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

September 15, 2004

MEMORANDUM FOR: David I. Maurstad
Regional Director, FEMA Region VIII

Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Grant Management: Utah's Compliance With Disaster Assistance Program's Requirements*
Audit Report Number DD-17-04

This memorandum transmits the results of the subject audit performed by KPMG LLP, an independent accounting firm under contract with the Office of Inspector General (OIG). In summary, KPMG LLP determined that, for the most part, Utah's Division of Emergency Services and Homeland Security (DES) effectively managed FEMA's disaster assistance programs in accordance with federal requirements. However, as indicated by the reported findings, some weaknesses in internal controls and noncompliance situations were identified.

On September 1, 2004, your staff informed the OIG that because of staff workload both at the Regional and State offices, as well as disaster deployments, the Region would not be providing a written response. In addition, your staff indicated that Regional and State officials intended to develop a response by the end of October.

The OIG requests your written comments on the final report and specific responses to each recommendation. Your written response should consider actions taken or to be taken by the State of Utah on the recommendations contained in the report. As you consider actions taken or planned by the State, please specify actual or target completion dates in your response.

We would like to thank your staff and the DES staff for the courtesies extended to the auditors during their fieldwork. Should you have any questions concerning this report, please contact Paige Hamrick or me at (940) 891-8900.

cc: Ms. Jeanine Petterson, Audit Coordinator, Region VIII
Mr. Hans Gude, KPMG LLP
Ms. Martha Barksdale, Project Officer/COTR

Table of Contents

Acronyms Used in this Report

CFR .... Code of Federal Regulations
CTR .... Cash Transaction Report
DES .... Utah Division of Emergency Services and Homeland Security
DHS .... Department of Homeland Security
DRM .... Disaster Recovery Manager
DSR .... Damage Survey Report
EOC .... Emergency Operations Center
FCO .... Federal Coordinating Officer
FEMA .... Federal Emergency Management Agency
FRC .... Federal Regional Center
FSR .... Financial Status Report
GAR .... Governor's Authorized Representative
HM .... Hazard Mitigation
IFG .... Individual and Family Grant
NEMIS .... National Emergency Management Information System
NFIP .... National Flood Insurance Program
OFM .... Office of Financial Management
OIG .... Office of Inspector General
OMB .... Office of Management and Budget
PA .... Public Assistance
PDA .... Preliminary Damage Assessment
PNP .... Private Non-Profit
PW .... Project Worksheet
RPA .... Request for Public Assistance
SBA .... Small Business Administration
SCO .... State Coordinating Officer
SFHA .... Special Flood Hazard Area
USC .... United States Code

I. Executive Summary

KPMG LLP HAS COMPLETED ITS AUDIT of the State of Utah's administration of federal disaster assistance grant programs for the federal fiscal year ending September 30, 2002. The objective of this audit was to determine whether the state (the grantee):

- Administered these programs in accordance with applicable federal regulations,
- Properly accounted for and expended federal funds, and
- Submitted accurate financial reports.

This report focuses on the systems and procedures used by the grantee to comply with these regulations, including the *Stafford Act* and "Title 44" of the *Code of Federal Regulations* (44 CFR).

Our audit addressed three disaster assistance programs: the Public Assistance (PA) program, the Hazard Mitigation (HM) program, and the Individual and Family Grant (IFG) program. The scope of the audit was limited to one Presidential disaster declaration (Table 1 in Section III). Further, our testing was limited to those programs that were open during the period of our review, October 1, 2001, through September 30, 2002. The federal share of total funds obligated and expended for the audited disaster through September 30, 2002, was $628,672 (see attachment V-A, Sources and Application of Funds).

The audit concluded that the State of Utah, for the most part, effectively managed FEMA's disaster assistance programs in accordance with Federal requirements. However, as indicated by the reported findings, some weaknesses in internal controls and noncompliance situations were identified.

The following paragraphs summarize each of the findings we identified during our review. We have categorized these findings as being either *program management* or *financial management* related. A more detailed discussion of each finding may be found in Section IV of this report.

A. Program Management

Summary findings related to program management follow.

- **Finding 1—**There was no evidence that DES adequately monitored PA projects.
- **Finding 2—**The administrative plans for the PA, HM, and IFG programs contained some inadequate procedures and were missing other important procedures.

- **Finding 3—**DES did not submit quarterly reports to FEMA under the PA program.

B. Financial Management

Summary findings related to financial management follow.

- **Finding 4—**DES did not provide adequate support documentation for PA management grant expenditures.
- **Finding 5—**DES did not support expenditures under the administrative allowances awarded for both the PA and HM programs.
- **Finding 6—**DES did not make payments for small projects in a timely manner.
- **Finding 7—**DES did not require adequate support documentation for expenditures under the PA program.
- **Finding 8—**DES did not adequately document expenditures on the financial status reports.

C. Utah Division of Emergency Services and Homeland Security Comments

As part of our audit we requested that responsible management officials from the FEMA regional office provide comments on the findings in our report. Because of staff workload both at the regional and state offices, as well as disaster deployments, the Region did not provide a written response. However, Regional and State officials intend to develop a response by the end of October.

D. Report Attachments

This report contains the following attachments (see Section V, Attachments):

- Sources and Application of Funds
- List of Other Audit Reports and Internal Control Reviews

II. Introduction

STATE AND LOCAL GOVERNMENTS SHARE THE RESPONSIBILITY for protecting their citizens from disasters and for helping them to recover when a disaster strikes. In some cases, a disaster is beyond the capabilities of a state or local government to respond. In 1988, the Stafford Act was enacted to support state and local governments and their citizens when disasters overwhelm them. This law, as amended, established a process for requesting and obtaining a Presidential disaster declaration, defined the type and scope of assistance available from the federal government, and set the conditions for obtaining that assistance. FEMA is tasked with coordinating the response.

A. FEMA's Role in Disaster Assistance

Under the Stafford Act, a governor may request that the President declare a major disaster or an emergency if an event is beyond the combined response capabilities of the state and affected local governments. Based upon the findings of a joint federal, state, and local preliminary damage assessment (PDA) indicating the damages are of sufficient severity and magnitude to warrant assistance under the Stafford Act, the President may grant a major disaster or emergency declaration.

No direct federal assistance is authorized before a Presidential declaration. However, FEMA can use limited pre-declaration authorities to move initial response resources—i.e., critical goods typically needed in the immediate aftermath of a disaster such as food, water, emergency generators, and emergency teams—closer to potentially affected areas. FEMA also can activate essential command-and-control structures to lessen or avert the effects of a disaster and to improve the timeliness of disaster operations. Additionally, when an incident poses a threat to life and property that cannot be effectively dealt with by the state or local governments, FEMA may request the Department of Defense to mobilize its resources before a declaration to perform any emergency work "essential for the preservation of life and property" under the Stafford Act.

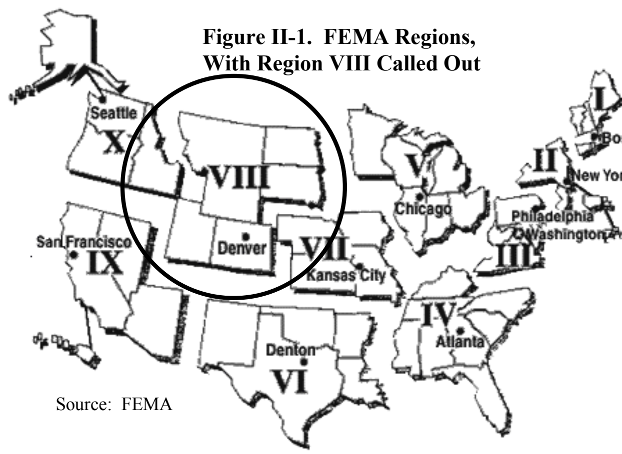
Following a declaration, the President may direct any federal agency to use its authority and resources in support of state and local assistance to the extent that provision of the support does not conflict with other agency emergency missions. This authority has been further delegated to the FEMA Director, the FEMA Associate Director (Response and Recovery), the FEMA Regional Director, and the Federal Coordinating Officer (FCO). The FEMA Director, on behalf of the President, appoints an FCO, who is responsible for coordinating the timely delivery of federal disaster assistance to the affected state, local governments, and disaster victims.

In many cases, the FCO also serves as the Disaster Recovery Manager (DRM) to administer the financial aspects of assistance authorized under the Stafford Act. The FCO works closely with the State Coordinating Officer (SCO), appointed by the Governor to oversee disaster operations for the state, and the Governor's Authorized Representative (GAR), empowered by the Governor to execute all necessary documents for disaster assistance on behalf of the state.

The state must commit to pay a share of the cost to receive certain types of federal assistance under the Stafford Act. In extraordinary cases, the President may choose to adjust the cost share or waive it for a specified time period. The Presidential declaration notes any cost share waiver, and a FEMA–State Agreement is signed, further stipulating the division of costs among federal, state, and local governments as well as other conditions for receiving assistance.

FEMA's Region VIII provides the majority of the assistance for the State of Utah (figure II-1). Region VIII also administers the federal emergency preparedness, damage prevention, and response and recovery programs for the states of Colorado, Montana, North Dakota, South Dakota, and Wyoming. FEMA Region VIII is headquartered at the Federal Regional Center (FRC) in Denver, Colorado.

Figure II-1. FEMA Regions, With Region VIII Called Out



Source: FEMA

B. Federal Laws, Rules, and Regulations Governing Disaster Assistance

The primary federal laws, rules, and regulations governing disaster assistance and federal grant management are listed below.

- **The Stafford Act –** Congress enacted this act to provide an orderly and continuing means of assistance by the federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage that result from disasters. The act calls for:
  - Revising and broadening the scope of existing disaster relief programs;
  - Encouraging the development of comprehensive disaster preparedness and assistance plans, programs, capabilities, and organizations by the states and by local governments;
  - Achieving greater coordination and responsiveness of disaster preparedness and relief programs;

- Encouraging individuals, states, and local governments to protect themselves by obtaining insurance coverage to supplement or replace governmental assistance;
- Encouraging hazard mitigation measures to reduce losses from disasters, including development of land use and construction regulations; and
- Providing federal assistance programs for both public and private losses sustained in disasters.

- **44 CFR, *Emergency Management and Assistance* –** 44 CFR contains rules, policies, and procedures issued by FEMA in the form of regulations that are applicable to, among other things, the implementation and administration of federal disaster assistance programs by FEMA.

- **Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* –** This circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments.

- **OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* –** This circular establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state, local, and federally recognized Indian tribal governments.

- **OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* –** This circular was issued pursuant to the Single Audit Act of 1984, Public Law 98–502, and the Single Audit Act Amendments of 1996, Public Law 104–156. It sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal award funds.

C. FEMA Disaster Assistance Programs Subject to Audit

As noted earlier, our audit was limited to the following three programs and their administrative costs, which are described in this section:

- Public Assistance,
- Hazard Mitigation, and
- Individual and Family Grant.
- Program Administrative Costs

Public Assistance Program

The PA program, authorized under section 406 of the Stafford Act, is oriented to public entities and can fund the repair, restoration, reconstruction, or replacement of public infrastructure damaged or destroyed by a disaster. Eligible applicants include state governments, local governments, and any other political subdivision of the state, Native American tribes, and Alaska Native Villages.

Certain private non-profit (PNP) organizations may also receive assistance. Eligible PNPs include educational, utility, irrigation, emergency, medical, rehabilitation, and temporary or permanent custodial care facilities, as well as other PNP facilities that provide essential services of a governmental nature to the general public. PNPs must first apply to the Small Business Administration (SBA) for a disaster loan. If the PNP is declined for an SBA loan, or the loan does not cover all eligible damages, the applicant may reapply for FEMA assistance.

As soon as practicable after the declaration, the state, assisted by FEMA, conducts the applicant briefings for state, local, and PNP officials to inform them of the assistance available and how to apply for it. A Request for Public Assistance (RPA) must be filed with the state within 30 days after the area is designated eligible for assistance. Following the applicant briefing, a kickoff meeting is conducted where damages will be discussed, needs assessed, and a plan of action put in place.

A combined federal, state, and local team proceeds with project formulation, which is the process of documenting the eligible facility, the eligible work, and the eligible cost for fixing the damages to every public or PNP facility identified by state or local representatives. To be eligible for PA program funding, the work must be required as the result of the disaster, be located within the designated disaster area, and be the legal responsibility of an eligible applicant. Work that is eligible for federal disaster grant assistance is classified as either emergency work or permanent work. The team then prepares a project worksheet (PW) for each project. Projects fall into the following categories:

- Category A: Debris removal,
- Category B: Emergency protective measures,
- Category C: Road systems and bridges,
- Category D: Water control facilities,
- Category E: Public buildings and contents,
- Category F: Public utilities, and
- Category G: Parks, recreational, and other.

For insurable structures within special flood hazard areas (SFHA), primarily buildings, assistance from FEMA is reduced by the amount of insurance settlement that could have been obtained under a standard National Flood Insurance Program (NFIP) policy. For structures located outside of a SFHA, FEMA will reduce the amount of eligible assistance by any available insurance proceeds.

FEMA reviews and approves the PWs and obligates the federal share of the costs, which cannot be less than 75 percent, to the state. The state then disburses funds to local applicants. Projects falling below a certain threshold are considered "small." The threshold is adjusted annually for inflation. For fiscal year 1999 (applicable to the disaster KPMG audited), that threshold was $47,800. For small projects, payment of the federal share of the estimate is made upon approval of the project, and no further accounting to FEMA is required (except certification that the project was completed in accordance with FEMA approvals).

For large projects, payment is made on the basis of actual costs determined after the project is completed, although interim payments may be made as necessary. Once FEMA obligates funds to the state, further management of the assistance, including disbursement to subgrantees, is the responsibility of the state. FEMA will continue to monitor the recovery progress to ensure the timely delivery of eligible assistance and compliance with the laws and regulations.

Hazard Mitigation Grant Program

The HM grant program, authorized under section 404 of the Stafford Act, allows communities to apply for mitigation funds through the state. Hazard mitigation refers to sustained measures enacted to reduce or eliminate long-term risk to people and property from natural hazards and their effects. In the long term, mitigation measures reduce personal loss, save lives, and reduce the cost to the nation of responding to and recovering from disasters. When a federal disaster has been declared, the federal government can provide up to 75 percent of the cost of this mitigation work, with some restrictions.

The state, as grantee, is responsible for notifying potential applicants of the availability of funding, defining a project selection process, ranking and prioritizing projects for funding, and forwarding projects to FEMA for approval. The applicant, or subgrantee, carries out approved projects. The state or local government must provide at least a 25 percent cost share, which can be fashioned from a combination of cash and in-kind sources. Federal funding from other sources cannot be used for the non-federal share, with some exceptions, such as funding provided to states under the Community Development Block Grant program from the Department of Housing and Urban Development.

The amount of funding available for the HM grant program under a disaster declaration is finite and limited to 15 percent of FEMA's estimated total disaster costs for all other categories of assistance, less administrative costs. In addition, states may use a set-aside of up to 5 percent of the total HM grant program funds available for mitigation measures at their discretion. To be eligible, a set-aside project must be identified in a state's hazard mitigation plan and fulfill the goal of the HM grant program.

Eligible mitigation measures under the HM grant program include acquisition or relocation of property located in high hazard areas, elevation of flood-prone structures, seismic rehabilitation of existing structures, strengthening of existing structures against wildfire, and flood proofing activities that bring a structure into compliance with minimum NFIP requirements and state or local code. Up to 7 percent of the HM grant program funds may be used to develop state or local mitigation plans.

All HM grant program projects, including set-aside projects, must comply with the National Environmental Policy Act and all relevant Executive Orders. HM grant program funds cannot be given for acquisition, elevation, or construction if the site is located in a designated SFHA, and the community is not participating in the NFIP. FEMA's primary emphasis for HM grant program funds, where appropriate, is the acquisition and demolition, relocation, elevation, or flood proofing of flood-damaged or flood-prone properties.

Individual and Family Grant Program

The IFG program, authorized by section 411 of the Stafford Act, provides funds for the necessary expenses and serious needs of disaster victims that cannot be met through insurance or other forms of disaster assistance, including low interest loans from the SBA. The maximum amount of each grant is annually adjusted to reflect changes in the Consumer Price Index. For fiscal year 1999, each individual or family may receive up to $13,600 through the IFG program.

Among the needs that can be met through the IFG program are housing, personal property, medical, dental, funeral, transportation, and required flood insurance premiums. To obtain assistance, applicants may be required to apply to the SBA for a disaster loan. If the SBA determines the applicant to be ineligible for a loan, or if the loan amount is insufficient, the applicant is referred to the IFG program. The state administers the program and pays 25 percent of the grant amount; the federal government provides the remaining 75 percent. The Governor may request a loan for the state's share.

IFG recipients who live in SFHAs and receive assistance as the result of flood damages to their home or personal property are provided flood insurance coverage for 37 months under a NFIP group flood insurance policy. The 37-month coverage is at no cost to the grantee and includes a $200 deductible applicable separately to real property, structure, and personal property.

This flood insurance must be kept active forever on property that is owned, or for as long as renters live in the flood-damaged rental unit, if those individuals are to receive federal assistance for any future flood-related losses to insurable real or personal property**.**

Program Administrative Costs

In addition to funds available from FEMA for the programs listed above, there are also funds provided for the administrative costs associated with managing the grants and programs. These costs are broken into the three categories described below:

- **Management Grants**
- **Administrative Allowances**
- **Indirect Costs**

Management Grants

Management grants may be filed under the PA and HM programs. Management grants may only be filed by the Grantee and are to cover actual costs incurred for the management and oversight of the programs. Costs eligible under management grants are for employees regular time hours spent working on the grant programs. These costs are to be tracked and accounted for in accordance with 44CFR 13.20 and OMB Circular A-87.

Administrative Allowances

In addition to the management grants available to the state for program administration, FEMA also provides an administrative allowance. This allowance is available for all three grant programs (PA, HM, and IFG) and is calculated as a percentage of the federal share of funding for that program. The grantee admin allowance is to cover the extraordinary costs that are incurred in preparation of applications, quarterly reporting, final audits, and other related fieldwork by state employees. Extraordinary costs are costs associated with overtime pay, per diem and travel expenses but not for regular time pay for State employees. Administrative costs for the IFG program are limited to 5% of the total federal share of the program. The percentages used to calculate the grantee administrative allowance for PA and HM are shown below:

- For the first $100,000 of total assistance provided (Federal share), three percent of such assistance.
- For the next $900,000, two percent of such assistance.
- For the next $4,000,000, one percent of such assistance.
- For assistance over $5,000,000, one-half percent of such assistance.

Indirect costs

Indirect costs can also be included in costs claimed under the management grant. These are costs that cannot be assigned to a particular program or function but are rather an overhead cost spread through all functions of an organization. Some examples of indirect costs are: building costs, utilities, administrative costs like payroll and accounting etc. The costs are added to the management grant usually expressed as a percentage. In order for an organization to claim indirect costs, they have to prepare and have approved an indirect cost rate plan.

D. State Department Responsible for Administering Disaster Programs

The state department responsible for the administration of emergency management services is the Department of Public Safety, which includes the following divisions:

- Bureau of Criminal Identification
- Communications Bureau (Dispatch)
- **Emergency Services and Homeland Security**
- State Bureau of Investigation
- Drivers License Division
- Fire Marshal's Office
- Forensic Services (Crime Lab)
- Highway Safety
- Peace Officer Standards and Training
- Utah Highway Patrol
- Utah Police Corp

The Division of Emergency Services and Homeland Security (DES) is responsible for managing the PA, HM, and IFG programs. For the tornado disaster subject to this audit, the Utah Division of Workforce Services administered the IFG program.

III. Objectives, Scope, and Methodology

THIS SECTION DESCRIBES THE AUDIT OBJECTIVES, the scope of the audit, and the methodology used to carry out the work.

A. Objectives

The Department of Homeland Security (DHS), Office of Inspector General (OIG), engaged KPMG to determine whether the State of Utah (the grantee):

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and other applicable federal regulations, functioning appropriately to fulfill its responsibilities;
- Properly accounted for and expended FEMA disaster assistance funds; and
- Submitted accurate financial reports.

B. Scope

The scope of our audit was limited to three disaster assistance programs:

- Public Assistance,
- Hazard Mitigation, and
- Individual and Family Grant.

KPMG was requested to review one disaster as identified in the Table III-1. Our testing was limited to those programs that were open during the period of our review: October 1, 2001, through September 30, 2002.

Our audit scope did not include interviews with subgrantees (local governments or PNPs) or subrecipients (individuals). Nor did it include technical evaluations of the repairs of damages caused by the disasters.

Table III-1. Disaster and Programs Reviewed

Disaster Number	Type of Disaster	Date Declared	PA Program	HM Grant Program	IFG Program
1285	Tornado	08/16/99	**X**	**X**	**X**

X – Indicates that the program was open at the time of our review. However, this does not necessarily mean there was financial activity during that time.

KPMG Did Not Conduct a Financial Statement Audit, or an Audit in Accordance with OMB Circular A-133

KPMG LLP was not engaged to, and did not, perform a "financial statement audit," the objective of which would be to express an opinion on the financial statements. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of this audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters may have come to our attention that would have been reported. This report relates only to the accounts and items specified. This report does not extend to any financial statements of the State of Utah or DES and should not be used for that purpose. Nor does this work entail an audit in accordance with OMB Circular A-133.

C. Methodology

We carried out our audit steps and procedures in accordance with the OIG's *Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs*, dated March 2001. The audit guide included audit steps and procedures for audit planning and fieldwork.

We conducted our fieldwork primarily at two locations. Initial fieldwork began with an entrance conference at Region VIII in Denver on July 7, 2003. The majority of our fieldwork was performed at DES headquarters in Salt Lake City, Utah.

Evidence

The evidence we collected during our review may be categorized as physical, documentary, testimonial, or analytical. Each of these is discussed below.

Physical Evidence—Physical evidence for this audit was obtained by our direct inspection or observation of people, property, or events. Such evidence for this audit was primarily isolated to our physical inspection of property—i.e., fixed assets—maintained by DES.

Documentary Evidence—Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. The majority of our evidence was documentary. Documentary evidence for this audit included the following:

- Rules and regulations governing the disaster assistance grant programs under review;
- Organization charts and background information on Region VIII and DES;
- Various program correspondence files, project files, and program/project reports;
- Presidential disaster declarations, FEMA–State Agreements, and state administrative plans;
- FSRs and CTRs;
- Various financial systems and their reports of both Region VIII and DES;
- Various financial records of DES (e.g., journal entries, program disbursement approvals; revenue receipts [deposits]; purchase orders, requisitions, warrants; etc.);
- Various financial statement audit reports, schedule of federal financial assistance audit reports, internal control reviews and certifications, cost plans, etc., of DES; and
- Supporting documentation necessary to gain an understanding of the control environment of DES.

As discussed earlier, we reviewed audit reports and internal control reviews and certifications that we believed to be relevant to understanding the control environment at DES. Attachment C contains a list of audit and internal control reports KPMG reviewed as part of this audit.

Testimonial Evidence—Testimonial evidence is obtained through inquiries, interviews, or questionnaires. For this review we interviewed several senior-level individuals at both Region VIII and DES that had program and financial management responsibilities.

Analytical Evidence—Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments. For this evaluation we analyzed the following:

- The financial reporting process to Region VIII by DES;
- Cash management procedures, i.e., a comparison of drawdowns to disbursements, the advancing of funds, etc.;

- Comparison of how certain rules and regulations were implemented by Region VIII and DES;
- Whether cost share requirements were met; and
- Program and financial management compliance/transaction testing.

Criteria

Criteria are standards used to determine whether a program met or exceeded expectations. Our criteria were based on what was reasonable, attainable, and relevant to the areas subject to audit. Our criteria for this review included the following:

- Specific rules and regulations as prescribed by the Stafford Act and Title 44 of the CFR;
- Guidelines, policies, and procedures as issued by FEMA in the administration of grant programs;
- State of Utah rules, regulations, policies, and procedures;
- DES's programs rules, regulations, policies, and procedures associated with the administration of their various grant programs; and
- Observations from other related audits we have conducted.

Sampling and Testing

Our sampling and testing work included the following:

- A representative sample of expenditure transactions for all three grant programs was selected and testing was performed to determine whether these transactions were supported by the appropriate documents;
- A representative sample of drawdown transactions for all three grant programs was selected, and testing was performed to determine whether these transactions were supported by the appropriate documents;
- A representative number of small and large PA program projects was tested for various compliance requirements, such as statutory completion deadlines, timeliness of payments, status reporting, eligibility of costs, and availability of support documentation;
- A sample of federally funded HM grant program project files was tested for various compliance requirements, such as statutory completion deadlines, timeliness of payments, eligibility of costs, status reporting, consideration of environmental factors, compliance with approved mitigation plan (409 plan), and availability of support documentation;

- A number of rejected and approved HM grant program projects was tested for various compliance requirements, such as justification for rejection and timely notification of subgrantee of determination;

- A representative sample of "management grant" expenditure transactions for the PA program and HM program was selected, and testing was performed to determine whether these transactions were supported by the appropriate documents; and

- A sample of IFG program payments was tested for timeliness and sufficiency of supporting documents.

Standards

Our audit was performed in accordance with the standards defined in the Government Auditing Standards (the *Yellow Book*) issued by the Comptroller General of the United States. In addition, the Department of Homeland Security, Office of Inspector General, provided an audit guide and report format for use in carrying out this work. These two client-provided documents identified the audit steps we were required to follow as well as the format and content of this report.

IV. Findings and Recommendations

THIS SECTION PRESENTS OUR FINDINGS under the headings of "program management" and "financial management." As noted in the executive summary, we requested that responsible management officials from the FEMA regional office provide comments on the findings in our report. Because of staff workload both at the regional and state offices, as well as disaster deployments, the Region did not provide a written response. However, Regional and State officials intend to develop a response by the end of October.

The following list summarizes the findings that follow:

Program Management:

1. There was no evidence that DES adequately monitored PA projects.
2. The administrative plans for the PA, HM, and IFG programs contained some inadequate procedures and were missing other important procedures.
3. DES did not submit quarterly reports to FEMA under the PA program.

Financial Management:

4. DES did not provide adequate support documentation for PA management grant expenditures.
5. DES did not support expenditures under the administrative allowances awarded for both the PA and HM programs.
6. DES did not disburse federal funds to subgrantees in a timely manner.
7. DES did not require adequate support documentation for expenditures under the PA program.
8. DES did not adequately document expenditures on the financial status reports.

A. Program Management Findings

Finding 1 – There Was No Evidence That DES Adequately Monitored PA Projects

For the large projects reviewed, KPMG did not find evidence of project monitoring in the form of memos-to-file, e-mail correspondence, letter correspondence, telephone logs, or trip reports. Owing to a lack of evidence that monitoring was carried out, KPMG concludes that DES did not adequately monitor projects under the PA program.

According to 44 CFR 13.40(a), *Monitoring by grantees,* grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor these activities to assure that subgrantees comply with applicable federal requirements and that performance goals are achieved

Without adequate monitoring, DES may not be prepared to provide systematic oversight of subgrantee project progress and to identify potential problems. Moreover, failure to conduct site visits may permit ineligible costs to be incurred or project problems to go unreported or undetected.

DES does not have written procedures for grantee monitoring of subgrantee project performance, either in the PA administrative plan or in the applicant briefing materials. Moreover, DES does not require subgrantees to submit quarterly status reports on which to base grantee reports to the region. DES appears to rely on informal oversight methods in the form of ad hoc telephone and e-mail communications with subgrantees.

KPMG recommends that the Regional Director require DES to develop and implement systematic procedures for monitoring subgrantee project progress. Procedures should identify requirements by type of project (e.g., construction projects should include different levels of on-site reviews than non-construction projects). Procedures should also identify milestones for required actions (e.g., at initiation, mid-point, and closeout), and identify forms for use in documenting monitoring actions (inspection reports, telephone conversation logs, etc.).

Finding 2 – The Administrative Plans for the PA, HM, and IFG Programs Contained Some Inadequate Procedures and Were Missing Other Important Procedures

The administrative plans for the three programs reviewed contained some inadequate procedures and were missing other important procedures, as further described below.

- The PA administrative plan approved September 8, 1999, contained the following inadequate or missing procedures:
  - *Identifying the sources of staff to fill program management functions*;
  - *Indicating the management and oversight responsibilities of each function; and*
  - *Determining staffing and budgeting requirements necessary for proper program management*.
- The HM administrative plan dated November 1999 contained the following inadequate or missing procedures:
  - *Providing technical assistance as required to subgrantees;*

- *Complying with the administrative requirements of 44 CFR, Part 13,* Uniform administrative requirements for grants and cooperative agreements to state and local governments, *and Part 206*, Federal disaster assistance for disasters declared on or after November 23, 1988*; and*
- *Complying with audit requirements of 44 CFR, Part 14*.

■ The IFG administrative plan dated August 1999 contained inadequate or missing procedures related to the following requirements:

- *Notifying potential grant applicants of the availability of the program, to include the publication of application deadlines, pertinent program descriptions, and further program information on the requirements which must be met by the applicant in order to receive assistance;*
- *Determining applicant eligibility and grant amounts, and notifying applicants of the state's decision;*
- *Determining the requirement for flood insurance;*
- *Preventing duplication of benefits between grant assistance and assistance from other means;*
- *At the applicant's request, and at the state's option, reconsidering the State's determinations;*
- *Processing applicant appeals;*
- *Disbursing grants in a timely manner; and*
- *Verifying by random sample that grant funds are meeting applicants' needs, are not duplicating assistance from other means, and are meeting floodplain management and flood insurance requirements.*

According to 44 CFR 206.207(b), *State administrative plan,* the PA administrative plan must include descriptions of 19 procedures. For the HM program, 44 CFR 206.437, *State administrative plan,* identifies 16 procedures that must be included in the administrative plan. Finally, for the IFG program, 44 CFR 206.131(e), *State administrative plan,* identifies 16 procedures the state must include in the IFG administrative plan.

Incomplete administrative plans force DES to rely on the institutional knowledge of one or more staff to carry out the programs. In the event those individuals are not available, applicant grant monitoring may deteriorate as new staff attempt to implement the program with minimal guidelines. Finally, without specific written procedures and performance measures, grant administration may be inconsistent.

DES does not view the administrative plans as the definitive procedures for how its organization carries out the programs, but rather as an administrative requirement to satisfy FEMA. In the auditor's opinion, the region then approves the plans without requiring adequate detail behind the 44 CFR-required procedures. As a result, the documents become largely a checklist indicating that DES will undertake certain activities, without describing how those activities will be carried out.

KPMG recommends that, in the event of a future disaster, the Regional Director require DES to update the administrative plans to include the detailed procedures (steps) it will carry out to meet the requirements specified in the CFR for each program.

Finding 3 – DES Did not Submit Quarterly Reports to FEMA Under the PA Program

In reviewing files at both the region and state, KPMG did not find evidence that DES complied with the quarterly reporting requirement for all PA projects.

According to 44 CFR 13.40, *Monitoring and reporting program performance*, and Section 206.204(f), *Progress reports,* grantees are required to submit quarterly progress reports to the Regional Director. The reports must describe the status of projects on which a final payment of the federal share has not been made to the grantee. The reports must outline any problems or circumstances expected to result in noncompliance with the approved grant conditions.

The region relies on quarterly status reports as its principal management tool to make necessary approvals, obligations, and deobligations. By failing to provide quarterly reports to FEMA, DES denies FEMA this important tool for managing its federal disaster grants. Moreover, because the region is overseeing multiple states, it loses efficiency in managing its complete portfolio of grants by having to resort to other, more time-consuming, actions to obtain information that should be available routinely in report form.

DES does not have written procedures for monitoring subgrants. Rather, it relies on informal oversight methods in the form of ad hoc conversations with subgrantees. This approach does not permit DES to track progress of projects systematically and to communicate that information to FEMA as required. Also, DES does not require that subgrantees submit quarterly progress reports.

KPMG recommends that the Regional Director require DES to develop procedures for preparing and submitting status reports to FEMA. The reports should identify approved funds, payments to date, status of work, and potential delays. To obtain information for its reports, DES may wish to require subgrantees to submit quarterly reports to the state. Quarterly reports to the state should not, however, be passed simply through to FEMA; rather, the information from individual subgrantee reports should be consolidated onto the state's quarterly report, and then submitted to FEMA.

B. Financial Management Findings

Finding 4 – DES Did not Provide Adequate Support Documentation for PA Management Grant Expenditures

We reviewed the files for management grant expenditures claimed under Project Worksheet (PW) 28 to determine if timesheets, invoices, and other documentation supported the costs claimed. The costs claimed for DES labor ($1,649) were based on an estimate and not supported by timesheets or other type of documentation. There were no invoices to document the purchase of a modem ($89), and no invoices were provided for printing/supplies costs ($250).

According to 44 CFR 13.20(a), *Standards for financial management systems,* grantees must maintain records that adequately identify the source and application of funds provided.

Failure to adequately support expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

DES lacked support for labor hours claimed under the management grant because they did not track hours worked. The state did not ensure expenses were supported with invoices before project closure related to PW 28.

KPMG recommends that the Regional Director require DES to implement policies and procedures for its management grants that will enable DES to maintain support for costs claimed to ensure they are for eligible activities, and that they are reasonable. We do not recommend deobligation of these funds because the costs appear to be eligible management grant costs, and because they appear reasonable.

Finding 5 – DES Did not Support Expenditures Under the Administrative Allowances Awarded for Both the PA and HM Programs

DES could not support any of its costs associated with the statutory administrative allowances in the amount of $13,668[1] awarded under the PA and HM programs.

Criteria related to this condition can be found in 44 CFR:

- Grants generally (*Section 13.20(a)*, *Standards for financial management systems*);

[1] PA administrative allowance: $11,153. HM administrative allowance: $2,515.

- Regulations particular to the PA program (*Section 206.228(a)(2), Statutory administrative costs*); and
- Regulations particular to the HM program (*Section 206.439(b)(1), Statutory administrative costs*).

According to 44 CFR 13.20(a), *Standards for financial management systems,* grantees must maintain records that adequately identify the source and application of funds provided.

The criteria related to the PA and HM programs identify the types of costs permissible under the administrative allowance grants—namely, the extraordinary costs incurred by the state for preparation of applications, quarterly reports, final audits, and related field inspections. In particular, allowable costs include overtime pay and per diem and travel expenses, but do not include regular time.

Failure to document expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

Although FEMA has not historically requested to see support from grantees to justify their costs associated with the use of administrative allowance funds, the requirements are clear according to the above criteria. The state does not have procedures in place to separately account for costs associated with the administrative allowance.

KPMG recommends that the regional director require DES to establish and implement procedures in its administrative plans for documenting eligible hours and expenses related to the administrative allowance. We do not recommend deobligation of these funds because the amounts reimbursed appear to be reasonable for covering state-incurred costs associated with obtaining and managing the federal grants.

Finding 6 – DES Did not Make Payments for Small Projects in a Timely Manner

KPMG reviewed 13 small project payments under the PA grant program. Of those 13 payments, DES only processed 4 within 15 days of FEMA approval. KPMG could not determine how long payment took for 2 of the projects because the date of payment could not be determined from the information provided. Of the 7 remaining payments, the timeline ranged from 38 to 174 days between the FEMA approval and the DES payment.

According to 44 CFR 206.205(a), *Small Projects,* the grantee must make payment of the federal share to the subgrantee as soon as practicable after federal approval of funding. The spirit of the small project mechanism is to move federal disaster recovery funds to subgrantees quickly in order to expedite recovery and avoid financial hardship.

Delays in payments to subgrantees for small projects may cause undue financial hardship and delay the completion of projects approved for funding.

DES's slow and inconsistent payment of small projects appears to be owing to a lack of written procedures and performance criteria for paying small projects and for processing payments.

KPMG recommends that the Regional Director direct DES to develop and implement procedures for verifying the availability of federal funds (such as routinely checking NEMIS for the FEMA approvals of small projects), for authorizing payment, and for getting these funds into the hands of subgrantees quickly and consistently.

Finding 7 – DES Did not Require Adequate Support Documentation for Expenditures Under the PA Program

KPMG selected for review 7 of the 40 accounting transactions from the Public Assistance program's general ledger and traced disbursements made under PA back to source documents (i.e., invoices). Three of the expenditures reviewed appear to be related to general ledger journal entrees from other state agencies for disaster-related payroll and related costs. However, there was no documentation tracing the disaster-related costs back to the recipient.

According to 44 CFR 13.20(a), *Standards For financial management systems,* grantees must, among other requirements, maintain records that adequately identify the source and application of funds provided for financially assisted activities.

Failure to adequately control expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed

The cause for the three expenditures that could not be traced to a specific project is that DES does not consistently record in its accounting system the detail activities supported by the expenditure.

KPMG recommends that the Regional Director require DES to develop and implement procedures to ensure that subgrantees and/or other state agencies provide documentation to substantiate amounts reimbursed. Procedures should also be developed to ensure that DES payments to subgrantees permit identification of recipients.

KPMG also recommends that the DES develop a process for program managers (PA and HM) to document by means of a written approval their authorization to pay a subgrantee. Their signature would indicate that they have reviewed the payment request against the grant-authorized amount, that costs are within the approved project budget, and that costs to be reimbursed are eligible.

Finding 8 – DES Did not Adequately Document Expenditures on the Financial Status Reports

The FSRs that DES completed for all programs did not match accounting records and were not supported by back-up documentation.

According to 44 CFR 13.41(b), *Financial status report,* grantees must prepare and submit on a quarterly basis Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all non-construction grants. Under the requirements of 44 CFR 13.20(a), *Standards for financial management systems,* grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

By DES's not adequately documenting the expenditures on the quarterly financial reports, this important tool loses value and credibility as and internal control over the proper use of federal funds.

DES does not have written procedures for completing the FSRs that (a) delegate preparation responsibility, (b) describe how to complete the form correctly, and (c) define the appropriate support documentation to include in the archive.

KPMG recommends that the Regional Director require DES to develop policies and procedures for how to complete, document, and archive support behind the FSRs. Training on the proper process for FSR completion should also be provided.

V. Attachments

THIS SECTION CONTAINS THE FOLLOWING ATTACHMENTS:

- A. Sources and Application of Funds
- B. List of Other Audit Reports and Internal Control Reviews

A. Sources and Application of Funds

Schedule of Sources and Application of Funds
for the Period Ended September 30, 2002*(Unaudited)

Utah Division of Emergency Services and Homeland Security
Disaster Number 1285—Salt Lake City Tornado—August 11, 1999

Program:	Individual and Family Grant Program	Public Assistance Program	Hazard Mitigation Grant Program	Total
CFDA Number:	*83.543*	*83.544*	*83.548*	
	(US$)	(US$)	(US$)	(US$)
Awards				
Federal Share	23,523	518,799	86,350	**628,672**
Local Share	7,841	172,933	28,783	**209,557**
Subtotal	***31,365***	***691,732***	***115,133***	***838,230***
Source of Funds				
Federal Share	23,523	518,799	86,350	**628,672**
Local Share	7,841	172,933	28,783	**209,557**
Subtotal	***31,365***	***691,732***	***115,133***	***838,230***
Application of Funds				
Federal Share	23,523	518,799	86,350	**628,672**
Local Share	7,841	172,933	28,783	**209,557**
Subtotal	***31,365***	***691,732***	***115,133***	***838,230***
Balance of Federal Funds on Hand	**$0**	**$0**	**$0**	**$0**

*This schedule presents the sources and application of funds from declaration of the disaster through September 30, 2002.

B. List of Other Audit Reports and Internal Control Reviews

Date of Report	Date of Review	Issued By	Title of Report
4/3/2003	7/1/2001 to 6/30/2002	Office of the Utah State Auditor	Report No. 02-35, *Department of Public Safety Management Letter For the Year Ended June 30, 2002*
3/27/2003	7/1/2001 to 6/30/2002	Office of the Utah State Auditor	Report No. 02-42, *State of Utah Single Audit Report Fiscal Year Ended June 30, 2002*
7/10/2002	7/1/2000 to 3/15/2001 and 7/1/2001 to 3/15/2002	Office of the Utah State Auditor	Report No. 01-623d, *Department of Public Safety, Outlying Areas, Limited Review of the Internal Control For the Period July 1, 2000 through March 15, 2001 and July 1, 2001 through March 15, 2002*
5/1/2002	7/1/2000 to 6/30/2001	Office of the Utah State Auditor	Report No. 01-34, *Department of Public Safety Management Letter For the Year Ended June 30, 2001*
3/27/2002	7/1/2000 to 6/30/2001	Office of the Utah State Auditor	Report No. 01-36, *State of Utah Single Audit Report Fiscal Year Ended June 30, 2001*
3/25/2002	7/1/2000 to 6/30/2001	Division of Finance	Single Audit of the State of Utah for Year Ended June 30, 2001
5/2/2001	1/1/2000 to 10/31/2000	Office of the Utah State Auditor	Report No. 01-618, *Department of Public Safety, Limited Review of the Internal Control For the Period January 1, 2000 through October 31, 2000*
3/26/2001	7/1/1999 to 6/30/2000	Office of the Utah State Auditor	Report No. 00-36, *State of Utah Single Audit Report Fiscal Year Ended June 30, 2000*
3/23/2001	7/1/1999 to 6/30/2000	Division of Finance	Single Audit of the State of Utah for Year Ended June 30, 2000
11/16/2000	7/1/1999 to 3/17/2000	Office of the Utah State Auditor	Report No. 00-620b, *Department of Public Safety Driver License Division (Roosevelt and Vernal Offices) Utah Highway Patrol (Vernal Office) Limited Review of the Internal Control For the Period July 1, 1999 through March 17, 2000*
10/21/2000	7/1/1999 to 6/30/2000	Office of the Utah State Auditor	Report No. 00-11, *Department of Public Safety Management Letter For the Year Ended June 30, 2000*
Continuous	Continuous	Division of Finance	Payment Voucher Audit Report—These "audits" are conducted randomly of all accounting transactions submitted to FINET, the State of Utah's accounting system.