

Department of Homeland Security **Office of Inspector General**

The State of Ohio's Management of State Homeland
Security Program and Urban Areas Security Initiative
Grants Awarded During Fiscal Years
2007 through 2009





**Homeland
Security**

DEC 13 2011

Preface

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

This report addresses the State of Ohio's (State) management of State Homeland Security Program and Urban Areas Security Initiative grants. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company's report identifies five reportable conditions where State management of the grant funds could be improved, resulting in 12 recommendations addressed to the Assistant Administrator, Grant Programs Directorate. Foxx & Company is responsible for the attached auditor's report dated November 30, 2011, and the conclusions expressed in the report.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



November 30, 2011

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

Dear Ms. Richards:

Foxx & Company performed an audit of the State of Ohio's management of the Department of Homeland Security's State Homeland Security Program and Urban Areas Security Initiative grants for Fiscal Years 2007 through 2009. The audit was performed in accordance with our Task Order No. 09 under TPD-FIG-BPA-07-0007, dated September 27, 2010. This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Program and Urban Areas Security Initiative grants.

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

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

Sincerely,

Foxx & Company
Martin W. O'Neill
Partner

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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	fiscal year
OIG	Office of Inspector General

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security, Office of Inspector General, to audit individual states' management of State Homeland Security Program and Urban Areas Security Initiative grants. This report responds to the reporting requirement for the State of Ohio.

The objectives of the audit were to determine if the State of Ohio distributed and spent State Homeland Security Program and Urban Areas Security Initiative grant funds (1) effectively and strategically and (2) in compliance with applicable federal laws and regulations. We were to also address the extent to which grant funds enhanced the State of Ohio's ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters. The audit included a review of approximately \$112.8 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded to Ohio during fiscal years 2007 through 2009.

Overall, the State of Ohio did an efficient and effective job administering the program requirements, distributing grant funds, and ensuring that all available funds were used. The State of Ohio also used an appropriate process for developing a strategy for improving preparedness that contained measurable goals and objectives.

However, improvements were needed in the State of Ohio's management of grants to improve the timeliness of releasing funds to subgrantees and reimbursing subgrantees for grant funded expenditures. Also, the State of Ohio needed to improve compliance with federal procurement and property management regulations, and enhance subgrantee monitoring. The Federal Emergency Management Agency concurred with 11 of 12 recommendations and concurred with the intent of the remaining recommendation that, when implemented, should help strengthen program management, performance, and oversight. Written comments to the draft report are incorporated as appropriate and included in their entirety in appendix B.

Background

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies.

The State of Ohio (State) received \$131.6 million in Homeland Security Grant Program funds during fiscal years (FY) 2007, 2008, and 2009. The funding included \$112.8 million in State Homeland Security Program and Urban Areas Security Initiative grants. Appendix A provides details on the purpose, scope, and methodology for this audit, and appendix C provides additional background on the Homeland Security Grant Program.

The Governor of the State of Ohio designated the Ohio Emergency Management Agency as the State Administrative Agency, the entity responsible for administering the Homeland Security Grant Program. The State Administrative Agency is responsible for managing the grant programs in accordance with established federal guidelines and allocating funds to local, regional, and other Ohio government entities. The Ohio Emergency Management Agency organization is depicted in appendix D.

The Ohio Emergency Management Agency awarded Homeland Security Grant Program funds to four Urban Areas Security Initiative recipients (Cincinnati, Cleveland, Columbus, and Toledo), eight law enforcement regions, all 88 Ohio counties, and several State agencies.

Results of Audit

State Grants Management Practices Were Generally Effective, But Required Some Improvements

Overall, the State did an efficient and effective job administering the program requirements, distributing grant funds, and ensuring that all available funds were used. The State used an appropriate process for developing a strategy for improving preparedness that contained measurable goals and objectives that were consistent with Federal Emergency Management Agency (FEMA) guidance. The State's goals were developed by panels of experts through assessments of the potential threats and Ohio first responders' existing capabilities. Additionally, the

State distributed funds based on population and the critical infrastructure identified by subgrantees.

However, improvements were needed to enhance Ohio's management of the grants including:

- Improving the timely release of grant funds to subgrantees, and the timely payment of subgrantees for grant-funded expenditures,
- Ensuring compliance with procurement regulations and property management requirements, and
- Better monitoring of Urban Areas Security Initiative and State Homeland Security Program grants.

We have made 12 recommendations that will enhance the effectiveness of the State's grants management and overall use of the grant funds to improve preparedness and response capabilities.

Untimely Release of Grant Funds to Subgrantees

The State Administrative Agency did not release funds to subgrantees in a timely manner. This occurred primarily because the State Administrative Agency system used to award subgrantee funds was cumbersome and staff shortages were encountered. Consequently, subgrantees were delayed in purchasing equipment, and organizing and conducting training and exercises.

FEMA's 2007, 2008, and 2009 Homeland Security Grant Program guidance required the State Administrative Agency to make available no less than 80% of grant funds to local units of government within 60 days (2007) or 45 days (2008, 2009) of the State's receipt of grant funds. FEMA Information Bulletin No. 257, dated July 17, 2007, stated that it is important to ensure that funds are obligated and expended in a timely manner, within established periods for performance.

Ohio utilized a multi-step process for approving and notifying subgrantees of FYs 2007 through 2009 Urban Areas Security Initiative and State Homeland Security Program grant awards, including:

- Calculations of how much to award to each subgrantee,
- Preparation of a State Purchase Order for the amount of the award to each subgrantee,
- Preparation and dissemination of detailed grant guidance,
- Preparation by subgrantees of detailed grant applications that included detailed budget estimates for equipment, planning, administrative, exercise, and training expenses,

-
- Review and approval of the subgrantee application and proposed budgets, and
 - Notification of grant award enabling subgrantees to spend grant funds.

Until these steps were completed, subgrantees were not allowed to spend grant funds.

As table 1 shows, the 24 Ohio subgrantees and four State Agencies visited waited an average of 8 months (between 3 and 22 months) after the State obligated the grant funds to receive their 2007 grant award, with seven subgrantees waiting a year or more for the grant award. For 2008, delays increased to an average of 10 months (between 6 and 30 months) with three subgrantees waiting more than a year and two others waiting more than two years. For 2009, delays increased to an average of 11 months with three subgrantees waiting more than a year. Four subgrantees did not receive 2009 grant awards by May 15, 2011 – 19 months after Ohio reported to FEMA that these funds were obligated.

Table 1: Ohio Release of Homeland Security Grant Program funds to Subgrantees

Months After Grant Funds Were Obligated			
Subgrantee	FY 2007	FY 2008	FY 2009
1	3	7	7
2	3	8	15
3	No award	9	9
4	4	10	11
5	3	13	10
6	9	7	9
7	3	6	8
8	3	6	10
9	3	6	9
10	3	6	4
11	3	6	7
12	4	6	7
13	4	6	7
14	13	25	13
15	12	13	19 *
16	13	6	19 *
17	6	9	19 *
18	12	9	7
19	6	6	7
20	5	9	6
21	16	30	7
22	5	8	18
23	19	8	9
24	22	14	19 *
State Agencies			
25	7	No award	No award
26	7	No award	No award
27	7	14	18
28	OEMA – No grant agreements		
Average	8	10	11

*2009 grant funds were not approved as of May 15, 2011

For the FY 2008 grants, 10 of the subgrantees visited did not begin to spend grant funds until one to 21 months after the delays shown in the table above. During the first year of the FY 2008 performance period, Ohio introduced an electronic grants management system and required all subgrantees to submit their grant budgets for re-approval. Ohio Emergency Management Agency officials said that since the grant awards were approved before the electronic system was introduced, subgrantees

could have spent 2008 grant funds and received reimbursements during the transition to the electronic system. However, 10 of the 28 subgrantees visited did not understand this and waited until their budgets were approved in the electronic system before spending grant funds.

According to Ohio Emergency Management Agency staff, part of the reason for these delays was that Ohio Emergency Management Agency officials must receive and approve detailed descriptions of the equipment or services subgrantees plan to acquire. Also, the character and content of proposed exercises, training, and anticipated administrative expenses must be approved to assure that subgrantees properly expend grant funds.

According to the State staff, with 88 counties, four Urban Areas Security Initiative, eight regional law enforcement subgrantees, and special grants to State agencies and special projects, the administrative workload was significant. In addition they advised that, during 2009 and 2010, Ohio Emergency Management Agency experienced staff turnover and faced hiring restrictions that limited the number of grant specialists to accomplish the reviews and perform other grant coordination and administration matters. Further, they advised that the new electronic grants management system was installed, which encountered numerous start-up problems when it was put into place in early 2009. Subgrantees did not always understand the new system's data entry rules, resulting in rejected entries that required additional work by subgrantees.

While all of these factors may have contributed to the delays, limited staff at the State level was most commonly mentioned by State officials and subgrantees visited as the cause for delays. In this regard, we observed that Ohio Emergency Management Agency was not using all of the permitted administrative allowance to hire staff. We were informed that the Department of Public Safety, Ohio Emergency Management Agency's parent organization, would not authorize additional staff or contract employees even if the new staff salaries were paid for by the federal grant.

As a result of these delays, subgrantees had to wait months for the State to award the grants before subgrantees could order needed equipment, acquire training and exercises, and pay administrative expenses. According to subgrantees, these delays resulted in price changes by vendors as the time from initial quotation to actual purchase expanded and, in turn, added work by the subgrantees to revise approved budgets. Eighteen of the 28 grant recipients visited requested an extension to the grant performance period established by the Ohio Emergency Management Agency because more time was needed to properly complete planned procurements and obtain reimbursements.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to:

Recommendation #1: Review the subgrantee application and approval process to identify ways to make it more efficient and less time consuming.

Recommendation #2: Provide detailed guidance to the subgrantees concerning the process upon implementation.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 1 and 2 and stated that the Agency expects the Ohio Emergency Management Agency to confirm within 90 days that an assessment of current policies and procedures on timely subgrantees awards has been accomplished. Also, the Ohio Emergency Management Agency is to develop and provide guidance and additional training to subgrantees concerning the revised procedures. FEMA requested that recommendations 1 and 2 be resolved and open pending implementation of the stated actions.

The Ohio Emergency Management Agency also concurred with recommendations 1 and 2. Ohio Emergency Management Agency officials stated that in years subsequent to the period of this audit the State grant staff has initiated more detailed instructions on necessary steps to streamline the applications and funds release process. The Ohio Emergency Management Agency will continue to review and update this guidance and work with subgrantees to assure funds are released within a reasonable time-frame.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. The recommendations are considered resolved and will remain open until such time that corrective actions have been implemented.

Untimely Payment to Subgrantees for Grant Expenditures

The Ohio Emergency Management Agency did not always make payments to subgrantees for grant expenditures in a timely manner. Staff shortages and a cumbersome process were among the reasons cited for the delays. Our review of a sample of 55 subgrantee payment requests showed payments were made anywhere from 13 to 89 days after the requests were submitted to the State. As a result, local funds were often not reimbursed in a timely manner and vendors were not always paid timely for goods and services, which tied up working capital that could have been used for other purposes or invested until needed. The sometimes cumbersome nature of the payment process also contributed to subgrantee concerns about grant-related administrative burdens.

The regulations governing grant management do not specify timeframes in which the state must pay subgrantees once the subgrantee submits a request for reimbursement. The regulations also do not stipulate timeframes in which subgrantees must pay vendors. The general business standard for payment is net 30 days. Although variations from this standard certainly exist, it provides a reasonable benchmark for assessing timeliness.

For 17 of the 24 subgrantees we visited, officials told us of payment delays that could range from several weeks to several months from when a subgrantee first submitted a request for payment until the electronic check arrived from the State. These subgrantees told us that the payment process during the three grant years under review has grown increasingly inconsistent and time-consuming. The problems cited included multiple revisions of budgets and payment requests, requests for additional detail and documentation that some subgrantees thought excessive, and sometimes considerable back-and-forth with grant administrators to resolve issues. In a few cases, purchases were questioned or rejected despite prior approvals.

We selected a sample of 55 payment requests from 14 of the subgrantees visited to assess the time it took for reimbursement from the State. Our analysis, depicted in table 2, showed that payments ranged from 13 days to 89 days, with 22 transactions taking more than 30 days to complete. Of those transactions, eight exceeded 50 days, taking an average of 70 days to complete.

Table 2: Timeliness of Payments to Subgrantees

Range	Number of Transactions	Average Days
Within 30 days	33	22
31-50 days	14	42
51-89 days	8	70

State and local officials pointed to a number of reasons for the payment delays, including:

- Turnover and subsequent shortages of Ohio Emergency Management Agency grants staff,
- Lack of standardized procedures for reviewing and approving reimbursement requests,
- Lack of training among subgrantee and Ohio Emergency Management Agency staff regarding understanding of and familiarity with items and services being purchased, and
- Ohio Emergency Management Agency’s changeover to a new grants management system.

According to Ohio Emergency Management Agency officials, the agency encountered staff shortages during 2009 and 2010. During this time, when the FYs 2007 and 2008 grant funds were being spent, Ohio Emergency Management Agency relied on two grant administrators to manage the grants for 88 Counties, four Urban Areas Security Initiative, eight law enforcement regions, and special purpose grants encompassing about \$85,000,000. In addition, Ohio Emergency Management Agency officials noted that the transition process to the new grants management system did not always go smoothly and contributed to extending the reimbursement process.

The effect of delays varied depending on the financial arrangements the subgrantee had established with the local county. Of 24 subgrantees visited, 15 utilized local funds to pay vendors and then sought reimbursement from the State to replenish funds. In these cases, the subgrantees had the capability to pay vendors promptly. However, local taxpayers effectively bore the brunt of the delays as the subgrantee’s working capital was diverted to cover grant expenses instead of being invested until needed or used for other purposes. Nine other subgrantees relied on payment from the state to pay vendors. In these cases, vendors bore the burden of the delays, with their working capital and cash flows directly affected. At one location, officials cited a consulting contract reimbursement that took more than 6 months and caused considerable

difficulty for the contractor. At another location, local officials told us that certain vendors refused to do further business because of the late payments.

These subgrantees told us that another effect of the lengthy payment process was the increased workload associated with payments. Combined with other grant management requirements, officials said managing the grants required increased amounts of time away from day-to-day emergency management duties.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to:

Recommendation #3: Establish a clear time standard for processing payment requests from subgrantees consistent with reasonable business practice.

Recommendation #4: Conduct a comprehensive analysis of the subgrantee payment procedures, documentation requirements, and automated systems to identify ways to streamline the process while still maintaining accountability for compliance with grant requirements.

Recommendation #5: Establish and provide training on the revised process for State grant specialists and subgrantee staff.

Recommendation #6: Consider instituting an Electronic Grant Management System users group to identify and resolve future process problems.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 3, 4, 5, and 6. FEMA agreed to request the Ohio Emergency Management Agency to, within 90 days of receipt of this report, establish a time standard for processing payment requests consistent with reasonable business practice. FEMA will also request the Ohio Emergency Management Agency to analyze payment procedures and documentation requirements to identify ways to streamline the payment process consistent with grant requirements. Furthermore, FEMA agreed to request the Ohio Emergency Management Agency to develop ways to provide State staff and subgrantees training on streamlined payment procedures, and to consider an

Electronic Grant Management System user group to assist in problem resolution. FEMA requested that recommendations 3 through 6 be resolved and open pending implementation of the stated actions.

The Ohio Emergency Management Agency also concurred with recommendations 3 through 6. Ohio Emergency Management Agency officials stated that reasonable internal timeframes for making payments to subgrantees consistent with normal business practice have been established. The Ohio Emergency Management Agency agreed to review the current reimbursement process and make improvements consistent with necessary internal controls for assuring accurate and proper payments. The Ohio Emergency Management Agency's comments pointed out that not all elements of the payment process are within grant staff control, such as accuracy and completeness of documents submitted by subgrantees and the State's accounting processes. Nevertheless, the Ohio Emergency Management Agency will review its process and look for efficiencies. Ohio Emergency Management Agency officials stated that they have increased awareness and training on grants management and administration in order to enhance the staff's expanding knowledge base.

With respect to recommendation 6, Ohio Emergency Management Agency officials stated that a new Electronic Grant Management System has been identified. Ohio Emergency Management Agency officials said that it would be reaching out to stakeholders at the subgrantee level to review, critique, and make recommendations on the new system.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. The recommendations are considered resolved and will remain open until such time that corrective actions have been implemented.

Noncompliance with Procurement Regulations

The Ohio Emergency Management Agency did not ensure that federal regulations were followed for procurements of equipment and services with Homeland Security Program Grant funds. The Ohio subgrantees visited used grant funds to buy brand-specific items non-competitively from preferred manufacturers and franchised vendors. As a result, there was no assurance that the best price had been obtained for the procurements.

The Code of Federal Regulations Title 44 §13.36, *Procurement*, provides uniform administrative requirements for grants and cooperative agreements awarded to state and local governments. These regulations direct the state and local governments to use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procedures conform to applicable federal procurement regulations. Federal procurement regulations direct grantees and subgrantees to:

- Acquire equipment and services under full and open competition.
- Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition.
- Obtain an adequate number of quotations from qualified sources for smaller purchases that do not cost more than \$100,000.
- Maintain records sufficient to detail the significant history of the procurements including rationale for the procurement, method, selection of contractor type and contractor, and basis for the contract price.
- Conduct cost analyses to assure prices obtained through non-competitive procurements are fair and reasonable.
- Use non-competitive procurement, procure from a single source or when competition is determined inadequate, only when award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals and:
 - The item is only available from a single source, or
 - Public emergency will not permit a competitive purchase, or
 - The awarding agency authorizes noncompetitive proposals, or
 - After solicitation of a number of sources, competition is determined inadequate.

For non-competitive procurements that exceed the \$100,000 simplified acquisition threshold, federal regulations require grantees and subgrantees to perform a cost analysis to determine the reasonableness of the proposed contract price. According to Code of Federal Regulations Title 44 §13.36(f), a cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements. A cost analysis would involve a review and analysis of various cost elements included in the contractor's proposed price, including specific elements of costs (e.g., overhead and profit). The analysis results could then be used to help negotiate a reasonable contract price.

In addition, the Department of Homeland Security (DHS), Financial Management Guide, dated January 2006, states on Page 41 “All sole source procurements in excess of \$100,000 must receive prior written approval of the awarding agency....Justification must be provided for non-competitive procurement and should include a description of the program and what is being contracted for, an explanation of why it is necessary to contract noncompetitively, time constraints and any other pertinent information....Sub recipients must obtain approval from the primary recipient.” In Ohio’s case it would be the Ohio Emergency Management Agency. For non-competitive procurements made by the State, approval from FEMA is necessary. FEMA officials said, in commenting on the draft report, that the Financial Management Guide was only applicable for grants through FY 2007.

We reviewed all of the large (\$100,000 or greater) and some smaller procurements at each of the subgrantees visited. These purchases were for communications equipment, vehicles, chemical detectors, and a variety of other items used by first responders. Of the 85 procurements reviewed, only 9 were purchased under full and open competition. The remaining 76 were purchased non-competitively from a single source, even though other sources were available, there was no associated public emergency, and the State had not approved non-competitive procurements. Thirty-six of the 76 non-competitive procurements fell below the federal threshold (\$100,000) for required cost analyses to assure the price obtained non-competitively was fair and reasonable. Subgrantees did not prepare cost or price analyses for any of the procurements.

Of the 76 non-competitive procurements in our sample, subgrantees solicited multiple bids for two of the procurements, but only one bid was received and it was accepted. This is specifically identified in federal regulation as a situation lacking adequate price competition.

For example, the Fire Chiefs Association for one county proposed buying air monitoring equipment for their Hazmat vehicle and a preferred brand of equipment and manufacturer was specifically identified that would also be compatible with existing equipment, maintenance, and training procedures. Concerned about meeting competition requirements, the subgrantee approached its County Prosecutor for a legal opinion and was told to compete the purchase. Multiple quotes were solicited but only one bid was received. It was accepted and the item was purchased from the preferred manufacturer. The subgrantee staff told us this process was consistent with the County and Ohio’s bid procedures. However, Code of Federal Regulations Part 44 §13.36 requires a cost analysis to be performed when there is lack of competition. The subgrantee did not

perform a cost analysis. Also, we found no evidence of approval of the contract by the Ohio Emergency Management Agency.

Five of the 76 non-competitive procurements in our sample were specifically identified as ‘sole source’ by the purchasing agent and local procedures were followed to obtain approval. We observed other sources for these items, no public emergency was documented, and no approval was obtained from the State. For example, Ohio Emergency Management Agency purchased new software for \$347,963 to help manage its emergency operations center during training and emergencies. The software was purchased from a supplier preferred by Ohio Emergency Management Agency staff and specifically identified as ‘sole source’ in the procurement documentation. However, other vendors could have provided this software. The Ohio Emergency Management Agency received specific approval from the State Controlling Board for this sole source purchase as required under State procedures. The Ohio Emergency Management Agency did not prepare a cost analysis to demonstrate that the purchase price was fair and reasonable as required by Code of Federal Regulations Part 44 §13.36 or obtain approval from FEMA.

Fifty-five purchases we reviewed were procured from suppliers listed in Ohio State Term Schedules. The Ohio State Term Schedules are lists, prepared and maintained by the Ohio Department of Administrative Services, of approved manufacturers with products offered at ‘best prices’ and specific terms the State requires. Competition is not part of the process for suppliers to be placed on the Term Schedule.

Under the Ohio Revised Code, State Agencies and cooperating political subdivisions may use State Term Schedules to acquire needed items without further competition. A subgrantee may look up a particular item it wants to purchase on the State Term website, obtain the needed information, and buy the item from that manufacturer. No further efforts are necessary to meet competition requirements such as open solicitation or evaluation of quotations. Ohio Department of Administrative Service officials told us that purchases by State Agencies from State Term Schedules costing more than \$10,000 are reviewed and the agency reserves the right to direct the State Agency to compete the purchase.

Purchasing directly from State Term Schedules may meet Ohio competition requirements; however, these purchases do not meet federal procurement standards for fair and open competition, particularly for purchases in excess of \$100,000. Federal regulations require that all prequalified lists of persons, firms, or products which are used in acquiring good and services are current and include enough qualified sources to ensure maximum open and free competition. The items on the

State Term website are not necessarily the best value but rather a list of suppliers that have qualified their products for the State Term listing, similar to the U.S. General Services Administration contracts with various vendors. Although vendors are supposed to offer the best price for the list, it may not necessarily be the lowest or best value price available for the same item that might be offered by other vendors.

Most of the large purchases we observed were for specific items from a single manufacturer or franchised vendor and should have been classified as non-competitive purchases. We observed the use of State Term Schedule and Contract purchases by nearly every subgrantee visited. Although the State Administrative Agency reviewed and approved these non-competitive purchases, both when proposed by the subgrantees and when they sought reimbursements, the Agency did not provide appropriate guidance to subgrantees and their purchasing organizations regarding federal requirements.

Problems with non-competitive procurement in Ohio were also reported by the Office of Inspector General (OIG) in an audit report issued in 2008. In that report the OIG reported “the State Administrative Agency did not ensure that federal procurement regulations were followed for non-competitive procurements. Agency and subgrantee officials did not perform required cost analyses for several non-competitive procurements that exceeded \$100,000. Also the subgrantees did not notify the Agency prior to awarding non-competitive contracts. As a result, the Agency and its subgrantees might have paid more for equipment and services than was necessary and reasonable.” The report recommended that the Ohio Emergency Management Agency highlight, emphasize and transmit to applicable state agencies and subgrantees the federal requirement to:

- a) Prepare a cost analysis for non-competitive procurements that are expected to exceed \$100,000, and
- b) Notify the State Administrative Agency of any such procurement and give the State the opportunity to conduct pre-award reviews.

The report also recommended that the Ohio Emergency Management Agency establish and implement procedures to ensure that grant recipients follow federal requirements for non-competitive procurements exceeding \$100,000.

The Ohio Emergency Management Agency agreed in the future to perform cost analyses when high value, sole source contracts, or contracts with inadequate competition are awarded. The Ohio Emergency Management Agency also said that the grant guidance will highlight and emphasize these requirements and require that the subgrantees notify the State

Administrative Agency prior to undertaking high value, sole source procurements. The Ohio Emergency Management Agency agreed to address these problems. However, because the same problems were identified during the current audit, it is clear that the Agency's efforts have not been successful.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to:

Recommendation #7: Develop and provide to all Ohio Emergency Agency grant staff and subgrantee grant managers, training on State and federal regulations pertaining to competitive procurement.

Recommendation #8: Prepare, publish, and disseminate guidance detailing procurement regulations and procedures for acquiring equipment and services using FEMA grant funds to all Ohio municipal and county purchasing departments that assist subgrantees in acquiring equipment or services with Homeland Security grant funds.

Recommendation #9: Complete a review of all grant funded purchases using FYs 2007, 2008, and 2009 State Homeland Security Program and Urban Areas Security Initiative grant funds of \$100,000 or more to: (a) Identify those purchases made as sole source procurements and verify that sole source procurement was justified, (b) Document that the price obtained was fair and reasonable, and (c) Limit the allowable costs for all such procurements to amounts determined to be fair and reasonable.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 7 and 8 and concurred with the intent of recommendation 9. FEMA noted that a 2008 change in grant regulations from those of the Justice Department (Code of Federal Regulations Title 28) to those of the Department of Homeland Security (Code of Federal Regulations Title 44) limited the Ohio Emergency Management Agency's obligation to review and approve sole source procurements exceeding \$100,000 to only those made prior to 2008. Accordingly, FEMA is requesting the Ohio Emergency Management Agency, within 90 days of receipt of this report, to only review, document, and assess the sole source procurements made in 2007. FEMA officials said

that they will request the Ohio Emergency Management Agency to indicate that procedures are outlined in the Administrative Plan to ensure State staff and subgrantees follow federal requirements. FEMA will also request that Ohio Emergency Management Agency issue guidance to all subgrantees detailing procurement regulations and procedures.

FEMA recommended that recommendations 7 through 9 be resolved and open pending implementation of the stated corrective actions.

In written comments the Ohio Emergency Management Agency also concurred with recommendations 7 and 8, and agreed to a more limited review of future procurements than is included in recommendation 9.

The Ohio Emergency Management Agency requested several changes to expand and clarify the report text including: additional language from the Code of Federal Regulations Title 44 §13.36; clarification on the applicability of the DHS Financial Management Guide only to FY 2007 grants; and revision or removal of the text regarding Ohio Emergency Management Agency's non-competitive purchase of emergency operations software. Ohio Emergency Management Agency advised that the software purchase was appropriate since the guidance of Code of Federal Regulations Title 44 §13.36 was followed. We revised and expanded the report text as requested but we did not change the discussion surrounding the Ohio Emergency Management Agency's purchase of emergency operations software. The Ohio Emergency Management Agency has overlooked key provisions of Code of Federal Regulations Title 44 §13.36 that require state procurement procedures to be followed as long as the state procedures conform to applicable federal law and standards of the regulation. Ohio procurement procedures did not conform to federal standards.

The Ohio Emergency Management Agency also requested that the requirement in recommendation 9 to disallow sole source procurements that are determined not to be compliant with federal regulations only apply to future procurements. During discussions with Ohio Emergency Management Agency officials, the officials said they wanted to limit the review and recovery to future procurements because subgrantees were not fully aware of federal requirements and that disallowing the procurements would impose a significant financial hardship on some communities. However,

Ohio Emergency Management Agency officials said they will make every effort to review all grant funded purchases using FY 2007, 2008, and 2009 State Homeland Security Program and Urban Areas Security Initiative grant funds exceeding \$100,000. Non-compliant procurements will be held for further review and documentation. In addition, the State's monitoring program is being amended to include procurement processes.

Ohio Emergency Management Agency advised that neither the State Agency nor Ohio subgrantees fully understood federal procurement regulations particularly those pertaining to the use of the State Term Schedule. However, sole source procurements and the lack of cost analyses to assure fair and reasonable prices were identified as an audit finding previously in the OIG's 2008 audit report. Because Ohio Emergency Management Agency has not initiated corrective actions from the previous DHS OIG report, the prospect of less oversight of such procurement as proposed by FEMA is not responsive to the current DHS OIG report recommendations. Accordingly, recommendation 9 remains unchanged with the exception of 9c; and FEMA should require Ohio Emergency Management Agency to review all of the large procurements made with 2007, 2008 and 2009 grant funds to assure the procurements are consistent with the fair and open competition standards of Code of Federal Regulations Title 44 §13.36. We have, however, revised recommendation 9c to limit the amount to be refunded to FEMA as the amount that exceeds what is determined to be fair and reasonable for those procurements that were for \$100,000 or more where there was a lack of competition.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve recommendations 7 and 8. These recommendations will remain open until such time that corrective actions have been fully implemented. However, as stated above, FEMA and Ohio Emergency Management Agency's proposed corrective actions to recommendation 9 do not adequately address the recommendation. Accordingly, it will remain unresolved and open awaiting a written response that includes a corrective action plan and target completion date.

Noncompliance with Property Management Requirements

State subgrantees did not always maintain property management records in accordance with federal requirements. Federal property management requirements were not being followed at the subgrantees visited. As a

result, the State did not have reasonable assurance that the assets procured with federal funds were adequately safeguarded to prevent loss, damage, or theft of the property. Moreover, without sound property management controls in place, there is no assurance that the location, condition, and availability of essential equipment will be known when there is an emergency.

Code of Federal Regulations Title 44 §13.32(d) *Management requirements*, establishes procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, and includes the following minimum requirements:

- Maintain property records that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- Maintain a physical inventory of the property and the results reconciled with the property records at least once every two years.
- Establish and maintain a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property.
- Perform adequate maintenance procedures to keep the property in good condition.

While FEMA guidance for the State Homeland Security Program requires grantees and subgrantees to follow federal requirements when managing and maintaining property records for equipment purchased with grant funds, the subgrantees visited were for the most part not following this guidance. At each location, we discussed property management procedures, reviewed local policies, and examined specific pieces of equipment selected from those purchased using FYs 2007, 2008, and 2009 grant funds. We observed that:

- 19 of 24 subgrantees did not have written policies and procedures,
- 21 of 24 subgrantees did not have complete inventory records,
- 24 of 24 subgrantees did not have equipment purchased with grant funds properly identified, and
- 21 of 24 subgrantees were not making periodic inspections of equipment purchased with grant funds.

Generally the subgrantees visited were not aware of the requirements of Code of Federal Regulations Title 44 §13.32. While 21 of the subgrantees had some type of property management system, our inspections disclosed

that these records were incomplete or not current. More than half of the subgrantees visited (15) did not use a numerical system and associated asset tags for tracking equipment specifically purchased with grant funds. Also, 24 subgrantees did not properly label equipment as purchased with Department of Homeland Security funds.

Once equipment was distributed to first responder organizations, and property responsibility was assumed, the organizations generally did not report the status of the equipment to the subgrantee organization. We observed only three subgrantees that received status reports from first responder organizations throughout the audit period. Accordingly, equipment serviceability, operability, loss, or pilferage was not reported to the subgrantee. Finally, when equipment was taken out of service and disposed of, subgrantees were not notified.

Despite these problems, our inspections of equipment at all subgrantees visited were accomplished with only a few exceptions, including at 13 subgrantees locations, the subgrantees offered pieces of equipment for our review which were not the correct items. The subgrantees could not find pieces of equipment requested for inspection because sign out sheets and other distribution documentation were not current, not available, or identifiable by equipment type and project.

Similar problems with inventory management were also identified in an audit report issued by the Department of Homeland Security, Office of Inspector General in 2008, including lack of internal controls over equipment management and overall compliance with Code of Federal Regulations Title 44 §13.32. In a response to that report, Ohio Emergency Management Agency officials concurred with the issues identified and in their written comments agreed to address the issues. However, as discussed above the subgrantees we visited were not complying with the required property management standards.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to:

Recommendation #10: Develop and disseminate guidance to all subgrantees establishing property management standards that fully comply with federal requirements.

Recommendation #11: Develop policies and procedures requiring on-site monitoring of grant recipient compliance with property management standards.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 10 and 11 and agreed to request the Ohio Emergency Management to provide property management guidance to all subgrantees, including property management materials suitable to identify and track grant funded property, within 90 days of receipt of this report. FEMA also said that the Ohio Emergency Management will be requested to develop monitoring policy and procedures that includes periodic on-site visits to verify subgrantee control and accountability systems for grant-funded property.

FEMA recommended that recommendation 10 and 11 be resolved and open pending implementation of the stated corrective actions.

Ohio Emergency Management also concurred with recommendations 10 and 11. Ohio Emergency Management officials stated that a grant staff specialist is currently preparing a guidance and 'best practice' template to help subgrantees understand and apply property management standards. The Ohio Emergency Management monitoring program is being amended to include a more detailed review of inventory and property management.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. The recommendations are considered resolved and will remain open until such time that corrective actions have been implemented.

Inadequate Monitoring of Subgrantees

The State Administrative Agency did not conduct monitoring visits to Urban Areas Security Initiative and State Homeland Security Program grant recipients for FYs 2007 through 2009 grant awards. Some oversight was accomplished through periodic telephone and e-mail contact with subgrantee staff as a part of the review of proposed budgets, processing of reimbursement requests, and at semi-annual meetings in the State capitol. This type of oversight is valuable but not sufficient to observe local administrative practices or to evaluate whether grant funds are being used effectively, efficiently, and in compliance with grant requirements and associated federal regulations. Also, these contacts do not disclose how well subgrantees were meeting preparedness goals and objectives. Our discussion with Ohio Emergency Management Agency staff revealed no

firm plan or policy to provide for regular on-site monitoring visits. In order to assure that program goals are being achieved on-site monitoring of subgrantees on a regular basis is one of the best methods available to states.

According to Code of Federal Regulations Title 44 §13.40, *Monitoring and Reporting Performance*, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities, and ensuring that grant recipients comply with applicable federal requirements and achieve program performance goals. This regulation also specifies that grantees' monitoring programs must cover each program, function, or activity.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Part 3-M also specifies grantee monitoring requirements. Part 3-M states that grantees are responsible for monitoring subgrantee use of federal awards through reporting, site visits, regular contact, or other means. Grantee monitoring should provide reasonable assurance that the subgrantee administers federal awards in compliance with laws and regulations, as well as the provisions of contracts or grant agreements. Monitoring should assure that performance goals are achieved. Although on-site monitoring is not required, it does provide the grantee agency a better insight of how the subgrantee is performing and complying with program and financial grant requirements.

Our review of FYs 2007 through 2009 Urban Areas Security Initiative and State Homeland Security Program grant awards disclosed that the State Administrative Agency did not conduct regular on-site monitoring visits to grant recipients. For the 24 subgrantees we visited, only two remembered Ohio Emergency Management Agency staff participating in an on-site monitoring visit. State Officials told us that there was no regular on-site monitoring during the entire 3-year term of the FYs 2007, 2008, and 2009 Homeland Security Grant Program grants.

In lieu of regular on-site monitoring visits to subgrantees, Ohio Emergency Management Agency obtained some oversight through its automated Electronic Grants Management System. Subgrantees used this system to submit their proposed budgets for purchasing equipment, exercises, and training. The subgrantees also used this system to submit supporting documents for reimbursement of expended grant funds such as invoices and delivery receipts. In addition, subgrantees had periodic contact with grant specialists concerning these administrative matters.

The Ohio Emergency Management Agency is responsible for the Homeland Security Grant Program and other grants which are allocated to subgrantees in 88 counties, 8 law enforcement regions, 4 Urban Areas Security Initiative, and several State agencies. According to Ohio Emergency Management Agency officials, during the last 3 years, Ohio Emergency Management Agency experienced significant staff turnover. For more than a year the Agency was not able to fill vacant positions. Even after new staff were employed, inexperience and the backlog of work prevented, and continues to inhibit, the State's plans to conduct regular monitoring visits to subgrantees.

In a previous audit of Ohio's Homeland Security Grant Program examining FYs 2002 through 2004, the Office of Inspector General reported that Ohio Emergency Management Agency did not have an adequate monitoring program. The report recommended that Ohio take several steps to remedy this situation. Implementing a program of regular on-site monitoring was among these steps. At the time, the State Administrative Agency concurred with this recommendation and other monitoring-related recommendations. In its written comments to the report, the State said they had developed and implemented a comprehensive subgrantee monitoring program by July 2006 that included a goal to conduct on-site reviews annually of each subgrantee. However, an official said that the Ohio Emergency Management Agency had not implemented this on-site monitoring program.

Without regular on-site monitoring of subgrantees, Ohio Emergency Management Agency officials were not fully aware of:

- Difficulties that delays and rework associated with late release of grant funds caused local officials,
- Problems caused by delays in reimbursing subgrantees for grant funded expenditures,
- Procurement practices that did not comply with federal regulations used to buy much of the equipment purchased with grant funds,
- Equipment property management practices that did not comply with federal regulations used by subgrantee and first responder organizations, and
- Subgrantee and first responder organizations progress in achieving program goals and objectives to improve preparedness.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to:

Recommendation #12: Develop methods to better monitor subgrantees, including policies and procedures for on-site monitoring of grant recipients on a recurring basis that include evaluations of the recipients' overall management of the grants and the achievement of program goals.

Management Comments and Auditors' Analysis

FEMA concurred with recommendation 12 and, within 90 days, will request the Ohio Emergency Management Agency implement a monitoring program using best practices to include periodic on-site visits to oversee subgrantee activities. FEMA requested that recommendation 12 be resolved and open pending implementation of the stated corrective actions.

The Ohio Emergency Management Agency acknowledged that on-site monitoring could be improved. The Ohio officials said that with full staff and a compliance specialist now in place, monitoring of subgrantee to meet the intent of recommendation 12 can be accomplished and improvements will be realized in this area.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. The recommendation is considered resolved and will remain open until such time that corrective actions have been implemented.

Appendix A

Purpose, Scope, and Methodology

The objective of this audit was to determine whether the State of Ohio distributed and spent State Homeland Security Program and Urban Areas Security Initiative grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The goal of this audit is to identify problems and solutions in order to assist FEMA and the State to improve the nation's ability to prevent and respond to all hazards on a local as well as a statewide level.

The scope of this audit included the plans developed by the State to improve preparedness and all hazards response, the goals set within those plans, the measurement of progress towards the goals, and the assessments of performance improvement that result from this activity. Further, the scope included the assessment of these activities within the context of risk to determine if the State's plans produced strategic performance improvements related to the highest areas of risk rather than merely producing improvements in a broader sense.

Together, the entire Homeland Security Grant Program and its five interrelated grant programs fund a range of preparedness activities, including planning, organization, equipment purchase, training, exercises, and management and administration costs. Because of the interrelationship of these grant programs, all were considered when evaluating the planning cycle and the effectiveness of the overall grant program. However, only State Homeland Security Program and Urban Areas Security Initiative funding, and equipment and programs supported by the grant funding, were reviewed for compliance.

The Homeland Security Grant Program awards to Ohio for fiscal years 2007 through 2009 included the following programs and awards:

Appendix A
Purpose, Scope, and Methodology

Homeland Security Grant Program FYs 2007 through 2009				
Funded Activity	FY 2007	FY 2008	FY 2009	Total
State Homeland Security Program	\$16,830,000	\$24,520,000	\$23,127,500	\$64,477,500
Urban Areas Security Initiative	\$15,480,000	\$16,280,500	\$16,590,750	\$48,351,250
Total	\$32,310,000	\$40,800,500	\$39,718,250	\$112,828,750
Law Enforcement Terrorism Prevention Program	\$12,020,000	Not Applicable	Not Applicable	\$12,020,000
Citizen Corps Program	\$441,938	\$439,689	\$436,943	\$1,318,570
Metropolitan Medical Response System Program	\$1,548,871	\$1,927,326	\$1,927,326	\$5,403,523
Grand Total	\$46,320,809	\$43,167,515	\$42,082,519	\$131,570,843

Source: Federal Emergency Management Agency

In accordance with the audit guide, provided by the OIG, the team selected all four Urban Areas Security Initiative cities, all eight Ohio Regional Law Enforcement organizations, 12 of 88 county subgrantees, and four State agencies to perform an in-depth review of the key grant management processes. We selected these locations based on their high dollar grant award amount as well as geographic and demographic factors assuring that urban, suburban, rural, and counties with critical infrastructure were included in our sample. In addition, we sought input from the State Administrative Agency for input on known problems at any particular subgrantee.

Specifically, we visited the following 4 State agencies and 24 local subgrantees:

State Agencies

- State Administrative Agency, Ohio Emergency Management Agency
- Department of Administrative Services, Office of Information Technology
- Department of Transportation
- Ohio Office of Homeland Security

Appendix A

Purpose, Scope, and Methodology

Urban Areas Security Initiative

- Cincinnati Urban Areas Security Initiative
- Cleveland Urban Areas Security Initiative
- Columbus Urban Areas Security Initiative
- Toledo Urban Areas Security Initiative

Law Enforcement Regions

- Ohio Law Enforcement Region 1
- Ohio Law Enforcement Region 2
- Ohio Law Enforcement Region 3
- Ohio Law Enforcement Region 4
- Ohio Law Enforcement Region 5
- Ohio Law Enforcement Region 6
- Ohio Law Enforcement Region 7
- Ohio Law Enforcement Region 8

Ohio Counties

- Butler County
- Cuyahoga County
- Franklin County
- Hamilton County
- Jackson County
- Lake County
- Licking County
- Lucas County
- Montgomery County
- Summit County
- Stark County
- Wood County

The 28 grant recipients visited received:

- 41% of the 2007 State Homeland Security Program grant
- 64% of the 2008 State Homeland Security Program grant
- 61% of the 2009 State Homeland Security Program grant
- 100% of the 2007, 2008, and 2009 Urban Areas Security Initiatives grants

Appendix A

Purpose, Scope, and Methodology

To determine the effectiveness of Ohio's grant program as well as compliance with requirements, at each location we interviewed responsible officials, and reviewed documentation supporting State and subgrantee management of the awarded grant funds (including expenditures for equipment, training, and exercises). We tested property and payment transactions, physically inspected some of the equipment procured with the grant funds and analyzed the procurement process. In addition, we met with representatives of first responder organizations, such as fire, police, sheriff, and health organizations, to discuss the grant process and the benefits the grant funds have brought to their organization and communities.

We conducted reviews at FEMA headquarters, State of Ohio offices, each of the Urban Areas Security Initiative offices, regional law enforcement organizations, and county subgrantee organizations. At these locations, the audit team conducted interviews with key officials directly involved in the management and administration of the State of Ohio Homeland Security Grant Program. The team reviewed and analyzed data related to grant management and associated processes identified by the team and discussed with Ohio State Officials at the beginning of the audit. These key management processes included:

- Threat, capability, and needs assessment
- Grant application preparation and submission
- Grant funds allocation
- Grant expenditure and reporting
- Grant monitoring

We conducted the audit between November 2010 and May 2011, in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (2007 Revision). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. This was a performance audit as defined by Chapter 1 of the *Standards*, and included a review and report of program activities with a compliance element.

Appendix A
Purpose, Scope, and Methodology

Foxx & Company was 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, Foxx & Company was neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had Foxx & Company been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to its attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of Ohio.

While the audit was being performed and the report prepared under contract, the audit results are being reported by the DHS OIG to appropriate FEMA and State of Ohio officials.

Appendix B Management Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472



FEMA

OCT 13 2011

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: *Adm. of Ohio*, for
David J. Kaufman
Director
Office of Policy and Program Analysis

SUBJECT: Federal Emergency Management Agency's (FEMA's) Response to Draft OIG Report, *The State of Ohio's Management of State Homeland Security Program (SHSP) and Urban Areas Security Initiatives (UASI) Grants Awarded during Fiscal Years 2007 through 2009*

Thank you for the opportunity to comment on your draft report. The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. Our responses to the recommendations are as follows:

OIG Recommendation #1: We recommend that the Assistant Administrator, Grant Programs Directorate (GPD), require the Ohio Emergency Management Agency (OEMA) to review the subgrantee application and approval process to identify ways to make it more efficient and less time consuming.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the OEMA inform FEMA, within 90 days of receipt of this response via the grantee notification memo, as to whether or not such an assessment of the current policies and procedures involved with the execution of subgrantee awards has occurred and if any modifications will be made to expedite expenditures. If the assessment has not yet occurred, FEMA will require OEMA to complete the assessment within 90 days of receipt of this response.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

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Appendix B

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OIG Recommendation #2: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to provide detailed guidance to the subgrantees concerning the process upon implementation.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA provide a detailed process to develop and deliver guidance and additional training as required to the subgrantees concerning the revised subgrantee application and approval process, within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open, pending implementation of the stated corrective actions.

OIG Recommendation #3: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to establish a clear time standard for processing payment requests consistent with reasonable business practice.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA establish a standard for processing payment requests consistent with reasonable business practice, within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #4: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to conduct a comprehensive analysis of the payment procedures, documentation requirements, and automated systems to identify ways to streamline the process while still maintaining accountability for compliance with grant requirements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA analyze the payment procedures, documentation requirements and automated grant systems, and subsequently identify ways to streamline these processes while maintaining grant compliance, within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #5: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to establish and provide training on the revised process for State grant specialists and subgrantee staff.

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FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA develop a process to provide State staff and subgrantees sufficient training on streamlined payment procedures, documentation requirements and automated grant systems, within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #6: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to consider instituting an Electronic Grant Management System users group to identify and resolve future process problems.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA report on the development of an Electronic Grant Management System users group, which will be able to review, identify, and resolve process problems, within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #7: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to develop and provide to all Ohio Emergency Management Agency grant staff and subgrantee grant managers, training on State and federal regulations pertaining to competitive procurement.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request OEMA indicate that procedures are outlined in the Administrative Plan for Homeland Security Grants to ensure State staff and subgrantees follow Federal requirements for competitive procurement within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #8: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to prepare, publish, and disseminate guidance detailing procurement regulations and procedures for acquiring equipment and services using FEMA grant funds to all Ohio municipal and county purchasing departments that assist subgrantees in acquiring equipment or services with Homeland Security grant funds.

FEMA Response: FEMA concurs with this recommendation.

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FEMA will request OEMA issue guidance to all subgrantees detailing procurement regulations and procedures for acquiring equipment and services using FEMA grant funds within 90 days of receipt of this response via the grantee notification memo.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #9: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to complete a review of all grant funded purchases using FYs 2007, 2008, and 2009 State Homeland Security Program and Urban Areas Security Initiative grant funds exceeding \$100,000 to: (a) Identify those made as sole source procurements and verify that sole source procurement was justified, (b) Document that the price obtained was fair and reasonable, and (c) Disallow all procurements that fail to meet these requirements.

FEMA Response: FEMA concurs with the intent of this recommendation. Appendix F of the FY 2008 HSGP Guidance states: "Prior to the transition to FEMA, the former Office of Grants and Training preparedness programs followed The Department of Justice's codified regulations, 28 CFR and the OGO Financial Management Guide. The former Office of Grants and Training is now within FEMA and all preparedness programs will follow FEMA's codified regulations, 44 CFR." Based on this language, only those purchases exceeding \$100,000 with FY 2007 HSGP funds will be required to be reviewed. The requirement for FEMA review of sole source procurements did not apply to FY 2008 and 2009 procurements, so those procurements will not be required to be reviewed.

Within 90 days of receipt of this response via the grantee notification memo, FEMA will request OEMA review all grant funded purchases using FY 2007 State Homeland Security Program and Urban Areas Security Initiative grant funds exceeding \$100,000 to verify that sole source procurement was justified, the price obtained was fair and reasonable, and determine if any expenditures failed to meet these requirements.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #10: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to develop and disseminate guidance to all subgrantees establishing property management standards that fully comply with federal requirements.

FEMA Response: FEMA concurs with this recommendation.

Within 90 days of receipt of this response via the grantee notification memo, FEMA will request OEMA provide property management guidance to all subgrantees, to include: property tracking sheets which provide property, vendor number, grant number, and current location details to its subgrantees. The tracking sheets will be implemented immediately.

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FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #11: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to develop policies and procedures requiring on-site monitoring of grant recipient compliance with property management standards.

FEMA Response: FEMA concurs with this recommendation.

Within 90 days of receipt of this response via the grantee notification memo, FEMA will request OEMA develop a policy and procedure to verify the adequacy of subgrantee control and accountability systems of grant funded property through on-site monitoring.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #12: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Ohio Emergency Management Agency to develop methods to better monitor subgrantees, including policies and procedures for on-site monitoring of grant recipients on a recurring basis that include evaluations of the recipients' overall management of the grants and the achievement of program goals.

FEMA Response: FEMA concurs with this recommendation.

Within 90 days of receipt of this response, via the grantee notification memo, FEMA will request OEMA implement a monitoring program using best practices that includes periodic on-site visits to oversee the activities of subgrantees. OEMA will use these on-site visits to evaluate subgrantees' overall grants management activities.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

We thank you, again, for the opportunity to review and update our comments to your recommendations contained in your final report. Should you have further questions regarding our response, please do not hesitate to call FEMA's Chief Audit Liaison, Brad Shefka, at 202-646-1308.

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Management Comments to the Draft Report



OHIO DEPARTMENT
OF PUBLIC SAFETY
EDUCATION • SERVICE • PROTECTION

- Administration
- Bureau of Motor Vehicles
- **Emergency Management Agency**
- Emergency Medical Services
- Office of Criminal Justice Services
- Ohio Homeland Security
- Ohio Investigative Unit
- Ohio State Highway Patrol



John R. Kasich, Governor
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Nancy J. Dragani
Executive Director

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(614) 889-7150
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October 3, 2011

Foxx & Company
Attention: Bill Moore
700 Goodall Complex
324 West Ninth Street
Cincinnati, Ohio 45202

Dear Mr. Moore:

The Ohio Emergency Management Agency (OEMA) would like to thank you and your team for providing us feedback from your recent Office of Inspector General Audit of the Homeland Security Grant Program. We would like to take this opportunity to provide comments towards the audit and recommendations noted in the draft version of the letter discussed at our September 19, 2011 exit conference.

General comments:

The audit took into account grants that were open and active through a period of significant change in Ohio EMA's administrative processes and structure. Included in these changes was the implementation of the Electronic Grants Management System (EGMS) and significant personnel changes to include replacement of the entire management team and a turn-over of 75 percent of grants management staff in the Preparedness Grants Branch. While we acknowledge that the implementation and timing of these changes contributed to the process delays captured in the scope of the audit, we feel that the net outcome of these changes has been an improvement to customer service and process timeliness that is evident in our day to day operations and will be reflected in future reviews of grant programs.

Item 1: Untimely Release of Grant Funds to Sub-grantees

Recommendation #1: Review the sub-grantee application and approval process to identify ways to make it more efficient and less time consuming.

Comment: We concur. Preparedness Grants Branch staff regularly review the time frames and take appropriate actions to streamline processes. We will continue to take these actions.

Recommendation #2: Provide detailed guidance to the sub-grantees concerning the process upon implementation.

Comment: We concur. Guidance and Grant Agreements for program years beyond the scope of the audit already include more detailed instruction on the necessary steps to complete the application and access funds. Ohio EMA will review and update this guidance as necessary to ensure a clear picture is presented to sub-grantees on actions required and assistance that is available. While Ohio EMA will continue to take these actions, it must

Mission Statement

"to save lives, reduce injuries and economic loss, to administer Ohio's motor vehicle laws and to preserve the safety and well being of all citizens with the most cost-effective and service-oriented methods available."

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Ohio Department of Public Safety
Page 2

also be noted that a sub-grantee has responsibilities in the award/release process that must be done accurately and timely to ensure that funds are available in the most expeditious manner. Ohio EMA will work with these sub-grantees to get them to a reasonable time-frame realized by many other sub-grantees of these programs.

Item 2: Untimely Payment to Sub-grantees for Grant Expenditures

Recommendation #3: Establish a clear time standard for processing payment requests consistent with reasonable business practice.

Comment: Ohio EMA strives to process all reimbursements in a manner that would allow for timely payment of contracts, invoices and other obligations. While not formalized in any procedures, Preparedness Grants Branch management has implemented an expectation of cash requests processed within five business days of receipt in the system. Based on this expectation, the process then allows for approximately two weeks to draw federal funds, voucher payments and transfer funds to sub-grantees – allowing approximately one week for sub-grantees to execute payment within 30 days. Noting that this is a reasonable timeframe, there are variables beyond Ohio EMA’s control in the process that may delay the overall payment time. Such items include: cash requests that have been submitted without proper documentation; cash requests submitted for items not contained in an approved budget; state accounting processes (outside of Department of Public Safety, Ohio EMA) that may delay the deposit of funds from federal accounts to Ohio EMA. We concur with using a “standard” that is consistent with reasonable business practices as a benchmark in improving the timeliness of our payment processing; however, we do not plan to sacrifice internal controls already in place in order to achieve this “standard.” Ohio EMA will review the current process and look for efficiencies that can be achieved, realizing there will continue to be circumstances outside of Ohio EMA’s control that will limit the ability to consistently meet the “standard” established.

Recommendation #4: Conduct a comprehensive analysis of the payment procedures, documentation requirements, and automated systems to identify ways to streamline the process while still maintaining accountability for compliance with grant requirements

Comment: We concur; Preparedness Grants Branch staff regularly review the time frames and take appropriate actions to streamline processes. We will continue to take these actions.

Recommendation #5: Establish and provide training on the revised process for State grant specialists and sub-grantee staff.

Comment: Ohio EMA continues to offer refresher training to sub-grantees on the EGMS system. Additionally, Ohio EMA staff has increased their awareness and training on grants management and administration. We will continue these efforts to enhance our staffs expanding knowledge base.

Recommendation #6: Consider instituting an Electronic Grant Management System users group to identify and resolve future process problems.

Comment: We concur. Ohio EMA noted during the SAA interview portion of the audit that it was working on establishment of an EGMS working group. Since the audit has been conducted, the vendor that provides EGMS has offered a new product to replace the existing

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system. As part of the decision making process, Ohio EMA will be reaching out to several stakeholders at the sub-grantee level to review, critique and make recommendations on the new system.

Item 3: Noncompliance with Procurement Regulations

As mentioned in the audit exit conference, we're requesting that page 11 of the audit report be updated to include the provision outline in 44 CFR Part 13.36 (d) (4) (i) (D) "After solicitation of a number of sources, competition is determined to be inadequate." Additionally, Ohio EMA is requesting that the document (page 11) be revised to reflect the applicability of the Department of Homeland Security (DHS), Financial Management Guide to only the fiscal year 2007 Homeland Security Grant Program. With the Financial Management Guide reference corrected, we further request that references to "seeking permission" be removed from the report unless relevant to the FY2007 grant.

Ohio EMA is requesting that the paragraph on page 12 that details the state's procurement of EOC software be amended or removed. We reference 44 CFR Part 13.36 (a) *States*.

"When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its no-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations."

Ohio followed the same procurement procedure that is required for non-federal funds to procure the EOC software – thus meeting the requirement of 44 CFR. As such, reference to the purchase under the category of non-compliance with procurement regulations is incorrect.

Recommendation #7: Develop and provide to all Ohio Emergency Agency grant staff and sub-grantee grant managers, training on State and federal regulations pertaining to competitive procurement.

Comment: We concur. After the conclusion of the audit, Ohio EMA made available to the Preparedness Grants Branch an individual to fulfill the role of a compliance specialist. The background of this individual is procurement (grant and non-grant). As such, processes, procedures and documents are being reviewed and revised to fully reflect the federal requirements for procurement. An objective of this position's work plan includes a technical support document that can be offered to sub-grantees to facilitate meeting grant requirements while not slowing the procurement process. Through this process, Ohio EMA feels confident that staff will receive the necessary training and that it will be made available to all sub-grantees.

Recommendation #8: Prepare, publish, and disseminate guidance detailing procurement regulations and procedures for acquiring equipment and services using FEMA grant funds to all Ohio municipal and county purchasing departments that assist subgrantees in acquiring equipment or services with Homeland Security grant funds.

Comment: We concur. As mentioned in regards to recommendation number seven, Ohio EMA has installed a compliance specialist in the preparedness grants branch. An objective of this position's work plan includes a technical support document that can be offered to sub-grantees (at all levels) to facilitate meeting grant requirements.

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Recommendation #9: Complete a review of all grant funded purchases using FYs 2007, 2008, and 2009 State Homeland Security Program and Urban Areas Security Initiative grant funds exceeding \$100,000 to: (a) Identify those made as sole source procurements and verify that sole source procurement was justified, (b) Document that the price obtained was fair and reasonable, and (c) Disallow all procurements that fail to meet these requirements.

Comment: Ohio EMA will make efforts to review all future procurements in the FY2008 and FY2009 grant programs as they are still open and active. Any procurement beyond the simplified acquisition threshold that does not comply with 44 CFR will be held for further review and documentation. Additionally, the Preparedness Grants branch is amending the monitoring program to include procurement processes to better ascertain trends in procurement errors.

Item 4: Noncompliance with Property Management Requirements

Recommendation #10: Develop and disseminate guidance to all sub-grantees establishing property management standards that fully comply with federal requirements.

Comment: We concur. The compliance specialist is currently working on a guidance and "best practice" template for sub-grantee use. Upon completion, Ohio EMA Preparedness Grants Branch will make the documents available to sub-grantees along with technical assistance as needed.

Recommendation # 11: Develop policies and procedures requiring on-site monitoring of grant recipient compliance with property management standards.

Comment: We concur. The compliance specialist is amending the monitoring program to include more detailed review of inventory/property management. Monitoring visits that occurred since implementing the compliance specialist have been provided with more detailed feedback and corrective actions on property management. We will continue to take these actions in our monitoring program.

Item 5: Inadequate Monitoring of Sub-grantees

Recommendation #12: Develop methods to better monitor sub-grantees, including policies and procedures for on-site monitoring of grant recipients on a recurring basis that include evaluations of the recipients' overall management of the grants and the achievement of program goals.

Comment: Ohio EMA acknowledges that the monitoring program in regards to on-site monitoring can be improved. However, starting in September, 2006 Ohio instituted a desk review process that is utilized in grant administration activities of the Homeland Security Grant Program. The desk review process has been implemented for the budget approval and cash request processing. Any deficiency in the on-site monitoring can be directly attributed to staffing shortages and turn-over. The process and tools for monitoring have been in place and need only minor adjustment to capture the recommendations of this report. With full staffing in place and the addition of a compliance specialist with a focus on the monitoring program, Ohio EMA is confident that improvements will be realized in this area of improvement.

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Again, we would like to thank you for providing us feedback on our grant management and administration and the opportunity to comment. If you have any questions or concerns, please feel free to contact Andrew D. Elder, Preparedness Grants Branch Chief at adelder@dps.state.oh.us or by phone at (614) 889-7178.

Sincerely,



Nancy Dragani
Executive Director

CC: Aimee Clancy, FEMA GPD
File

Appendix C

Homeland Security Grant Program Background

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies. The Homeland Security Grant Program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administration costs. Programs include:

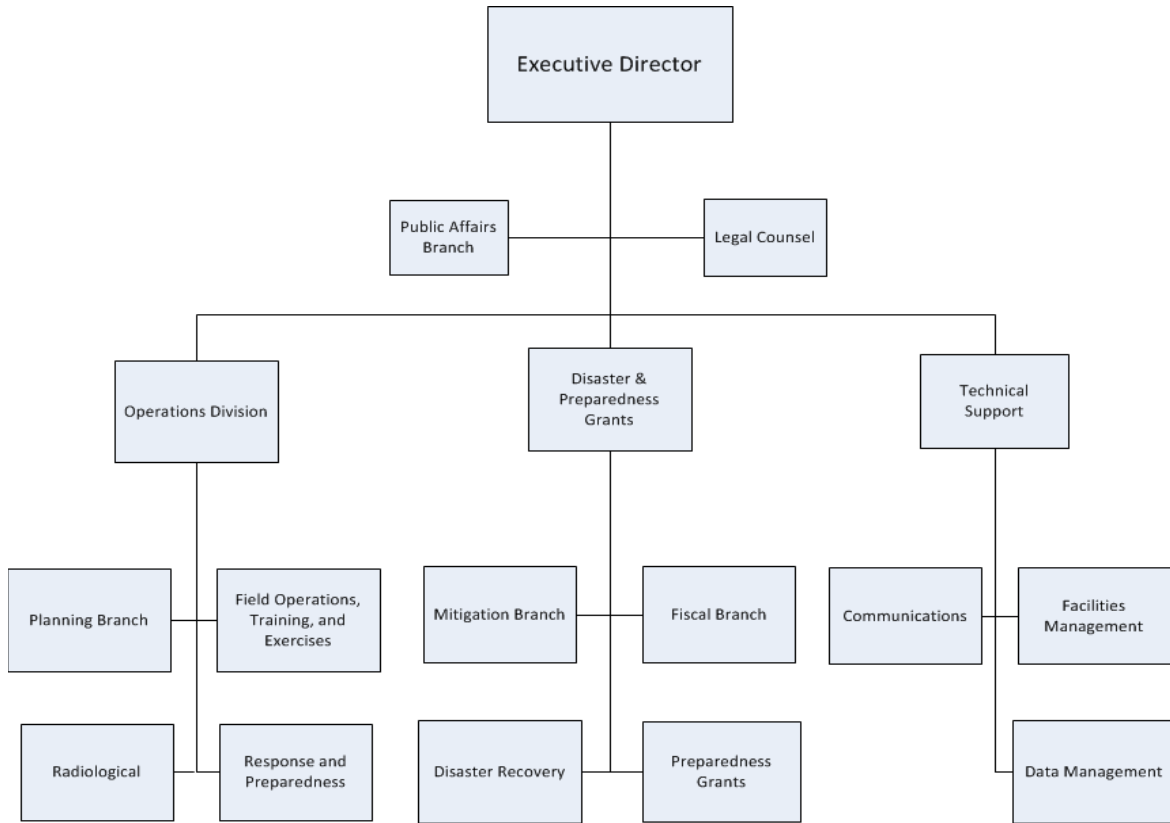
- **State Homeland Security Program** provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from acts of terrorism and other catastrophic events. The program supports the implementation of the State Homeland Security Strategy to address the identified planning, equipment, training, and exercise needs.
- **Urban Areas Security Initiative** provides financial assistance to address the unique planning, equipment, training, and exercise needs of high risk urban areas, and to assist in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism and other disasters. Allowable costs for the urban areas are consistent with the State Homeland Security Program. Funding is expended based on the Urban Area Homeland Security Strategies.

In addition, the Homeland Security Grant Program includes other interrelated grant programs with similar purposes. Depending on the fiscal year these include:

- Metropolitan Medical Response System
- Citizen Corps Program
- Law Enforcement Terrorism Prevention Program (through FY 2007)

Appendix D
Ohio Emergency Management Agency Organization Chart

Organization as of November 2010



Source: Ohio Emergency Management Agency

Appendix E
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretariat
Director, GAO/OIG Liaison Office
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Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Assistant Administrator, Grant Programs Directorate
Federal Emergency Management Agency Audit Liaison
Grant Programs Directorate Audit Liaison

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Chief, Homeland Security Branch
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