities. Subsequently, TDEM requested and was granted an extension by FEMA Headquarters for the submission of the final reports and vouchers. FEMA Headquarters told TDEM that this was the "final extension" and the program was to be closed no later than February 5, 2001. However, TDEM did not submit the final reports and vouchers until January 31, 2002, one year after the date established by Headquarters as the "final extension" date. For the IFG programs under Disaster Nos. 1257, 1274, and 1287, TDEM also did not submit the program closeout packages until about one year after the final extension dates.

We discussed the untimely closures of IFG programs with Texas Department of Human Services (TDHS) officials who administer the IFG program in the State of Texas. The officials agreed that the closures had not been timely and said that the impact of the size and frequency of the disasters in Texas contributed to the delays. Although supporting documentation was not provided, the officials also said that the other reasons for the delays included:

- Small Business Administration referrals
- Extended registration periods
- Counties being added late in the process after the disaster was declared

Finally, TDHS officials said they could not close the IFG programs until a final financial audit was performed by TDEM. In this regard, we noted that delays had occurred in the audit process. For example, although the Department of Human Services' work under Disaster No. 1379 was completed in November 2002, TDEM did not complete its audit until May 2003. As of November 5, 2003, the closeout package for the IFG program under Disaster No. 1379 had not been sent to the Regional Office for closure.

Conclusions and Recommendations

Requests for time extensions to close IFG programs occurred frequently for the disasters included in the audit. Nevertheless, even with the extensions, TDEM did not close the programs in a timely manner as required by Federal regulations.

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that IFG program closeout packages are prepared and submitted in a timely manner in accordance with the Federal requirements.

Management's Response

We concur with this recommendation. The State has taken several steps to correct this problem. First, they hired additional auditors to address the auditing requirements of the large number of previous disasters. Second, they will remove auditors from the State Operations Center activation roster to ensure continuity in their day-to-day duties and allow them to meet audit deadlines. In addition, the audit supervisor will assign audits, with projected deadlines, to each auditor.

FEMA Region VI and the State will monitor the audit completion progress for the next three months. The State will adjust procedures accordingly.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures.

5. IFG Outstanding Checks

TDEM did not have procedures to ensure that funds owed to FEMA from outstanding recipient's checks⁹ were refunded to FEMA. The State had not refunded any of the amounts owed to FEMA for outstanding checks, as required by Federal regulations. As a result, questioned costs of \$38,218 were identified during the audit that should be refunded to FEMA.

FEMA policy requires that grantees include a list of outstanding checks as part of IFG program closeout packages. An outstanding check is defined as a valid award check that had neither expired nor been cashed by the date the IFG program closeout package is due to FEMA. Once the check is defined as outstanding, the Federal share of the outstanding check must be returned by the grantee to FEMA within 30 days.

⁹ In Texas, checks sent to recipients are referred to as warrants.

The amounts reported as outstanding for closed IFG programs included in the scope of the audit ranged from about \$3,000 to \$27,000, with a total Federal share of \$38,218 calculated as follows:

Disaster	Outstanding Checks	Federal Share	State Share
1179	\$ 10,079	\$ 7,559	\$ 2,520
1245	\$ 3,480	\$ 2,610	\$ 870
1257	\$ 27,464	\$ 20,598	\$ 6,866
1287	\$ 6,715	\$ 5,036	\$ 1,679
1323	\$ 3,220	\$ 2,415	\$ 805
Totals	\$ 50,958	\$ 38,218	\$ 12,740

In addition, as of May 2003, the amount of outstanding checks for Disaster No. 1379, declared in June 2001, was more than \$575,000. Because the IFG program for this disaster was still open, this amount might be significantly reduced before the program is closed. However, the large amount of outstanding checks for this program at the time of the audit indicates the potential magnitude of outstanding IFG checks that could result in refunds to FEMA from the IFG program.

TDHS and TDEM officials stated that the State did not have procedures to ensure that amounts owed to FEMA are refunded. TDEM indicated they had never refunded outstanding check amounts owed to FEMA.

Conclusions and Recommendations

TDEM should have had procedures to ensure that the funds owed to FEMA for outstanding checks were returned in a timely manner. In this regard, Texas has elected to have FEMA review and approve applications under the Individuals and Households Program.¹⁰ However, TDEM will be responsible for making the payments to individuals after FEMA approves an IHP application. At the time of our audit, there were four IFG programs still open.

Accordingly, we recommend that the FEMA Regional Director, Region VI require TDEM to:

1. Develop and implement procedures to ensure that the Federal shares of outstanding checks for all open IFG programs are refunded to FEMA within 30 days from the date the closeout package for each program is submitted to the Regional Office and
2. Refund to FEMA the \$38,218 Federal share of the outstanding checks identified for closed IFG programs.

¹⁰ The Individual and Households Program replaced the IFG program as a result of the Disaster Mitigation Act of 2000.

Management's Response

We concur that the State must develop and implement procedures to return the Federal share of closed IFG programs in compliance with Federal regulations. The State has begun developing those procedures and FEMA Region VI will work with the State to ensure these procedures meet Federal regulations.

We concur that the State should refund the \$32,218 Federal Share for closed IFG programs and we will work with the State to recoup those funds.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures and the recoupment of the funds has been accomplished.

6. HMG Programs and Project Closures

TDEM did not close HMG programs and individual projects in a timely manner. Thirteen HMG programs were open as of September 30, 2002. TDEM had not notified FEMA to close any of the projects within these programs. The oldest HMG program was for Disaster No. 1041, declared in October 1994. This HMG program was still open in May 2003, about 8 ½ years after the Presidential declaration. Delays in the closure of HMG programs and projects resulted in unwarranted administrative expenses and untimely reconciliations of program obligations with expenditures. Timely closure is necessary to ensure that answers to questions concerning individual projects are obtainable while employees with knowledge of issues and rationale for decisions are available.

According to 44 CFR 206.437 (b), *State administrative plan/Minimum criteria*, the grantee is responsible for monitoring and evaluating the progress and completion of HMG projects. We noted that completion deadlines were established by TDEM for projects. These deadlines ranged from one to two years following the notification to the subgrantee that a project was approved.

In December 1997, FEMA established a policy for HMG application submission and funding obligation timeframes. The policy included the provision that the Regional Director would approve all project applications and corresponding obligations within 24 months of the disaster declaration. The stated purpose of the policy was to facilitate the closeout of HMG programs and projects. In June 2002, FEMA revised its policy for the periods of performance for HMG programs. The June 2002 policy required that funds to subgrantees be disbursed and all activities completed not later than three years from the date of the grant award to the State. The policy stated that the three-year deadline could be extended if necessary, but only in unusual circumstances.

TDEM officials agreed that, in many cases, HMG projects were not closed in a timely manner and that the programs had remained open pending completion of all approved projects. TDEM officials said the causes for projects remaining open included poor subgrantee record keeping and a lack of local funds; as well as, staffing shortages resulting from TDEM program and audit officials working on newly declared disasters and other administrative requirements.

FEMA Regional Office officials expressed concern over the timeliness of project and program closures in Texas. The officials said they had not received notification from TDEM as of September 30, 2002 that any of the projects for the 13 open HMG programs had been closed.

Conclusions and Recommendations

Delays in the closure of HMG programs and projects have been a concern of FEMA's for many years. Nevertheless, TDEM did not close HMG programs and projects in a timely manner. Timely closure of HMG programs and projects is important to ensure that unwarranted administrative expenses are not incurred and that the required reconciliations of program and project obligations with expenditures are completed in a timely manner. The reconciliation is important to ensure that only allowable costs are claimed and that any refunds due to FEMA are promptly recovered. Individual projects should be closed when completed, i.e., while documentation to support the costs claimed still exists and subgrantee employees knowledgeable of project-related issues are available to answer questions concerning the projects.

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that HMG projects and programs are closed within the time frame established by FEMA in June 2002. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is applicable to this finding concerning the timely closure of HMG programs and projects.

Management's Response

We concur with the recommendations. The State has not been closing individual projects under the grant. Since audit fieldwork was completed, TDEM has closed 2 HMGP grants (Disaster Nos. 1041 and 1239). HMGP grants funded under Disaster Nos. 1179 and 1245 were forwarded to TDEM auditors for closure in September 2003. When the TDEM audit is complete and the State requests that these be closed, we will finalize the closure.

In addition, FEMA issued a policy memo, dated June 18, 2002, "Guidance on Periods of Performance." In an effort to utilize HMGP grant funds more efficiently and effectively, the policy requires that all funds to subgrantees will be disbursed, and all activities completed, not later than three (3) years from the date of the grant award to the State. The State has been notified of this policy, which will further expedite the closeout process.

We will work with the State to develop and implement procedures to ensure that HMGP projects are closed within the appropriate period. We will request the State to evaluate their staffing needs and to staff at a level to meet closeout and reporting requirements.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures, and the State has responded to Region VI's request concerning the State's required staffing level to meet closeout and reporting requirements.

7. HMG Quarterly Progress Reporting

TDEM did not report the status of HMG projects in accordance with Federal requirements. For a period of about two years, TDEM did not send required HMG quarterly progress reports to FEMA. Prior to this time, the reports sent to FEMA did not describe the progress and/or problems being experienced with individual HMG projects. As a result, the FEMA Regional Office did not receive required status information essential for the performance of its oversight responsibilities on the HMG programs.

In accordance with 44 CFR 206.438 (c), *Project management/Progress reports*, grantees are to submit quarterly progress reports to FEMA. Reports are to provide FEMA with current and accurate information on the status of HMG projects. Reports should provide information on problems or circumstances affecting completion dates, scope of work, or project costs that may result in noncompliance with the approved grant conditions.

From about March 2001 to January 2003, TDEM did not send quarterly progress reports to FEMA for the HMG programs. Furthermore, prior to March 2001, TDEM submitted information to FEMA in a "memorandum format." Regional officials said that the information was inadequate for FEMA to perform its oversight duties pertaining to problems and progress of HMG projects. Our review of the reports supported the views expressed by the Regional Office.

TDEM/HMG staff said that because of the unusually heavy workload caused by several disasters occurring in a relatively short time period, the State was unable to submit the

progress reports to FEMA. Regional Office officials occasionally sent letters reminding TDEM that quarterly reports were required. However, TDEM did not submit the reports.

Conclusions and Recommendations

The submission of informative quarterly progress reports is one of the most important sources for FEMA to perform its management and oversight responsibilities. The reports should provide FEMA the means to identify problems that may adversely affect the completion of FEMA-approved projects. The reports should also disclose factors that may result in project cost overruns.

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that quarterly HMG progress reports comply with Federal requirements. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirement (see Recommendation B.2.) is applicable to this finding concerning the submission of HMG quarterly reports.

Management's Response

We concur with the recommendation. We are working with the State to develop an appropriate electronic quarterly report format to capture the necessary information. The State is now using a version of the current report and is current with their quarterly report (copy of most recent report attached). We will work with the State to continue revising the report format until it captures the information needed for the quarterly reports.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition that TDEM's quarterly progress report format did not provide the information required by Federal regulations. However, the condition concerning the need for TDEM to evaluate its HMG staffing level is unresolved because the Regional Office did not comment on this recommendation.

The finding cannot be closed until:

- TDEM has developed and implemented the recommended procedures to ensure that HMG quarterly progress reports comply with Federal requirements and
- An evaluation of the agency's staffing level for the HMG program is completed and actions are taken to (1) ensure compliance with Federal progress reporting requirements and (2) meet the workload demands of newly declared disasters.

8. HMG Project Approvals

TDEM’s application packages for HMG projects were not always complete. The FEMA Regional Office had to perform additional work, including contacting applicant subgrantees for information not included in the applications. As a result, applicant subgrantees waited for years to receive notification of approval (or disapproval) for proposed mitigation projects.

We reviewed TDEM’s application, evaluation, and approval process for projects under the HMG programs. We found 30 pending applications, some of which had been in the review process nearly three years. Some project applications had been in the review process for nearly three years. The following table identifies, by disaster, the number of applications that were waiting approval in May 2003.

Disaster	Declaration Date	Applications Waiting Approval
1257	10/21/98	7
1274	05/06/99	1
1287	08/22/99	2
1356	01/08/01	2
1379	06/09/01	18
Total		30

In addition to the incomplete packages submitted, FEMA Regional Office officials also said delays in approvals were caused by TDEM’s inability to perform the required comprehensive environmental reviews and evaluations. These officials said TDEM was not capable of performing the required environmental and cost benefit project analyses.¹¹

TDEM/HMP officials agreed that some of the project application packages sent to FEMA for approval did not include all the information needed to approve the projects. TDEM officials said information was not included because of the limited time TDEM had to prepare and submit applications to FEMA. In addition, TDEM officials said delays were also related to (1) TDEM not having the time to complete the required environmental assessments and evaluations, and (2) uncertainty as to whether the projects should be funded under Section 406 of the PA program or Section 404 of the HMG program.

Conclusions and Recommendations

TDEM’s application packages for HMG projects were not always complete, resulting in delays in FEMA’s approval/disapproval of HMG project applications received from subgrantees. It is unreasonable for applicant subgrantees to wait three years to be advised if a proposed project will be approved or rejected.

¹¹ FEMA policy required that all environmental reviews be completed within 24 months of the declaration date.

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that HMG application packages include all required information.

Management's Response

We concur with this recommendation. FEMA is working with contractors to develop a checklist for States and FEMA to use to review structural projects. The State should provide this checklist to sub-grant applicants in preparing applications.

We will request the State to use this checklist or to develop other adequate procedures.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures. The procedures should include using the project review checklist being developed by FEMA.

9. Single Audit Act Requirements

TDEM did not comply with the requirements of the Single Audit Act. TDEM's guidance and procedures for ensuring that PA and HMG subgrantees comply with the requirements under the Single Audit Act were inconsistent and confusing. While some reports were being received, TDEM did not have effective procedures for determining if all required single audits were performed, audit reports received were reviewed, and management decisions were made based on the issues identified in the audit reports.

As a result, TDEM could not be certain that the PA and HMG subgrantees were in compliance with the requirements of the Single Audit Act. Compliance with the Single Audit Act is important to ensure that subgrantee internal control systems are adequate to safeguard and manage the use of Federal funds.

For fiscal years beginning after June 30, 1996, States, local governments, and nonprofit organizations that **expended** \$300,000 or more in Federal funds during a fiscal year were required to have an audit performed in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133. As revised in 1997, Circular A-133 states that:

- A copy of the data collection form, as described in the OMB Circular, and the reporting package must be sent by the auditee (e.g., subgrantee) to the Federal clearinghouse and to each Federal agency (e.g., FEMA) that awarded funds to the auditee.

- When findings are reported that relate to funds provided by a pass-through entity (e.g., TDEM), a copy of the reporting package must be submitted to the pass-through entity. The pass-through agency is required to review the report package and to issue a management decision within six months that states, as appropriate, the expected auditee action and timetable to correct the reported condition. The management decision should also explain any appeal process available to the auditee.
- If the audit did not contain findings related to awards by the pass-through agency, the auditee must provide written notification to the pass-through entity that the required audit was completed but that no findings were reported relating to the pass-through entity's Federal awards.

Guidance and Procedures for Subgrantee Compliance

TDEM required Public Assistance subgrantees to sign a checklist acknowledging that single audits were required if \$300,000 or more in Federal financial assistance was **expended** in any fiscal year. The checklist stated that a copy of the audit report should be sent to the cognizant, State agency or TDEM. TDEM's administrative plan for PA required subgrantees to send a copy of the single audit report to TDEM only if findings were disclosed in "our grant area during the audit." Otherwise, a letter certifying that there were no findings would be sufficient. The subgrantee checklist did not state that a certifying letter should be sent if applicable findings were not reported.

The HMG administrative plan included a statement that if \$300,000 or more was **received** from Federal programs, the subgrantee might be required to provide a copy of the single audit report to TDEM. The administrative plan also required that a copy of the audit report be submitted to the "Federal clearinghouse within 30 days of its completion, but not later than nine months from the end of the fiscal year." The HMG plan stated that a written notification, rather than a copy of the audit report, must be sent to TDEM if:

- Expenditures of Federal funds were less than \$300,000 and an audit would not be conducted, or
- Expenditures were \$300,000 or more and an audit was conducted, but no findings were reported in "our program" in the current or prior year.

The PA checklist and administrative plan did not mention that a copy of the single audit report must be sent to the Federal clearinghouse. In addition, the PA checklist and administrative plan did not include the time limitation for HMG subgrantees.

Receipt and Review of Single Audit Reports

In the summer of 2002, TDEM established a procedure to send a letter each year to all subgrantees regardless of the amount received from TDEM. In a form letter format, the subgrantees were reminded that a single audit must be performed if the subgrantee

received¹² \$300,000 or more in Federal funds during the year. The form also instructed the subgrantee to notify TDEM if a single audit was not required because the \$300,000 threshold had not been exceeded during the year.

TDEM officials claimed all single audit reports received were reviewed to determine if findings reported might affect future awards of disaster assistance funds. The officials stated that subgrantees were contacted when findings from the single audit affected the control and management of awards made by TDEM. However, TDEM did not provide documentation supporting that contacts had been made with subgrantees concerning single audit report findings.

TDEM officials acknowledged that they did not prepare management decision documents as required by OMB Circular A-133. The officials agreed that procedures were needed to ensure compliance with this requirement.

We selected eight PA subgrantees with open grants in FY 2000 and 2001 to test if single audit reports had been received in each of the two years. We found that only 8 of the possible 16 single audit reports were received. TDEM officials agreed that these audit reports were not received. The officials also said they did not know if audits had been required because the procedures at that time did not require subgrantees to notify TDEM that they had complied with the Single Audit Act reporting requirements.

Conclusions and Recommendations

TDEM did not comply with the requirements of the Single Audit Act. Although TDEM received and reviewed some reports, procedures were needed to ensure that single audits were performed as required for all subgrantees meeting the Single Audit Act expenditure threshold. In addition, the PA and HMG administrative plans were inconsistent with the Single Audit Act requirements. To meet the requirements of the Act, the grantee should have procedures for:

- Ensuring that audits are performed by subgrantees when required;
- Obtaining copies of the reporting packages or notifications, as appropriate, from the subgrantee;
- Reviewing the reporting packages received to identify financial reporting inconsistencies and reportable conditions related to the subgrantee; and,
- Issuing the required management decisions to ensure that appropriate corrective actions are taken.

Therefore, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that PA and HMG subgrantees comply

¹² The Single Audit Act, as amended, and OMB Circular A-133 require an audit if \$300,000 or more in Federal funds were expended in a Fiscal Year.

with the requirements under the Single Audit Act. More specifically, these procedures should ensure that TDEM:

1. Eliminates inconsistencies in future administrative plans and guidance sent to subgrantees,
2. Verifies that single audits are performed by PA and HMG subgrantees as required,
3. Receives and reviews reports from subgrantees,
4. Prepares management decisions, as required, when findings from the single audit relate to funds provided to the subgrantee by TDEM, and
5. Ensures that subgrantees take appropriate action to correct the conditions reported in Single Audit reports.

Management's Response

We concur with the recommendations. Our staff will review the PA and HMGP administrative plans to ensure that the State plans comply with the requirements of the Single Audit Act.

Target Date: September 15, 2004

Auditor's Additional Comment

The actions being taken by Regional Office and State management appear adequate to resolve the condition cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures.

ATTACHMENTS

**Sources and Applications of Funds
As of September 30, 2002**

Disaster Nos. 1041 thru 1434

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$375,443,037	\$298,230,622	\$160,908,049	\$834,581,708
Local Match/State Share	\$117,878,967	\$98,416,105	\$53,099,656	\$269,394,728
Total Award Amounts	\$493,322,004	\$396,646,727	\$214,007,705	\$1,103,976,436
Sources of Funds				
Federal Share (SMARTLINK)	\$215,400,795	\$288,959,773	\$72,313,426	\$576,673,994
Local Match/State Share	\$64,109,335	\$95,356,725	\$23,863,432	\$183,329,492
	\$279,510,130	\$384,316,498	\$96,176,858	\$760,003,476
Total Undrawn Authorizations	\$160,042,242	\$9,270,849	\$88,594,623	\$257,907,714
Application of Funds (Expenditures)				
Federal Share	\$215,400,795	\$288,959,773	\$72,313,426	\$576,673,994
Local Match/State Share	\$10,060,939	\$84,595,581	\$24,104,474	\$118,760,994
Total Application of Funds	\$225,461,734	\$373,555,354	\$96,417,900	\$695,434,988
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Attachment A-2

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1041
Declared October 18, 1994**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$19,887,565	\$27,825,027	\$19,573,093	\$67,285,685
Local Match/State Share	\$6,562,896	\$9,182,259	\$6,459,121	\$22,204,276
Total Award Amounts	\$26,450,461	\$37,007,286	\$26,032,214	\$89,489,961
Sources of Funds				
Federal Share (SMARTLINK)	\$19,887,565	\$27,825,027	\$18,525,957	\$66,238,549
Local Match/State Share	\$6,562,896	\$9,182,259	\$6,113,566	\$21,858,721
Total Sources of Funds	\$26,450,461	\$37,007,286	\$24,639,523	\$88,097,270
Total Undrawn Authorizations	\$0	\$0	\$1,047,136	\$1,047,136
Application of Funds (Expenditures)				
Federal Share	\$19,887,565	\$27,825,027	\$18,525,957	\$66,238,549
Local Match/State Share	\$0	\$0	\$6,175,319	\$6,175,319
Total Application of Funds	\$19,887,565	\$27,825,027	\$24,701,276	\$72,413,868
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Attachment A-3

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1056
Declared June 13, 1995**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share		\$1,138,862	\$237,640	\$1,376,502
Local Match/State Share		\$375,824	\$78,421	\$454,245
Total Award Amounts	\$0	\$1,514,686	\$316,061	\$1,830,747
Sources of Funds				
Federal Share (SMARTLINK)		\$1,138,862	\$130,286	\$1,269,148
Local Match/State Share		\$375,824	\$42,994	\$418,818
Total Sources of Funds	\$0	\$1,514,686	\$173,280	\$1,687,966
Total Undrawn Authorizations	\$0	\$0	\$107,354	\$107,354
Application of Funds (Expenditures)				
Federal Share		\$1,138,862	\$130,286	\$1,269,148
Local Match/State Share		\$0	\$43,427	\$43,427
Total Application of Funds	\$0	\$1,138,862	\$173,713	\$1,312,575
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1179
Declared July 7, 1997**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$5,919,240	\$1,238,054	\$1,599,706	\$8,757,000
Local Match/State Share	\$1,953,349	\$408,558	\$527,903	\$2,889,810
Total Award Amounts	\$7,872,589	\$1,646,612	\$2,127,609	\$11,646,810
Sources of Funds				
Federal Share (SMARTLINK)	\$5,910,261	\$1,238,054	\$1,585,267	\$8,733,582
Local Match/State Share	\$1,950,386	\$408,558	\$523,138	\$2,882,082
Total Sources of Funds	\$7,860,647	\$1,646,612	\$2,108,405	\$11,615,664
Total Undrawn Authorizations	\$8,979	\$0	\$14,439	\$23,418
Application of Funds (Expenditures)				
Federal Share	\$5,910,261	\$1,238,054	\$1,585,267	\$8,733,582
Local Match/State Share	\$0	\$0	\$528,422	\$528,422
Total Application of Funds	\$5,910,261	\$1,238,054	\$2,113,689	\$9,262,004
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1239
Declared August 26, 1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$8,320,945	\$4,479,167	\$4,502,655	\$17,302,767
Local Match/State Share	\$2,745,912	\$1,478,125	\$1,485,876	\$5,709,913
Total Award Amounts	\$11,066,857	\$5,957,292	\$5,988,531	\$23,012,680
Sources of Funds				
Federal Share (SMARTLINK)	\$8,318,877	\$4,479,167	\$3,600,759	\$16,398,803
Local Match/State Share	\$2,745,229	\$1,478,125	\$1,188,250	\$5,411,604
Total Sources of Funds	\$11,064,106	\$5,957,292	\$4,789,009	\$21,810,407
Total Undrawn Authorizations	\$2,068	\$0	\$901,896	\$903,964
Application of Funds (Expenditures)				
Federal Share	\$8,318,877	\$4,479,167	\$3,600,759	\$16,398,803
Local Match/State Share	\$262,547	\$1,421,958	\$1,200,253	\$2,884,758
Total Application of Funds	\$8,581,424	\$5,901,125	\$4,801,012	\$19,283,561
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1245
Declared September 23, 1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$7,681,357	\$1,864,976	\$2,471,117	\$12,017,450
Local Match/State Share	\$2,534,848	\$615,442	\$815,469	\$3,965,759
Total Award Amounts	\$10,216,205	\$2,480,418	\$3,286,586	\$15,983,209
Sources of Funds				
Federal Share (SMARTLINK)	\$6,775,094	\$1,862,720	\$2,082,960	\$10,720,774
Local Match/State Share	\$2,235,781	\$614,698	\$687,377	\$3,537,856
Total Sources of Funds	\$9,010,875	\$2,477,418	\$2,770,337	\$14,258,630
Total Undrawn Authorizations	\$906,263	\$2,256	\$388,157	\$1,296,676
Application of Funds (Expenditures)				
Federal Share	\$6,775,094	\$1,862,720	\$2,082,960	\$10,720,774
Local Match/State Share	\$1,350,331	\$644,827	\$694,320	\$2,689,478
Total Application of Funds	\$8,125,425	\$2,507,547	\$2,777,280	\$13,410,252
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1257
Declared October 21,1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$33,390,105	\$33,272,167	\$19,953,958	\$86,616,230
Local Match/State Share	\$11,018,735	\$10,979,815	\$6,584,806	\$28,583,356
Total Award Amounts	\$44,408,840	\$44,251,982	\$26,538,764	\$115,199,586
Sources of Funds				
Federal Share (SMARTLINK)	\$31,348,413	\$33,272,167	\$14,670,787	\$79,291,367
Local Match/State Share	\$10,344,976	\$10,979,815	\$4,841,360	\$26,166,151
Total Sources of Funds	\$41,693,389	\$44,251,982	\$19,512,147	\$105,457,518
Total Undrawn Authorizations	\$2,041,692	\$0	\$5,283,171	\$7,324,863
Application of Funds (Expenditures)				
Federal Share	\$31,348,413	\$33,272,167	\$14,670,787	\$79,291,367
Local Match/State Share	\$5,934,703	\$10,562,593	\$4,890,262	\$21,387,558
Total Application of Funds	\$37,283,116	\$43,834,760	\$19,561,049	\$100,678,925
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1274
Declared May 6, 1999**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$1,672,807	\$338,442	\$741,393	\$2,752,642
Local Match/State Share	\$552,026	\$111,686	\$244,660	\$908,372
Total Award Amounts	\$2,224,833	\$450,128	\$986,053	\$3,661,014
Sources of Funds				
Federal Share (SMARTLINK)	\$1,362,662	\$338,442	\$469,259	\$2,170,363
Local Match/State Share	\$449,678	\$111,686	\$154,855	\$716,219
Total Sources of Funds	\$1,812,340	\$450,128	\$624,114	\$2,886,582
Total Undrawn Authorizations	\$310,145	\$0	\$272,134	\$582,279
Application of Funds (Expenditures)				
Federal Share	\$1,362,662	\$338,442	\$469,259	\$2,170,363
Local Match/State Share	\$599,547	\$107,442	\$156,420	\$863,409
Total Application of Funds	\$1,962,209	\$445,884	\$625,679	\$3,033,772
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1287
Declared August 22, 1999**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,711,098	\$5,468,406	\$4,292,028	\$13,471,532
Local Match/State Share	\$1,224,662	\$1,804,574	\$1,416,369	\$4,445,605
Total Award Amounts	\$4,935,760	\$7,272,980	\$5,708,397	\$17,917,137
Sources of Funds				
Federal Share (SMARTLINK)	\$3,661,783	\$5,468,406	\$1,717,481	\$10,847,670
Local Match/State Share	\$1,208,388	\$1,804,574	\$566,769	\$3,579,731
Total Sources of Funds	\$4,870,171	\$7,272,980	\$2,284,250	\$14,427,401
Total Undrawn Authorizations	\$49,315	\$0	\$2,574,547	\$2,623,862
Application of Funds (Expenditures)				
Federal Share	\$3,661,783	\$5,468,406	\$1,717,481	\$10,847,670
Local Match/State Share	\$1,489,792	\$1,736,002	\$572,494	\$3,798,288
Total Application of Funds	\$5,151,575	\$7,204,408	\$2,289,975	\$14,645,958
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Attachment A-10

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1323
Declared April 7, 2000**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,939,938	\$611,521	\$710,805	\$5,262,264
Local Match/State Share	\$1,300,180	\$201,802	\$234,566	\$1,736,548
Total Award Amounts	\$5,240,118	\$813,323	\$945,371	\$6,998,812
Sources of Funds				
Federal Share (SMARTLINK)	\$3,236,300	\$611,521	\$436,212	\$4,284,033
Local Match/State Share	\$1,067,979	\$201,802	\$143,950	\$1,413,731
Total Sources of Funds	\$4,304,279	\$813,323	\$580,162	\$5,697,764
Total Undrawn Authorizations	\$703,638	\$0	\$274,593	\$978,231
Application of Funds (Expenditures)				
Federal Share	\$3,236,300	\$611,521	\$436,212	\$4,284,033
Local Match/State Share	\$15,931	\$341,884	\$145,404	\$503,219
Total Application of Funds	\$3,252,231	\$953,405	\$581,616	\$4,787,252
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1356
Declared January 8, 2001**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$39,639,228	\$1,000,000	\$1,112,948	\$41,752,176
Local Match/State Share	\$7,063,710	\$330,000	\$367,273	\$7,760,983
Total Award Amounts	\$46,702,938	\$1,330,000	\$1,480,221	\$49,513,159
Sources of Funds				
Federal Share (SMARTLINK)	\$39,129,780	\$980,027	\$42,892	\$40,152,699
Local Match/State Share	\$5,939,900	\$323,409	\$14,154	\$6,277,463
Total Sources of Funds	\$45,069,680	\$1,303,436	\$57,046	\$46,430,162
Total Undrawn Authorizations	\$509,448	\$19,973	\$1,070,056	\$1,599,477
Application of Funds (Expenditures)				
Federal Share	\$39,129,780	\$980,027	\$42,892	\$40,152,699
Local Match/State Share	\$408,088	\$573,587	\$14,297	\$995,972
Total Application of Funds	\$39,537,868	\$1,553,614	\$57,189	\$41,148,671
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1379
Declared June 9, 2001**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$237,092,882	\$205,994,000	\$100,832,720	\$543,919,602
Local Match/State Share	\$78,240,651	\$67,978,020	\$33,274,798	\$179,493,469
Total Award Amounts	\$315,333,533	\$273,972,020	\$134,107,518	\$723,413,071
Sources of Funds				
Federal Share (SMARTLINK)	\$95,546,859	\$199,745,380	\$29,051,566	\$324,343,805
Local Match/State Share	\$31,530,463	\$65,915,975	\$9,587,017	\$107,033,455
Total Sources of Funds	\$127,077,322	\$265,661,355	\$38,638,583	\$431,377,260
Total Undrawn Authorizations	\$141,546,023	\$6,248,620	\$71,781,154	\$219,575,797
Application of Funds (Expenditures)				
Federal Share	\$95,546,859	\$199,745,380	\$29,051,566	\$324,343,805
Local Match/State Share	\$0	\$65,155,186	\$9,683,855	\$74,839,041
Total Application of Funds	\$95,546,859	\$264,900,566	\$38,735,421	\$399,182,846
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1425
Declared July 4, 2002**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$14,187,871	\$15,000,000	\$4,879,986	\$34,067,857
Local Match/State Share	\$4,681,997	\$4,950,000	\$1,610,395	\$11,242,392
Total Award Amounts	\$18,869,868	\$19,950,000	\$6,490,381	\$45,310,249
Sources of Funds				
Federal Share (SMARTLINK)	\$223,201	\$12,000,000	\$0	\$12,223,201
Local Match/State Share	\$73,656	\$3,960,000	\$0	\$4,033,656
Total Sources of Funds	\$296,857	\$15,960,000	\$0	\$16,256,857
Total Undrawn Authorizations	\$13,964,670	\$3,000,000	\$4,879,986	\$21,844,656
Application of Funds (Expenditures)				
Federal Share	\$223,201	\$12,000,000	\$0	\$12,223,201
Local Match/State Share	\$0	\$4,052,102	\$0	\$4,052,102
Total Application of Funds	\$223,201	\$16,052,102	\$0	\$16,275,303
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Attachment A-14

**Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1434
Declared September 26, 2002**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$0	\$0	\$0	\$0
Local Match/State Share	\$0	\$0	\$0	\$0
Total Award Amounts	\$0	\$0	\$0	\$0
Sources of Funds				
Federal Share (SMARTLINK)	\$0	\$0	\$0	\$0
Local Match/State Share	\$0	\$0	\$0	\$0
Total Sources of Funds	\$0	\$0	\$0	\$0
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$0	\$0	\$0	\$0
Local Match/State Share	\$0	\$0	\$0	\$0
Total Application of Funds	\$0	\$0	\$0	\$0
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

List of Acronyms

CFR	Code of Federal Regulations
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
HMG	Hazard Mitigation Grant
IFG	Individual and Family Grant
IHP	Individuals and Households Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PAO	Public Assistance Officer
TDEM	Texas Division of Emergency Management
TDHS	Texas Department of Human Services

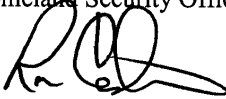
MANAGEMENT COMMENTS



FEMA

May 21, 2004

MEMORANDUM FOR: Tonda L. Hadley, Field Office Director
Department of Homeland Security Office of Inspector General

FROM: Ron Castleman 
Regional Director

SUBJECT: Response to Draft Audit Report
Grant Management: Texas' Compliance with Disaster Assistance
Program's Requirements

We have completed a review of the above referenced audit. Most of the findings in the audit reflect a need to improve records and reporting. In discussions between State and FEMA staff, we believe record keeping and progress reports are improving and that they will continue to improve significantly. Region VI will assist the State in this ongoing project.

Program reports often have not included financial data. We are encouraging the State to track finance at the sub-grantee level by including State finance staff in the program reporting process and to include this financial data with the program reports.

Our responses follow the "Conclusions and Recommendations" inserted from the audit report.

A. Financial Management

1. Financial Status Reporting

Conclusions and Recommendations:

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to:

1. Develop and implement tracking systems to accurately report the non-Federal share of PA and HMG program costs, and
2. Establish procedures to improve the agency's internal controls for the preparation, review, and approval of FSRs to ensure that current, accurate, and complete information is reported as required.

Region VI Response:

We concur with the recommendations. The State is currently developing various quarterly reporting worksheets for sub-grantee applicants to report expenditures for PA and HMGP costs. These will be included in the applicable administrative plans. We will work with the State to ensure they develop written procedures, guidelines, and/or checklists to implement the system and that they track the non-federal share.

Target Date: September 15, 2004

2. Use of Administrative Allowances

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require TDEM to:

3. Reimburse FEMA for the \$114,923 used by TDEM for unallowable administrative costs, and
4. Develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for extraordinary costs associated with the disaster program for which the funds were awarded.

Region VI Response:

We concur that \$114,923 are questionable costs. The State has relied on their interpretation of a November 22, 1990 memo to claim a right to use the funds without regard to FEMA policy or regulation. We have clarified that memo and insist on adherence to Federal regulation. A copy of each of these memos and letters is attached.

The \$70,215 used to pay salaries of State employees is not eligible as an administrative cost. If eligible, it should have been charged as a management cost. We will work with the State to correct that error and will transfer \$70,215 back to FEMA DR-1379.

The State will transfer \$23,080 back to DR-1379 for funds borrowed to pay the Texas Civil Air Patrol for the 2000 fire season.

We concur that the \$21,628 was used to pay travel expenses for disaster assistance programs for other disasters. The State has reimbursed the costs charged to DR-1379 by transferring administrative funds from DR-1425. Supporting documentation is enclosed.

Target Date: September 15, 2004

We will expect TDEM to develop and implement effective internal control procedures so that funds are used for the purpose granted.

Target Date: September 15, 2004

B. Program Management

1. PA Quarterly Progress Reporting

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require TDEM to:

3. Submit the required PA quarterly progress reports for all open projects until final payment is made, and
4. Evaluate the agency's current staffing level and determine if additional staff is needed, or other alternatives might exist, to ensure compliance with Federal requirements and to meet the demands of workloads created by newly declared disasters.

Region VI Response:

We partially concur with the recommendation. According to 44 CFR 206.204 (f), grantees are required to submit quarterly progress reports on projects that have not received final payment. However, 44 CFR 206.205 (a), states that funding for small projects is fixed and funds are to be made available as soon as the Project Worksheet is approved, regardless of final cost. Therefore the grantee is not required to report on small projects and, consequently, the State would have to report on large projects only.

In late March of this year, FEMA Region VI staff discussed the quarterly reporting requirements in 44 CFR 206.204 (f) and discussed how to use NEMIS for these reports. Regional staff trained State staff on providing the required information and on entering it into the NEMIS module quarterly.

The State has hired additional PA staff and auditors to assist with project monitoring, management, and closeout. There are now six (6) people devoted to this program plus one additional PA staff in the Houston 1379 office dedicated solely to that huge operation.

A copy of the most recent quarterly report and State guidance memorandum is also enclosed.

2. PA Project Closures

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, FEMA Region VI, require TDEM to develop and

implement procedures for closing individual projects as soon as possible after the work is completed rather than after P.4 Certifications are received. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is also applicable to this finding concerning the timeliness of PA project closures.

Region VI Response:

We concur with the recommendation. We believe that the previous delays and backlog with closing projects will improve with the recent hiring of additional PA staff. The lack of new disaster activity has allowed the State to train the new staff and to concentrate on the backlog. We will require adequate quarterly reports to monitor open projects and to implement closeout procedures as needed to ensure that individual projects are closed promptly.

3. PA Small Project Payments

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, FEMA Region VI, require TDEM to develop and implement procedures for improving the efficiency of the payment process for small projects. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is applicable to this finding concerning the timeliness of payments for small projects.

Region VI Response:

We concur with this recommendation. We will work with the State to develop and implement procedures that expedite the payments for small projects.

It is our understanding that the State PA staff requests payments from financial personnel promptly after small PWs are obligated. Thereafter, the payment process slows down, possibly because of the many levels of administration. With the increased number of PA staff, the State should be able to request payments promptly and track the payments more efficiently.

Target Date: September 15, 2004

4. IFG Program Closures

Conclusions and Recommendations

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that IFG program closeout packages are prepared and submitted in a timely manner in accordance with the Federal requirements.

Region VI Response:

We concur with this recommendation. The State has taken several steps to correct this problem. First, they hired additional auditors to address the auditing requirements of the large number of previous disasters. Second, they will remove auditors from the State Operations Center activation roster to ensure continuity in their day-to-day duties and allow them to meet audit deadlines. In addition, the audit supervisor will assign audits, with projected deadlines, to each auditor.

FEMA Region VI and the State will monitor the audit completion progress for the next three months. The State will adjust procedures accordingly.

Target Date: September 15, 2004

5. IFG Outstanding Checks

Conclusions and Recommendations

Accordingly, we recommend that the FEMA Regional Director, Region VI require TDEM to:

3. Develop and implement procedures to ensure that the Federal shares of outstanding checks for all open IFG programs are refunded to FEMA within 30 days, and
4. Refund to FEMA the \$38,218 Federal share of the outstanding checks identified for closed IFG programs.

Region VI Response:

We concur that the State must develop and implement procedures to return the Federal share of closed IFG programs in compliance with Federal regulations. The State has begun developing those procedures and FEMA Region VI will work with the State to ensure these procedures meet Federal regulations.

We concur that the State should refund the \$32,218 Federal Share for closed IFG programs and we will work with the State to recoup those funds.

Target Date: September 15, 2004

6. HMG Programs and Project Closures

Conclusions and Recommendations

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that HMG projects and programs are closed within the period established

by FEMA in June 2002. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirements (see Recommendation B.2.) is applicable to this finding concerning the timely closure of HMG programs and projects.

Region VI Response:

We concur with the recommendations. The State has not been closing individual projects under the grant. Since audit fieldwork was completed, TDEM has closed 2 HMGP grants (DR-1041 and DR-1239). HMGP grants funded under DR-1179 and DR-1245 were forwarded to TDEM auditors for closure in September 2003. When the TDEM audit is complete and the State requests that these be closed, we will finalize the closure.

In addition, FEMA issued a policy memo, dated June 18, 2002, "Guidance on Periods of Performance." In an effort to utilize HMGP grant funds more efficiently and effectively, the policy requires that all funds to subgrantees will be disbursed, and all activities completed, not later than three (3) years from the date of the grant award to the State. The State has been notified of this policy, which will further expedite the closeout process.

We will work with the State to develop and implement procedures to ensure that HMGP projects are closed within the appropriate period. We will request the State to evaluate their staffing needs and to staff at a level to meet closeout and reporting requirements.

Target Date: September 15, 2004

7. HMG Quarterly Progress Reporting

Conclusions and Recommendations

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that quarterly HMG progress reports comply with Federal requirements. In addition, the recommendation concerning staffing options for meeting PA quarterly reporting requirement (see Recommendation B.2.) is applicable to this finding concerning the submission of HMG quarterly reports.

Region VI Response:

We concur with the recommendation. We are working with the State to develop an appropriate electronic quarterly report format to capture the necessary information. The State is now using a version of the current report and is current with their quarterly report (copy of most recent report attached). We will work with the State to continue revising the report format until it captures the information needed for the quarterly reports.

Target Date: September 15, 2004

8. HMG Project Approvals

Conclusions and Recommendations

Accordingly, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that HMG application packages include all required information.

Region VI Response:

We concur with this recommendation. FEMA is working with contractors to develop a checklist for States and FEMA to use to review structural projects. The State should provide this checklist to subgrant applicants in preparing applications.

We will request the State to use this checklist or to develop other adequate procedures.

Target Date: September 15, 2004

9. Single Audit Act Requirements

Conclusions and Recommendations

Therefore, we recommend that the FEMA Regional Director, Region VI, require TDEM to develop and implement procedures to ensure that PA and HMG subgrantees comply with the requirements under the Single Audit Act. More specifically, these procedures should ensure that TDEM:

6. Eliminates inconsistencies in future administrative plans and guidance sent to subgrantees,
7. Notifies that single audits are performed as required,
8. Receives and reviews reports from subgrantees,
9. Prepares management decisions, as required, when findings from the single audit relate to funds provided to the sub-grantee by TDEM, and
10. Ensures that subgrantees take appropriate action to correct the conditions reported in Single Audit reports.

Region VI Response:

We concur with the recommendations. Our staff will review the PA and HMGP administrative plans to ensure that the State plans comply with the requirements of the Single Audit Act.

Target Date: September 15, 2004

THE REGIONAL RESPONSE INCLUDED SEVERAL ATTACHMENTS. WE DID NOT INCLUDE THESE AS PART OF THE REPORT. HOWEVER, THEY CAN BE REQUESTED FROM THE DHS-OIG, OFFICE OF AUDITS.