

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**The State of Michigan's Management  
of State Homeland Security Grants  
Awarded During Fiscal Years  
2002 through 2004**





Homeland  
Security

February 15, 2008

Preface

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

The attached report presents the results of the audit of the State of Michigan's management of State Homeland Security Grants awarded during Fiscal Years 2002 through 2004. We contracted with the independent public accounting firm of Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. Foxx & Company's report identified seven reportable conditions where State management of the grant funds could be improved. The report contains 18 recommendations addressed to the Administrator, Federal Emergency Management Agency.

Foxx & Company is responsible for the attached auditor's report dated January 24, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

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

Richard L. Skinner  
Inspector General



January 24, 2008

Mr. James L. Taylor  
Deputy Inspector General  
Office of Inspector General  
Department of Homeland Security  
245 Murray Drive, S.W. Building 410  
Washington, D.C. 20528

Dear Mr. Taylor:

Foxx & Company performed an audit of the State of Michigan's management of the Department of Homeland Security, Office of Grants and Training, State Homeland Security Grants for Fiscal Years 2002, 2003, and 2004. The audit was performed in accordance with our Task Order No. TPD ARC-06-K-00206, dated May 17, 2006.

This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Grant Programs. These programs are commonly referred to as first responder grant programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, June 2003 revision. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the audit report comments on costs claimed by the State Administrative Agency, we did not perform a financial audit, the purpose of which would be to render an opinion on the agency's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

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

Sincerely,

Foxx & Company

Martin W. O'Neill  
Partner

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## **Abbreviations**

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

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## Executive Summary

Foxx & Company completed an audit of Department of Homeland Security State Homeland Security Grants awarded to the State of Michigan. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of Michigan prepare for and respond to terrorist attacks. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

The audit included review of approximately \$129 million awarded to the State of Michigan from the Fiscal Year 2002 State Domestic Preparedness Program, Fiscal Year 2003 Parts I and II State Homeland Security Grant Program, and the Fiscal Year 2004 Homeland Security Grant Program. Michigan's Department of State Police was the designated State Administrative Agency for the grant programs. The Agency's Emergency Management and Homeland Security Division managed the programs, commonly referred to as first responder grant programs.

Although the scope of this audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on Michigan's financial statements or the funds claimed in the Financial Status Reports submitted to Federal Emergency Management Agency.

Overall, the State Administrative Agency did an adequate job administering program requirements related to identifying statewide needs and strategy, disbursing grant funds, and ensuring that all of the available funds were used. However, the State Administrative Agency did not have a documented analysis of how effective its efforts had been in preparing first responders for terrorist incidents. As a result, the State Administrative Agency did not have a valid basis for justifying future first responder grant funds and management decisions. The State Administrative Agency did not ensure that:

- The use of grant funds was linked to assessed needs and established priorities,
- Established goals and objectives for local jurisdictions were measurable,
- Subgrantee monitoring and evaluation system was effective,
- First responder training needs were met,

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- Reallocated Fiscal Year 2003 Part II funds were fully explained and documented,
  - Local jurisdictions implemented required controls and accountability systems for procured personal property, and
  - All equipment procured was needed, used for its intended purpose, and ready for emergency use.

The body of the report provides detailed discussions and recommendations for each of these findings. The recommendations call for the Administrator, Federal Emergency Management Agency, to require the State Administrative Agency to take actions to:

- Link grant fund expenditures and future funding requests to filling identified shortfalls in equipment, training, and exercises in accordance with State priorities,
- Establish measurable goals and objectives for filling the shortfalls and accomplishing the priorities,
- Improve the statewide system for monitoring and evaluating local jurisdiction activities,
- Ensure that needed training is provided to local first responder personnel,
- Provide a fully supported explanation for the reallocated Fiscal Year 2003 Part II funds that could not be used by local jurisdictions,
- Ensure that local jurisdictions establish and maintain required controls and accountability systems for procured personal property, and
- Emphasize that equipment purchases are to be limited to items that are needed and that the equipment is to be utilized only for authorized purposes and maintained in a ready condition for emergency use.

Federal Emergency Management Agency and State of Michigan officials provided verbal concurrences with the recommendations contained in this report at their exit conferences on November 30 and December 6, 2007, respectively. Additionally, the State officials provided a written response to the recommendations on December 11, 2007. (See the full text of their response in Appendix C.) The Administrator, Federal Emergency Management Agency, will provide corrective actions and a plan to implement those corrective actions within 90 days of the date of this report.

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## Background

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

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

DHS is responsible for enhancing the capabilities of state and local jurisdictions to respond to, and mitigate the consequences of, incidents of domestic terrorism. FEMA provides grant funds to aid public safety personnel (e.g., first responders) to acquire specialized training, participate in exercises, and procure equipment necessary to safely respond to and manage terrorist incidents involving chemical, biological, radiological, nuclear, or explosive weapons, including weapons of mass destruction. First responders include firefighters, police, paramedics, and others. The grants are collectively referred to as first responder grants. These types of grants within the Homeland Security Grant Program provide federal funding to help states and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism.

### First Responder Grant Programs

**Fiscal Year (FY) 2002 State Domestic Preparedness Program:** This program provided financial assistance to each of the states, United States Territories, the District of Columbia, and the Commonwealth of Puerto Rico. DHS provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to respond to incidents of terrorism involving the use of weapons of mass destruction; (2) the protection of critical infrastructure; (3) the design, development, conduct, and evaluation of weapons of mass destruction exercises; and (4) the reimbursement for administrative costs associated with the implementation of the statewide domestic preparedness strategies.

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**FY 2003 State Homeland Security Grant Program - Part I:** This program provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear, or explosive weapons; (2) the protection of critical infrastructure and prevention of terrorist incidents; (3) the design, development, conduct, and evaluation of chemical, biological, radioactive, nuclear, or explosive weapons exercises; (4) the design, development, and conduct of state chemical, biological, radioactive, nuclear, or explosive weapons training programs; and, (5) the updating and implementing of each State Administrative Agency's homeland security strategy.

**FY 2003 State Homeland Security Grant Program - Part II:** This program supplemented funding available through FY 2003 for the State Homeland Security Grant Program to enhance first responder preparedness. State Homeland Security Grant Program Part II funds also were available to mitigate the costs of enhanced security at critical infrastructure facilities during the period of hostilities with Iraq and future periods of heightened threat.

**FY 2004 Homeland Security Grant Program:** This program integrated the Homeland Security Grant Program, the Law Enforcement Terrorism Prevention Program, and the Citizen Corps Program into a single grant program. Funding from this combined program was to enhance the coordination of regional efforts to prevent chemical, biological, nuclear, explosive, and cyber attacks.

The State of Michigan received approximately \$129 million from these four grant programs. The funded activities and amounts for each program are shown in the following table.



**Table 1**

Michigan Homeland Security Grants Awards FYs 2002 through 2004					
Funded Activity	Grant Program (‘000s)				Totals
	2002 State Domestic Preparedness Program	2003 State Homeland Security Grant Program, Part I	2003 State Homeland Security Grant Program, Part II	2004 Homeland Security Grant Program	
Equipment	\$8,561	\$11,170	N/A	N/A	\$19,731
Exercise	\$397	\$2,793	N/A	N/A	\$3,190
Training	N/A	\$838	N/A	N/A	\$838
Planning and Administration	N/A	\$1,117	N/A	N/A	\$1,117
First Responder Preparedness	N/A	N/A	\$36,540	N/A	\$36,540
Critical Infrastructure Protection	N/A	N/A	\$5,622	N/A	\$5,622
State Homeland Security	N/A	N/A	N/A	\$47,083	\$47,083
Law Enforcement Terrorism Prevention	N/A	N/A	N/A	\$13,971	\$13,971
Citizen Corps	N/A	N/A	N/A	\$978	\$978
<b>TOTALS</b>	<b>\$8,958</b>	<b>\$15,918</b>	<b>\$42,162</b>	<b>\$62,032</b>	<b>\$129,070</b>

## Michigan Emergency Management and Homeland Security Division

Michigan’s Governor designated the Michigan State Police to be the State Administrative Agency for the homeland security grant programs. The responsibility for administering the homeland security grants was assigned to the State Police’s Emergency Management Division. The Division was renamed the Emergency Management and Homeland Security Division in 2006. The Emergency Management and Homeland Security Division (grantee) administered all four of the grant programs for the State, while also carrying out its other emergency management responsibilities.

The Emergency Management and Homeland Security Division was under the direction of the Deputy State Director of Emergency Management. As of October 2006, the Emergency Management and Homeland Security Division had 82 funded positions, which had increased from 55 funded positions in February 2003. The organization chart as of May 2007 for the Emergency Management and Homeland Security Division is included as Appendix B.

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Michigan's local jurisdictions receiving funds as subgrantees under the grant programs included 83 counties and 21 cities, townships, and other local government entities. The subgrants were typically administered by an emergency management director or coordinator employed by the county or other local jurisdiction. "First responders" included law enforcement, fire services, emergency medical services, health services, and other personnel within the local jurisdiction's boundary.

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## Results of Audit

DHS awarded approximately \$129 million to the State of Michigan from the FY 2002 State Domestic Preparedness Program, from the FY 2003 Parts I and II State Homeland Security Grant Program, and from the FY 2004 Homeland Security Grant Program. The State Administrative Agency awarded subgrants totaling about \$99.3 million to the State's 83 counties and 21 other local jurisdictions (e.g., cities and townships). Counties and other local jurisdictions used the grant funds to purchase equipment and provide training and exercises for individual first responders.

Foxx & Company completed an audit of the State of Michigan's management of DHS FYs 2002, 2003, and 2004 first responder grants. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of Michigan prepare for and respond to terrorist attacks. Nine "researchable questions," developed by the DHS Office of the Inspector General, provided the framework for the audit. The "researchable questions" were related to the State Administrative Agency's planning, management, and results evaluations of grant activities. Appendix A provides additional details on the objectives, scope, and methodology of this audit, including the nine researchable questions.

We visited 7 counties and 30 first responder units within those counties (law enforcement, fire, emergency services, and other entities). The State Administrative Agency awarded the 7 counties and the 30 first responder units about \$5.7 million from the FYs 2002, 2003, and 2004 first responder grant programs.

Overall, the State Administrative Agency did an adequate job administering program requirements related to identifying statewide needs and strategy, disbursing grant funds, and ensuring that all of the available funds were used. However, the State Administrative Agency did not have a documented analysis of how effective its effort had been in preparing first responders for terrorist incidents. As a result, the State Administrative Agency did not have a valid basis for justifying future first responder grant funds and management decisions. The State Administrative Agency did not ensure that:

- The use of grant funds was linked to assessed needs and established priorities,
- Established goals and objectives for local jurisdictions were measurable,

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- Subgrantee monitoring and evaluation system was effective,
  - First responder training needs were met,
  - Reallocated FY 2003 Part II funds were fully explained and documented,
  - Local jurisdictions implemented required controls and accountability systems for procured personal property, and
  - All equipment procured was needed, used for its intended purpose, and ready for emergency use.

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

Our findings warrant attention at local, state, and federal levels. Managers at all levels need to provide stronger leadership, more specific direction to local jurisdiction personnel who are being relied upon to be effective first responders, and much-improved evaluations of results against measurable goals and objectives.

## **Use of Grant Funds Not Linked to Needs Assessments and Priorities**

The State Administrative Agency did not require local jurisdictions to link their acquisitions of equipment, training, and exercises to the needs assessment results or the State-established priorities. The State Administrative Agency did not evaluate progress made from year to year in meeting identified shortfalls and determine if priorities were being followed. There was little assurance that procured items appropriately addressed the equipment, training, and exercise shortfalls identified in the needs assessments. Also, the State Administrative Agency had little assurance that local decisions on how to spend grant funds were consistent with the State Administrative Agency's identified priorities.

### Needs Assessments Identified Shortfalls

DHS Program Guidelines for the FY 2002 grant program required that the receipt of first responder grant funds would be contingent upon the development of a domestic preparedness strategy. The guidelines stated that the strategy must be directly linked to the results of needs assessments in recognition of the threat of terrorist attacks using weapons of mass destruction.

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The State Administrative Agency's approved strategic plan dated October 2001 identified and quantified the overall assessed needs and shortfalls for equipment, training, and exercises. Concerning *equipment* shortfalls, the strategy indicated local jurisdictions had only 22,903 (12.5 percent) of 183,123 equipment line items required to mount an effective response to a weapons of mass destruction incident. Also, the strategy indicated that only 46,941 of the 202,058 total personnel population needing weapons of mass destruction *training* were currently trained. Accordingly, 155,117 (76.8 percent) were not currently trained. Completion of required *exercises* ranged from 12.5 percent for field training on biological hazards to 100 percent for field training on incendiary hazards.

#### State Plan Identified Priorities

The State Administrative Agency's October 2001 strategic plan set forth the following *equipment* priorities for local jurisdictions, but did not rank or make the priorities mandatory:

- Personal protective equipment to safeguard law enforcement, fire, medical emergency, and other first responder personnel,
- "Reach back" communications systems for notification and warning in the event of an incident to request mutual aid and State support, and
- Equipment necessary for gross decontamination, as appropriate, and for emergency lifesaving treatment of victims.

The Michigan strategic plan's stated priority for *training* was that weapons of mass destruction awareness-level training was imperative for all emergency responders statewide. The priorities for *exercises* were regional response team field exercises and table top exercises focusing on the priority sequence of chemical, biological, and explosive devices.

#### Meeting Needs and Priorities Not Made Mandatory

The grant agreements between the State Administrative Agency and the subgrantees did not require the subgrantees to fill or reduce shortfalls identified during the needs assessment nor make the identified priorities mandatory. Instead, the State Administrative Agency allowed the subgrantees freedom to select specific equipment, training, and exercise items from comprehensive approved lists without regard to the needs assessments and the stated priorities. Responsible officials in each of the seven local jurisdictions visited said that they relied upon the views of the local planning team members each year when the procurement decisions were made rather than referring to prior reported shortfalls and the priorities. None of the seven

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counties we visited had related their grant fund expenditures to the identified shortfalls or the State-established priorities.

State Administrative Agency officials said they did not tell subgrantees what to procure following the allocation of the funds each year because (1) the local jurisdictions and first responders were in a better position to determine their needs and priorities and (2) FEMA did not require the State Administrative Agency to dictate what the subgrantees procured, so long as the items procured were on the general FEMA-approved lists. The State Administrative Agency allowed subgrantees to buy equipment if the equipment was included on FEMA's Approved Equipment List without comparing the items procured with identified shortfalls and established priorities.

The effect of not requiring local jurisdiction to address shortfalls and meet State priorities is illustrated in the case of personal protective equipment, one of the three high-priority items in the strategic plan. Because of complaints from local area first responders about not getting needed personal protective equipment, State Administrative Agency officials issued a bulletin in September 2003 stating that the State "strongly advocates that jurisdictions exercise a duty of care to adequately equip all first responders with a basic level of preparedness." The bulletin included a description of the minimum personal protective equipment (respirators, protective suits, boots, and gloves) for first responder law enforcement, fire, and medical emergency personnel. Despite its concern, the State Administrative Agency did not mandate that local jurisdictions give high priority to filling the preparedness needs of first responder personnel.

Some high-priority personal protective equipment needs were still unmet after the FY 2004 grant funds were expended and even into the FY 2007 grant period:

- In one of the counties we visited, the needs assessment identified hundreds of high-priority personal protective equipment items needed by the County's law enforcement, fire, and emergency medical personnel. However, the County did not purchase any personal protective equipment items under the FYs 2002, 2003, or 2004 grants. Four of the six other counties visited also had unmet personal protective equipment needs.
- Local officials initiated a special project in April 2007 to ensure that each of the approximately 1,000 policemen in the 15 counties in Michigan's Upper Peninsula was equipped with the proper personal protective equipment for responding to a terrorist attack involving weapons of mass destruction. The local project leader said that this project was needed because (1) each of the policemen was a potential

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first responder; (2) some policemen were equipped with a higher level of personal protective equipment than they required, some were equipped with a lower level of personal protective equipment than they needed, and some did not have any personal protective equipment; and (3) leaving each county on its own to ensure that policemen have the proper personal protective equipment and use it appropriately was not a good idea.

These examples illustrate the importance of the State Administrative Agency requiring that personal protective equipment purchases be consistent with established preparedness needs and priorities.

## **Conclusions**

The State Administrative Agency did not ensure that expenditures of first responder grant funds were linked to identified needs and to State-established priorities. The State Administrative Agency had little assurance that local decisions on how to spend grant funds were consistent with the State Administrative Agency's identified priorities.

## **Recommendations:**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Directly link the use of grant funds and future funding requests to filling the shortfalls in equipment, training, and exercises identified during the needs assessment process,
2. Direct local jurisdictions to follow State-established priorities for using grant funds, and
3. Follow up to ensure that the local jurisdictions use future grant funds to meet identified shortfalls consistent with the State's priorities.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. In their written comments, the State Administrative Agency officials agreed that first responder grant funds should be linked to first responder needs and to State-established priorities. Additionally, in their written comments, the State officials cited the following planned actions related to the recommendations:

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- Establishing, via guidance for implementing FY 2006 regional projects, a Regional Homeland Security Planning Board, whose mission is to ensure that homeland security initiatives address capability and program shortfalls and objectives identified in state and regional strategies,
  - Developing, in 2006, a Program and Capability Enhancement Plan which included identifying gaps that needed to be addressed for the state to achieve a baseline level of capability, and
  - Including in the 2007 Grant Guidance (being developed) the requirement to align expenditures with current capabilities.

### **Auditor's Analysis**

The actions cited above are related to front-end program guidance or to program planning and could, if carried out, help accomplish the recommendations. Additional actions are needed to ensure that *actual uses* of funds (i.e., expenditure reimbursements) are consistent with needs assessments and program priorities.

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

### **Established Goals and Objectives Not Measurable**

The State-established list of statewide goals and objectives, although approved by FEMA, did not provide an adequate basis for measuring improvements in local first responders' capability in terms of equipment, training, and exercises. The State Administrative Agency did not establish, nor require local jurisdictions to establish, goals and specific objectives with which to measure progress toward becoming adequately equipped, trained, and exercised as first responders to terrorist attacks involving weapons of mass destruction.

Code of Federal Regulations Title 44 § 13.40, *Monitoring and reporting program performance*, requires that grantees assure that performance goals are achieved. This section, which applies to all grant years included in the audit, also requires that grantees adhere to these same standards in prescribing performance and reporting for subgrantees.

In 1999, DHS issued guidance to grantees for performing a statewide needs assessment that analyzed potential terrorist threats, risks, and vulnerabilities.



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Based on these assessments, grantees and subgrantees were required to identify shortfalls or “gaps” in equipment, training, and exercises and prepare a “Three-Year Statewide Domestic Preparedness Strategy” to remedy the gaps. To measure progress, the guidance required grantees to establish a formal plan to evaluate the effectiveness of the Strategy in improving the State’s ability to respond to terrorism incidents involving weapons of mass destruction. A similar needs assessment process was mandated by DHS in 2003 as a prerequisite to receiving FY 2004 Homeland Security grant funds. DHS guidance for this 2003 assessment required a formal evaluation plan and other requirements to “monitor progress, compile key management information, track trends, and keep the strategy on track.” In addition, it specified that the State Administrative Agency’s new or updated Strategy should include broad-based goals with objectives that were “specific, measurable, achievable, results-oriented, and time limited.”

The Program Guidance for the FY 2002 grant program required applicants to provide an overview of the State Administrative Agency’s implementation plan for the statewide domestic preparedness strategy. The plan was to include measurable program objectives for equipment, exercise, and administrative allocations, a list of corresponding activities, and a description of the specific evaluation methods to be used. Examples of acceptable measures for the components of the program were provided in the guidance. The FYs 2003 and 2004 Program Guidance packages required the applicants to report the progress made on achieving the State’s overall goals and objectives as identified in the state homeland security strategy.

In establishing its statewide goals and objectives, the State Administrative Agency did not develop specific measurable goals and objectives related to local jurisdictions’ receipt and usage of grant funds for equipment, training, and exercises. For example, the statewide goal and objectives related to local jurisdictions’ first responder equipment were as follows:

Goal: Provide local jurisdictions with equipment needed for multiple-discipline response to weapons of mass destruction terrorism incidents.

Objective 1. Increase response equipment for weapons of mass destruction defensive operations.

Objective 2. Ensure resources are distributed to each jurisdiction for procurement of mass gross decontamination capability.

State Administrative Agency officials said that specific goals and objectives had not been established or required for local jurisdictions because the State Administrative Agency believed it was not a FEMA requirement to do so.

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State Administrative Agency officials said that, if an item of equipment was on the FEMA approved list, it was considered an eligible item. Local officials that we visited said they expended the grant funds based on input from first responders. Local officials also said that neither they nor the State Administrative Agency had ever evaluated the local jurisdictions' performance under the grant programs.

## **Conclusions**

Without specific measurable goals and objectives related to individual local jurisdictions, the State Administrative Agency did not have an adequate basis to evaluate the effect that grant funds had on the capability of first responders to respond to terrorist attacks involving weapons of mass destruction. Also, the State Administrative Agency could not consider progress toward goals and objectives in future funding and management decisions.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Develop specific, measurable goals and objectives applicable to local jurisdictions for enhancement of their first response capabilities in terms of adequately equipped, trained, and exercised personnel,
2. Incorporate the goals and objectives into a statewide system for local jurisdictions to measure progress toward achieving the goals and objectives, and
3. Use the progress achieved toward the goals and objectives as a basis for future first responder grant funding decisions.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. In their written comments, the State Administrative Agency officials agreed that the established goals and objectives were not sufficiently specific and measurable. The State officials also provided details on the Agency's initiatives from 2005 through 2007 to improve their homeland security programs and capabilities. The cited initiatives included plans to:

- Establish a systematic plan review, update, and tracking process for all regional and local programs,

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- Develop a quality assurance and evaluation process under which state, regional, and local programs' current status can be assessed and gaps can be identified,
  - Establish a program and capability review process for all regions and local programs to ensure that homeland security efforts are targeted to meet identified needs based on unique regional characteristics, and
  - Develop a monitoring system to track grant funding and strategic expenditures statewide to ensure that funds are being used appropriately, existing capability is sustained, and program guidelines are followed.

### **Auditor's Analysis**

The cited initiatives indicate that the state officials are aggressively pursuing important improvements in their management of homeland security grant programs. If the planned initiatives are effectively implemented, the initiatives should provide the groundwork for the state, regional, and local officials to establish and use meaningful, specific, measurable goals and objectives. The recommendations should remain open until FEMA considers the established goals and objectives as meeting the criteria in Code of Federal Regulations Title 44 § 13.40. That is, FEMA must determine if the goals and objectives are being used in a statewide system for local jurisdictions to measure progress toward achieving the goals and objectives, and the progress achieved toward the goals and objectives are being used as a basis for future first responder grant funding decisions.

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

### **Program Monitoring and Evaluation Not Adequate**

The State Administrative Agency did not require the local jurisdictions to report on progress achieved in improving their capability to respond to terrorist attacks with weapons of mass destruction. In addition, on-site monitoring visits by State officials to local jurisdictions were infrequent and included minimal program performance issues. Accordingly, the State Administrative Agency did not have an adequate picture of how the subgrantees were performing under the grant.

Code of Federal Regulations Title 44 § 13.40, *Monitoring and reporting program performance* (in effect for all grant years), indicates that grantees are

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responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity. Effective monitoring programs involve analysis and evaluation of periodic progress reports and regular site visits.

The State Administrative Agency had no specific information on the degree to which local jurisdictions' use of FYs 2002, 2003, and 2004 grant funds improved their capabilities to respond to terrorist attacks with weapons of mass destruction. Local jurisdictions did not submit progress reports. Also, the State Administrative Agency's site monitoring visits generally did not cover program results issues. The State Administrative Agency did not optimize the benefits of on-site monitoring for detecting problems, such as those found during our visits to selected counties, including:

- Difficulty in locating emergency equipment,
- Questionable need for an emergency response trailer purchased with grant funds,
- Unauthorized use of an emergency tow vehicle for personal commuting, and
- Emergency equipment, such as personal protective equipment and an emergency response trailer, not immediately accessible or ready for emergency use.

State Administrative Agency officials said (1) they did not require local jurisdiction progress reporting because it was not required by FEMA and (2) monitoring visits focused on FEMA-prescribed fiscal and compliance requirements.

## **Conclusions**

Without adequate program monitoring and evaluation, the State Administrative Agency could not assess the activities of the local jurisdictions or measure first responder progress in preparing to respond to terrorist attacks involving weapons of mass destruction.

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## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Establish a system for progress reporting by local jurisdictions that documents their progress toward achieving acceptable levels of equipment, training, and exercises for first responders,
2. Increase the frequency of site visits to local jurisdictions and expand the scope of the visits to include program performance issues, including the use and readiness of equipment for emergencies, and
3. Use the progress reported and the results of the site visits as factors in future management and funding decisions.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. Additionally, in their written comments, the State officials said that, since 2004 they have implemented significant program monitoring and evaluation actions, including the following:

- Inclusion of program performance issues in site visits to local jurisdictions,
- Plans for establishing a systematic plan review, update, and tracking process for regional and local programs, as well as for establishing benchmarks and a system to track grant funding and strategic expenditures statewide,
- Establishing, early in 2007, a performance and reporting unit to develop tools and analyze program expenditures and activities,
- Developing an allowability cost justification form and quarterly reporting form that will improve the system for local jurisdiction progress reporting and monitoring, and
- Developing grant guidance for 2007 that will include the requirement to align expenditures with current capabilities.

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## **Auditor's Analysis**

The State Administrative Agency's planned actions would be sufficient responses to the recommendations provided that (1) local jurisdiction progress reports focus on progress toward achieving acceptable levels of equipment, training, and exercises for first responders, (2) monitoring visits include evaluations of the use and readiness of equipment procured with grant funds, (3) consideration is given to increasing the frequency of monitoring visits, and (4) reported progress and monitoring results are factored into future management and funding decisions.

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

### **Training Needs Not Met**

Substantial funds were allocated for needed training under the FY 2003 Part II program, but subgrantees fell far short of using the funds to provide the training before the grant deadline expired. More than 50 percent of the funds allocated for training to the seven counties visited were withdrawn and reallocated by the State Administrative Agency for other purposes. As a result, opportunities for needed training were lost.

Training is a crucial element to improving capabilities to respond to terrorist attacks with weapons of mass destruction. The State Administrative Agency's original and updated homeland security strategies identified significant needs for training at the local level. The original strategy, published in 2001, indicated that about 77 percent of approximately 200,000 local personnel needing training in weapons of mass destruction had not been trained.

The FY 2002 grant program did not provide any funds for training. Although the FY 2003 Part I program provided \$838,000 to the State for training, none of the seven counties visited received any of those funds. However, the seven counties were awarded a total of \$717,260 for training under the FY 2003 Part II program. Of that total, \$387,620 (54 percent) remained unused and was reallocated by the State Administrative Agency for other uses after the counties' grant deadline expired.

Local officials told us that the grant period for FY 2003 Part II training funds (which was 1 year beginning March 1, 2004 and ending February 28, 2005) did not provide sufficient time for arranging and holding the needed training classes. State Administrative Agency officials agreed, but said the primary reason for the training funds not being spent was that DHS' original guidance did not allow reimbursement of overtime or backfill costs for part-time or

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volunteer first responder personnel who attended training classes. The State Administrative Agency officials said that 70 percent of Michigan's first responders are part-time or volunteer personnel. The officials also said that, by the time DHS changed the guidance to allow overtime for part-time and volunteer personnel, it was too late in the grant cycle for locals to expend the training funds.

The State Administrative Agency's subgrants of FY 2004 program authorized funds to counties for training, equipment, planning, and exercises but did not specify how much was to be applied to each of these purposes. The seven counties visited were awarded a total of \$3.5 million in FY 2004 funds for all purposes. Four of the counties did not spend any of these funds for training, while the other three spent a total of about \$17,000 for training. Accordingly, the training needs for the seven counties were not satisfied with the FY 2004 funds.

## **Conclusion**

Needed training for law enforcement, fire, medical, and other first responder personnel for the seven counties visited was not provided. Subgrantees fell far short of providing the training envisioned under the FY 2003 Part II program. More than 50 percent of the FY 2003 Part II funds allocated for training to the seven counties visited was withdrawn and reallocated by the State Administrative Agency for other purposes. Although the seven counties were authorized to use FY 2004 grant funds for training, only three did so. The other four counties did not spend any of the grant funds on training.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Ensure that unfilled training needs of first responder personnel are adequately addressed under future grants, and
2. Proactively assist local jurisdictions in identifying and scheduling appropriate training opportunities for first responders.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. Additionally, in their written comments, the State Administrative Agency officials acknowledged that:

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- Training needs identified for the FY 2003 Part II grant were not met and, although FY 2004 funds were allowed for training and other purposes, there was no *requirement* that FY 2004 funds be used to fill the needs,
  - Their training center trained over 18,750 first responders between FY 2004 and FY 2007,
  - Over 150,000 local responders have participated in on-line training and another 3,500 local responders attended out-of-state training, and
  - Local responders have many training opportunities that may be provided by funding sources other than DHS grant funds, which need to be considered when determining whether overall training needs have been met.

The state officials' response also included comments on their efforts to publicize and promote training opportunities.

### **Auditor's Analysis**

The response from the State Administrative Agency officials acknowledged that the FY 2003 Part II identified training needs were not met. The State's response also identified other training opportunities for first responders. However, specific actions by the State Administrative Agency were not proposed to ensure that unfilled training needs of first responder personnel are adequately addressed under future grants.

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

### **Reallocated Funds Not Fully Explained or Documented**

The State Administrative Agency did not adequately explain or document the use of \$493,385 in reallocated FY 2003 Part II grant funds originally allocated to seven local jurisdictions for training and planning. State Administrative Agency officials acknowledged that they identified millions of dollars statewide that could not be used by subgrantees, which were withdrawn from the original subgrantees and reallocated for other purposes. However, the State Administrative Agency did not explain or document (1) the amount of the identified pool of funds, (2) which subgrantees received the reallocated funds, and (3) for what the funds were used.



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Code of Federal Regulations Title 44 § 13.20 entitled *Standards for financial management systems* requires that the fiscal control and accounting procedures of the State and its subgrantees must be sufficient to establish that grant funds have not been used in violation of applicable statutes.

The seven counties visited did not use \$493,383 (47 percent) of the training and planning funds allocated by the State Administrative Agency from the FY 2003 Part II grant program. The unused training and planning funds were \$387,620 and \$105,763, respectively. State Administrative Agency officials acknowledged that the problems with spending the allocated training and planning funds were not limited to the seven counties we visited. The officials said that, state-wide, the unspent training and planning funds totaled several million dollars. The officials also said that, once the counties' deadlines for spending the funds expired, the State Administrative Agency withdrew the funds from the counties' grant award amounts and reallocated the funds for "quick turn-around" projects before the State's grant period expired.

In March 2007, State Administrative Agency officials said that they could not account for the reallocated funds on a dollar-for-dollar basis. The officials agreed to provide us with an explanation of to whom and for what the unused FY 2003 Part II funds were reallocated. After several follow-up contacts, the State Administrative Agency's explanation, dated June 4, 2007, included the following comments:

When money was unable to be spent by a subgrantee for the designated purposes, it was withdrawn from their award amount and pooled for another distribution on another eligible activity. It either was done through a new grant agreement if a new subgrantee was identified, or through an award adjustment to a subgrantee with an existing grant agreement. So, we cannot say that a dollar originally awarded to County X and returned to the state went to County Y. What we can say is that the pool of unspent local share money was identified and re-awarded for other projects with either existing or new local subgrantees. The process maintained the 80/20 requirement of the grant.

The State Administrative Agency's response did not include supporting documentation for its management of the reallocated funds, including the amount of the "pool of unspent local share money" that "was identified," or to whom and for what the money was "re-awarded." Instead, the State Administrative Agency said that it had fully and completely accounted for the 2003 Part II funds via the FEMA-required *final* Categorical/Discretionary Assistance Progress Report and related documents, such as schedules of fund allocations and payments, and narratives extracted from the Categorical

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Assistance Progress Report. Copies of these documents were attached to the State Administrative Agency's response.

We analyzed the documents attached to the State Administrative Agency's response and concluded that a full and complete explanation was not provided for several reasons, including the following:

- There was nothing in the documents to tie the allocation and payment schedules to the total amount of the FY 2003 Part II grant, which was \$42,162,000. These schedules included FY 2003 Urban Area Security Initiative allocations and payments, with no explanation of how this information is related to the FY 2003 Part II State Homeland Security Grant Program.
- The Categorical Assistance Progress Report's cover sheet, while containing the name and grant number for the FY 2003 Part II grant, showed the total grant amount as \$62,032,000, or almost \$20 million more than the FY 2003 Part II grant amount. Also, the report was identified as a "regular" rather than a "final" progress report. Furthermore, a reference in the progress report to "attachments submitted" did not identify which, if any, of the documents attached to the State Administrative Agency's June 4, 2007, response had been submitted to FEMA with the progress report.
- There were no supporting documentation or comments concerning the amount of unexpended funds that was reallocated, to which subgrantees the funds were reallocated, or how the funds were used.

In August 2007, we provided Michigan officials with a preliminary statement of the results of our audit, including the information presented in this section on the need to account for the reallocated planning and training funds. On October 9, 2007, the State Administrative Agency's Internal Auditor advised us by telephone that she had reviewed the State Administrative Agency's June 4, 2007, documentation package (described above). She said that she and her staff had subsequently developed a full reconciliation of the funds, which was a very difficult and time-consuming task.

By a letter dated October 12, 2007, the Internal Auditor provided us additional, general information and numerous summary schedules assembled in her efforts to fully account for the FY 2003 Part II grant funds. The additional information and summary schedules consisted of about 200 pages, including a summary schedule showing general "grant areas" in which the FY 2003 Part II grant funds were spent. The numerous other schedules were assembled to support this summary. The total payments in the summary were very close to the total 2003 Part II grant amount of \$42,162,000. Neither the

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summary nor the supporting documents clearly differentiate between original allocations and reallocations of grant funds.

The Internal Auditor's October 12, 2007, letter concluded that "we believe this documentation will provide you with the appropriate documentation to understand the reallocation of funds and complete accounting, and to eliminate this audit finding."

Although it appears that the Internal Auditor spent an enormous amount of time preparing this reconciliation, we cannot accept it at face value. Extensive additional fieldwork would have to be done to verify the dollars shown in the reconciliation in order to determine validity. Also, from our brief review of the Internal Auditor's reconciliation, we believe it does not answer the questions raised above concerning Michigan's management and ultimate use of the reallocated training and planning funds. For example, the reconciliation contains a schedule that shows that \$3.6 million dollars of training funds were de-obligated, but it did not show who received the reallocated funds or the ultimate use of the funds. The package received also did not include or identify required source documentation, such as amended subgrantee grant agreements, to support management's decisions. The reconciliation only shows that the entire grant was spent on various items, which we assume the State Administration Agency believes are eligible.

## **Conclusions**

The State Administrative Agency did not provide adequate explanations and supporting documentation for the reallocation and use of training and planning funds under the FY 2003 Part II grant program. The difficulty experienced by the State Administrative Agency in responding to questions raised during the audit fieldwork, and the need for extensive and time-consuming effort by the Internal Auditor, clearly indicate the need for improvements to the State Administrative Agency's system for tracking and documenting the allocation and use of grant funds.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Provide explanations and supporting documentation for the use of the reallocated FY 2003 Part II training and planning funds that identifies:
  - a. The amount withdrawn from the original subgrantees,
  - b. The subgrantees to whom the funds were reallocated,

- 
- c. The amount reallocated, and
  - d. The ultimate use of the reallocated funds.
2. Improve the State Administrative Agency's system for tracking and documenting the use of grant funds, especially when reallocations are necessary during the grant period.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. Additionally, in their written comments, the State officials agreed that explanations and supporting documentation for the reallocated training and planning funds were inadequate. The officials said that the 2006 Program and Capability Enhancement Plan has established an initiative to review, update, and track all regional and local programs, as well as to establish benchmarks and a monitoring system to track grant funding and strategic expenditures statewide.

## **Auditor's Analysis**

The recommendation concerning the use of the reallocated FY 2003 Part II funds should remain open until State Administrative Agency officials provide the Administrator, Federal Emergency Management Agency, with adequate explanations and supporting documentation for the use of the funds. However, the FY 2006 initiative, if effectively implemented, should be sufficient to address the recommendation that the State Administrative Agency improve its system for tracking and documenting the use of grant funds.

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

## **Personal Property Controls and Accountability Not Enforced**

The State Administrative Agency did not enforce the requirement that subgrantees establish and maintain effective control and accountability systems to (1) safeguard personal property procured with first responder grant funds or (2) assure that the property was used solely for authorized purposes. None of the seven counties visited had the control or accountability systems required by federal regulations. Accordingly, there was no assurance that millions of dollars of personal property procured with federal grant funds was adequately safeguarded or used solely for authorized purposes.

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Code of Federal Regulations Title 44 § 13.32 *Equipment* requires that property records be maintained that include the property's cost, description, identification number, location, use, condition, and ultimate disposition. The regulation also requires that a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Under Title 44 § 13.3, *Definitions*, equipment means tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

In addition, Code of Federal Regulations Title 44 § 13.20 *Standards for financial management systems* requires that effective control and accountability must be maintained for all personal property procured with federal funds. Grantees and Subgrantee must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Under Title 44 § 13.3, *Definitions*, equipment and supplies are considered to be personal property. The federal regulations are included by reference in the State Grant Agreements with subgrantees.

None of the seven counties we visited had satisfactory control and accountability for personal property procured with first responder grant funds. We were able to locate procured personal property selected for physical inspection, mainly because county emergency management officials could mentally recall where the items were and who had possession of the property. Complete documentation did not exist that would have enabled us to locate the property and its custodians.

Many of the equipment items procured with the grant funds exceeded the federal equipment thresholds of costing at least \$5,000 with a life of more than one year. These items required the specific records required by Code of Federal Regulations Title 44 § 13.32. Many of the items, while not exceeding the thresholds, cost several thousand dollars and were easily portable.

Grant agreements between the State Administrative Agency and local jurisdictions contained general references to federal safeguarding and accountability requirements for personal property. However, the State's subgrantees did not comply with the requirements. State Administrative Agency officials did not enforce subgrantee compliance with the federal requirements.

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## **Conclusions**

The State Administrative Agency did not enforce the requirements that subgrantees establish and maintain federally required safeguards and accountability controls for personal property procured with the first responder grant funds. Without satisfactory controls, the State Administrative Agency and its subgrantees did not have an effective way to ensure that the property was adequately safeguarded or used solely for authorized purposes.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Direct subgrantees to establish and maintain specific property records and safeguards as required by federal regulations for equipment purchased with first responder grant funds that meets the \$5,000 and 1-year life thresholds, and
2. Direct subgrantees to establish and maintain property records as required by federal regulations for all other personal property purchased with first responder grant funds, with special emphasis on sensitive and portable equipment.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. In their written comments, the state officials agreed that subgrantees' compliance with federal requirements regarding property and accountability was not adequately enforced. The officials said that since the establishment of the audit unit in 2004, subrecipients have been required to provide an inventory of all purchases as part of the on-site subrecipient monitoring review. To further strengthen subgrantee monitoring, the State Administrative Agency officials said that they will begin requiring subgrantees to annually submit inventories to district coordinators.

## **Auditor's Analysis**

When the requirement for the district coordinators to receive annual inventories from the subgrantees is established, the recommendations will have been adequately addressed.

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

### **Some Equipment Not Needed, Misused, or Not Ready**

Our visits to seven counties found several instances where equipment was not being utilized or maintained as intended. In one county, an emergency response trailer that was not needed was purchased at a cost of \$11,000. In another county, an emergency response vehicle, costing \$22,800, was being used for daily commuting. As a result, the expenditure of the \$33,800 for the unneeded trailer and the vehicle that was being used for daily commuting was questionable. In addition, in six counties we observed emergency equipment that was not immediately accessible or not maintained in ready condition.

DHS Program Guidelines for all grant programs included in the audit scope require that equipment purchases be limited to items needed to respond to incidents of terrorism. The Guidelines specifically state that the purchase of general use vehicles is not authorized. A FEMA official advised us that using an emergency tow vehicle for personal commuting between home and work is clearly a violation of the grant guidelines. Also, failure to maintain emergency equipment in ready condition is not consistent with the basic purpose of the first responder grant programs.

One county used FY 2002 grant program funds to purchase two emergency response trailers for \$11,000 each. One trailer was well equipped; the other was parked behind a fire station, surrounded by weeds. We observed that one side of the trailer was empty, and the County official did not have a key to unlock the other side for inspection. However, the County official said that the other side was also empty. County officials said that they might have a use for the trailer some time in the future.

Another county purchased a vehicle for \$22,800, to be used as the “prime mover” (tow vehicle) for an emergency response trailer. However, the vehicle was being used by the county emergency management director for daily commuting between home and work. The vehicle had no markings to identify it as an emergency response vehicle. The emergency management director was under the erroneous impression that his being on call 24 hours a day, 7 days a week, justified his using the emergency tow vehicle for personal commuting. Using the tow vehicle for daily commuting:

- Was not in compliance with DHS Program Guidelines, and

- 
- Created the possibility that the vehicle would not be readily accessible for towing the emergency response vehicle if a terrorist attack involving weapons of mass destruction were to occur.

Also in six of the seven counties visited, we observed that some items of equipment were not immediately accessible or ready for emergency use. For example, personal protective equipment was kept in storage rooms in boxes and had not been assigned or fitted to individuals; a lock on an emergency trailer was so rusted it could not be easily unlocked; a key to an emergency trailer was at the home of the county emergency coordinator; and the location of a thermal imager could not be immediately determined.

## **Conclusions**

The trailer and tow vehicle were not being used as intended at the time of our visit. Unless the trailer and tow vehicle are used as originally justified, the \$33,800 expended for these vehicles would be considered a questioned cost. In addition, some emergency equipment was not immediately accessible or maintained in ready condition. In our opinion, conditions such as these are serious impediments to first responders' ability to respond to terrorist attacks.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Michigan's Emergency Management and Homeland Security Division to:

1. Review the County's need for the unused trailer and, if it is not needed, disallow the \$11,000 claimed as the cost of the trailer,
2. Direct the County to terminate the use of the tow vehicle for personal commuting, determine the appropriate disposition of the emergency tow vehicle and, if appropriate, disallow the \$22,800 claimed for the cost of the vehicle, and
3. Clearly communicate to subgrantees that equipment procured with first responder grant funds must be needed, used for intended purposes, and maintained in an immediately accessible and ready condition at all times.

## **Management Comments**

We received verbal concurrences with the recommendations from FEMA and State of Michigan officials. Additionally, in their written comments, the State Administrative Agency officials said that they are reviewing the issues related



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to the unused trailer and the tow vehicle and will take appropriate action thereon. They also said that additional communication regarding the use and readiness of equipment procured with grant funds will be provided to subgrantees during grant guidance meetings, in grant agreements, and during monitoring visits.

### **Auditor's Analysis**

The State Administrative Agency officials have adequately addressed the recommendations.

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

The **objectives** of the audit were to determine whether the State of Michigan effectively and efficiently implemented the first responder grant programs, achieved the goals of the programs, and spent the funds awarded according to grant requirements. The **goal** of the audit was to identify problems and solutions that would help the State of Michigan prevent and respond to terrorist attacks. Toward this goal, we considered the following nine “researchable” questions, from which we identified the reportable conditions included in the findings section of this report.

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

- Are there best practices that can be identified and shared with other States?

The **scope** of the audit included the following four grant programs. These programs are described in the Background section of this report.

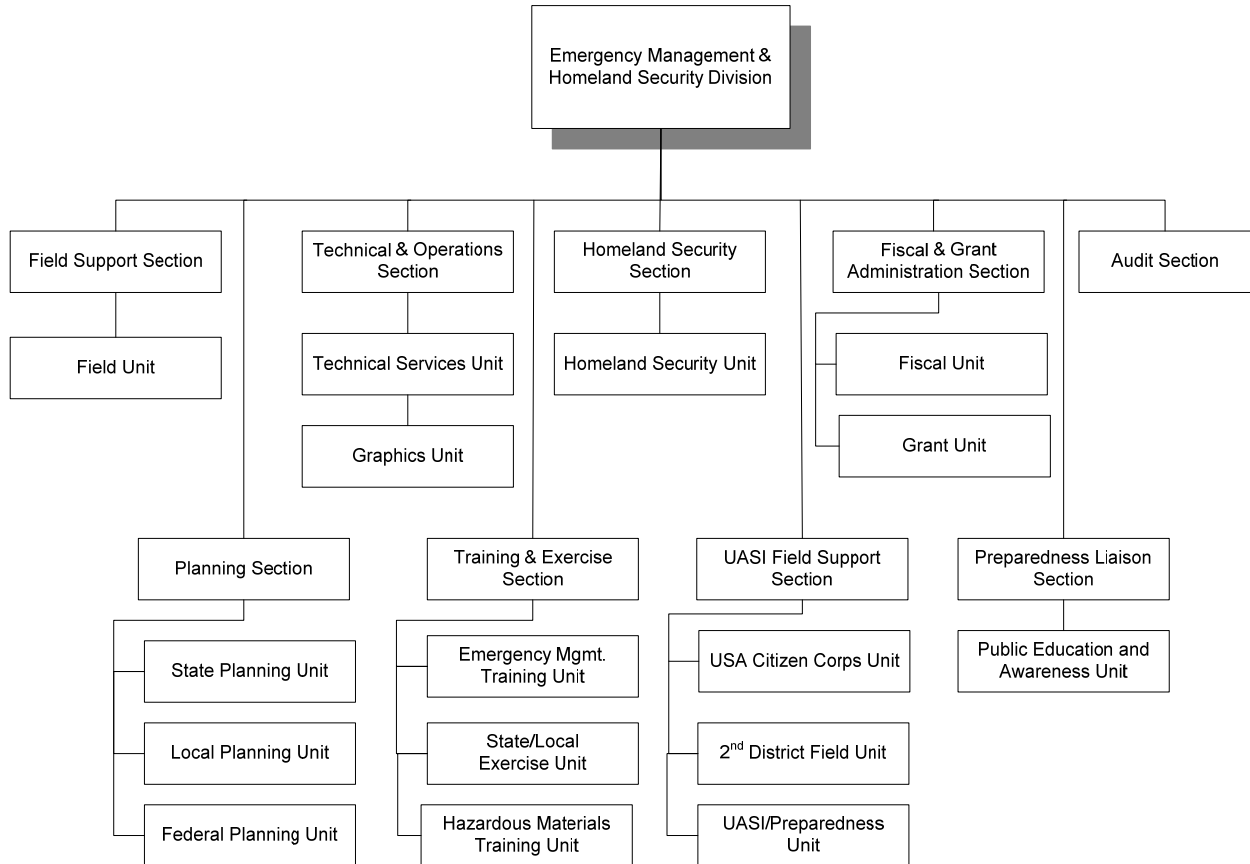
- FY 2002 State Domestic Preparedness Program
- FY 2003 State Homeland Security Grant Program - Part I
- FY 2003 State Homeland Security Grant Program - Part II
- FY 2004 Homeland Security Grant Program

The audit **methodology** included work at FEMA Headquarters, the State of Michigan's offices responsible for the management of the grants, and various subgrantee locations. The subgrantee locations visited included seven counties (Cheboygan, Clinton, Grand Traverse, Leelanau, Midland, Van Buren, and Washtenaw) and 30 first responders within those counties.

The purposes of the visits were to obtain an understanding of the four grant programs and to assess how well the programs were being managed. Our audit considered FEMA and State policies and procedures, as well as the applicable federal requirements. We reviewed documentation received from FEMA, as well as from the State Administrative Agency offices and the subgrantees. In each of the locations visited, we interviewed responsible officials, reviewed documentation supporting the State Administrative Agency and subgrantee management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds. The cut-off date related to the transactions and records reviewed was June 30, 2006. The fieldwork for the audit was conducted between October 2006 and May 2007.

The audit of the State of Michigan was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2003 Revision). Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on Michigan's financial statements or the funds claimed in the Financial Status Reports submitted to FEMA. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified. The report does not extend to any financial statements of the State of Michigan. The DHS Office of Inspector General is reporting the results of the audit to appropriate DHS officials.

State of Michigan  
 Department of State Police



May 2007

Appendix C  
Michigan State Administrative Agency Response

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STATE OF MICHIGAN  
DEPARTMENT OF STATE POLICE  
EAST LANSING



December 11, 2007

William Moore  
Foxx & Company  
324 W. Ninth St.  
Cincinnati, Ohio 45202

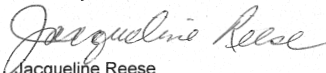
Dear Mr. Moore:

Attached to this letter is the official response by the Emergency Management and Homeland Security Division of the Michigan State Police to the draft audit, The State of Michigan's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004.

During the exit conference, we discussed and clarified several issues which we have incorporated into our response. We also supplied a copy of the 2006 Program and Capability Enhancement Plan which includes several initiatives that are included in our response and reflect improvements in EMHSD's overall grant management.

We appreciate the opportunity to respond to this audit and the courtesies extended during the exit conference. If you have any questions or need additional information, please contact me at (517) 336-6180.

Sincerely,

  
Jacqueline Reese  
Internal Auditor

Attachment

cc Michael Sivi, DHS  
Ethel Taylor-Young, DHS  
Lt. Col. Timothy Yungfer  
Lt. Col. Kriste Kibbey-Etue  
Capt. Eddie J. Washington, Jr.  
Tony Katarsky  
Dawn Lake  
Mark Wesley

H:\EMHSD\OIG\SHSG 02-04\Final Response Letter

MICHIGAN STATE POLICE HEADQUARTERS • 714 SOUTH HARRISON ROAD • EAST LANSING, MICHIGAN 48823  
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**The State of Michigan's Management of State Homeland Security Grants  
Awarded During Fiscal Years 2002 through 2004**

Michigan State Police  
Emergency Management and Homeland Security Division (EMHSD)  
As State Administrative Agency (SAA)  
Comments to the Department of Homeland Security  
Office of Inspector General  
State Homeland Security Grants Awarded During Fiscal Years  
2002 through 2004

Finding 1

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Directly link the use of grant funds and future funding requests to filling the shortfalls in equipment, training, and exercises identified during the needs assessment process,
2. Direct local jurisdictions to follow State-established priorities for using grant funds, and
3. Follow up to ensure that the local jurisdictions use future grant funds to meet identified shortfalls consistent with the State's priorities.

**Agency Response:** The SAA agrees that first responder grant funds should be linked to the needs of the first responders and to State established priorities. In response to the recommendations, the SAA has already included directions to locals to address shortfalls in equipment, training, and exercises identified during the needs assessment process and to follow State-established priorities. The State's approved strategic plan, dated October 2001, identified and quantified the overall assessed needs and shortfalls for equipment, training, and exercises. The Michigan 2004 Homeland Security Grant Program Guidance, stated: "EMD is directing jurisdictions to continue to implement Local Planning Teams to develop appropriate initiatives and projects under the 2004 HSGP to correct SHSAS capability shortfalls in the five solution areas of planning, organization, equipment, training, and exercises." and that "... projects are to be in support of the Statewide Homeland Security Strategy and shortfalls identified in the local State Homeland Security Assessment and Strategy (SHSAS) initiative completed in the Fall of 2003."

The Michigan Revised Guidance for Implementing FY 2006 Required Regional Projects included the establishment of a Regional Homeland Security Planning Board. "The mission of the Regional Homeland Security Planning Board is to ensure that homeland security initiatives within the region address capability and program shortfalls and objectives identified in both the state and regional homeland security strategies..." In 2006, a Program and Capability Enhancement Plan was developed which included identifying "...gaps that needed to be addressed for the state to achieve a baseline level of capability." The 2007 Grant Guidance is being developed that will include the requirement to align expenditures with current capabilities.

Finding 2

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Develop specific, measurable goals and objectives applicable to local jurisdictions for enhancement of their first-responder capabilities in terms of adequately equipped, trained, and exercised personnel.
2. Incorporate the goals and objectives into a statewide system for local jurisdictions to measure progress toward achieving the goals and objectives.

3. Use the progress achieved toward the goals and objectives as a basis for future first-responder grant fund decisions.

**Agency Response:** The SAA agrees that the goals and objectives established in 2002 were not sufficiently specific and measurable. The DHS Program Guidance for FY 2002 required an implementation plan for the statewide domestic preparedness strategy which was to include measurable program objectives. The plan was approved by DHS with the stated goals and objectives which would provide a basis for evaluation. Additionally, the grant reimbursement process and the Biennial Strategy Implementation Reports provide information regarding the progress towards goals and objectives.

In response to the recommendations, the SAA has developed specific, measurable goals and objectives. In November 2005, Michigan participated in a DHS Program and Capability Review (PCR) Technical Assistance program. Based on this program, the state developed a strategy and process for completing the PCR, developing the enhancement plan, and submitting the FY 2006 HSGP Application. In 2006, Michigan completed the Program and Capability Enhancement Plan. The purpose of the 2006 State of Michigan Program and Capability Enhancement Plan is to serve as the comprehensive, statewide management plan for enhancing state homeland security programs and capabilities to align with the National Preparedness Goal and to achieve the goals and objectives from the State Homeland Security Strategy. Participants prioritized the summarized list of strengths and weaknesses. The participants focused on strengths that needed to be sustained as well as gaps that needed to be addressed for the state to achieve a baseline level of capability. This provided a starting point for the state prioritization process. Each of the summarized prioritized lists was analyzed, and common trends were identified across capability and program review areas. A working group of key personnel was organized of key personnel to carefully review the prioritization process and to ultimately identify initiatives. After the initiatives were identified, the group mapped them to target capabilities, national priorities, and goals from the State Homeland Security Strategy and Urban Area Homeland Security Strategy.

One of the initiatives included in the 2006 Program and Capability Enhancement Plan is to Update and Review Local and Regional Operational Plans, Protocols, and Procedures and Planning Guidance which states: "As part of this initiative, a systematic plan review, update, and tracking process will be identified, implemented, and sustained for all regional and local programs."

Another major initiative is to Develop and Institutionalize a Quality Assurance and Evaluation Process, which states:

Metrics and benchmarks need to be identified so that the state and its regional and local programs can assess their current status and identify what gaps need to be addressed. While the federal government will be identifying a number of national metrics, it was determined that Michigan also needs to identify state-specific standards to which state agencies, regional entities, and local organizations could be held. Once established, the state will develop a systematic process to evaluate progress against those identified benchmarks.

Also falling under this initiative are national homeland security assessments, to include risk and vulnerability assessments, compliance and performance assessments, and criticality and resiliency assessments. Additionally, the state will institutionalize a program and capability review process for all regions and local programs to ensure that homeland security efforts are targeted to meet identified needs based on unique regional characteristics.

Additionally, the state will develop a monitoring system to track grant funding and strategic expenditures statewide to ensure that funds are being used appropriately. As part of this process, the state will develop a resource procurement and life cycle planning process. This process will be used at all levels within the state to assist organizations to ensure that existing

capability is sustained. Policies will also be developed to ensure compliance with program guidelines.

Finally, 2007 Grant Guidance is being developed that will include the requirement to align expenditures with current capabilities.

### Finding 3

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Establish a system for progress reporting by local jurisdictions that documents their progress toward achieving acceptable levels of equipment, training, and exercises for first responders.
2. Increase the frequency of site visits to local jurisdictions and expand the scope of the visits to include program performance issues, including the use and readiness of equipment for emergencies.
3. Use the progress reported and the results of the site visits as factors in future management and funding decisions.

**Agency Response:** The SAA agrees with this and since 2004 has implemented significant program monitoring and evaluation actions. In 2004, EMHSD established an audit unit to conduct subrecipient monitoring of local jurisdictions. An audit program and review system has been developed and audits have been conducted on a priority basis which includes program performance and monitoring issues. Beginning in 2004, the Biennial Strategy Implementation Reports provided a system for progress reporting. The 2006 Program and Capability Enhancement Plan established initiatives to review, update, and track process for all regional and local programs as well as establishing benchmarks and a monitoring system to track grant funding and strategic expenditures statewide. In early 2007, a Performance & Reporting Unit was established to develop tools and analyze program expenditures and activities. An allowability cost justification form and quarterly reporting form have been developed that will improve the system for local jurisdictions progress reporting and monitoring. The 2007 Grant Guidance is being developed that will include the requirement to align expenditures with current capabilities.

### Finding 4

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Ensure that unfilled training needs of first-responder personnel are adequately addressed under future grants.
2. Be more proactive in assisting local jurisdictions in identifying and scheduling appropriate training opportunities for first responders.

**Agency Response:** The SAA agrees that training needs identified for the FY 2003 Part II grant were not met. The original grant guidance issued by DHS was too restrictive and did not allow part-time personnel or volunteer first responder personnel to be reimbursed overtime or backfill costs. Over 70% of Michigan's first responder personnel are part-time or volunteer and were not allowed to use the FY 2003 Part II grant funds pursuant to the original grant guidance. DHS changed its policy based on extensive lobbying from Michigan legislators and division staff, however, by the time DHS changed the guidance, it was too late in the grant cycle for locals to expend the funds.



EMHSD has an established Emergency Management and Homeland Security Training Center that has trained over 18,750 local responders from FY04-07. In addition, over 150,000 local responders have participated in on-line DHS/EMI training. Another 3,500 local responders have attended out-of-state training.

EMHSD sends training announcements advising of DHS training programs provided by consortium members: Center for Domestic Preparedness (CDP), National Center Biomedical Research and Training at Louisiana State University (NCBRT LSU), New Mexico Tech, and the Nevada Test Site to over 3,700 different agencies within the State of Michigan, as well as communicating these training opportunities during EMHSD sponsored training.

EMHSD has sponsored a State Homeland Security Conference where display booths have been set up to assist with advertising to local jurisdictions. For NIMS compliance training, EMHSD has sent informational letters to the emergency management coordinators advising them of the training requirements, and dates and locations of the training.

Lastly, this finding combines two different grant awards (2003 Part II and 2004). As stated previously, the 2003 training funds were restricted in their use. The 2004 funds were allowed for training, equipment, planning and exercises and were not required to fill gaps in prior year's awards. An additional consideration is that local responders have many training opportunities that may be provided by funding sources other than DHS grant funds. These additional training opportunities and funds need to be considered when determining whether overall training needs have been met.

#### Finding 5

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Provide explanations and supporting documentation for the use of the reallocated FY 2003 Part II training and planning funds that identifies:
  - a. The amount withdrawn from the original subgrantees.
  - b. The subgrantees to whom the funds were reallocated.
  - c. The amount reallocated.
  - d. The ultimate use of the reallocated funds.
2. Improve the State's system for tracking and documenting the use of grant funds, especially when reallocations are necessary during the grant period.

**Agency Response:** The SAA agrees that explanations and supporting documentation for the reallocated training and planning funds were inadequate. The SAA has fully accounted for all funds of the FY 2003 Part II grant. All grant funds were used in compliance with applicable statutes and were accounted for on Financial Status Report quarterly billings submitted to DHS. The SAA provided a reconciliation with supporting documentation for all grant funds by jurisdiction and solution area. The FY 2003 Part II grant and grant guidance allowed for the reallocation of funds by the State Administrative Agency. This grant originally restricted the use of training funds to not allow for payments to part-time and volunteer first responders, which is a significant part of Michigan jurisdictions. The DHS grant guidance was amended to allow for these payments, however, the amendment was so late during the grant award period that funds were reallocated to other allowable areas. The current grant management tracking system records all payments by jurisdiction and solution area, which is the ultimate destination of the reallocated funds.

The 2006 Program and Capability Enhancement Plan has established an initiative to review, update, and track process for all regional and local programs as well as establishing benchmarks and a monitoring system to track grant funding and strategic expenditures statewide.

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During the exit conference the completion of grant agreements to reflect changes in reallocated funds was discussed. The SAA did not previously understand that the new grant agreements were requested. Copies of these grant agreements are available as necessary.

#### Finding 6

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Direct subgrantees to establish and maintain specific property records and safeguards as required by federal regulations for equipment purchased with first responder grant funds that meets the \$5,000/one-year life thresholds.
2. Direct subgrantees to establish and maintain property records as required by federal regulations for all other personal property purchased with first responder grant funds with special emphasis on sensitive and portable equipment.

**Agency Response:** The SAA did not adequately enforce subgrantee compliance with federal requirements regarding property and accountability. EMHSD grant guidance requires compliance with all applicable financial and accountability requirements. The FY 2005 grant agreement states the responsibilities of the subgrantee are to "Create and maintain an inventory of all FY 05 HSGP equipment purchases that list, at a minimum, the piece of equipment, the cost of the equipment, what agency the equipment is assigned to and the physical location of the equipment for the grant period and at least three years after the grant is closed."

Since the establishment of the EMHSD audit unit in 2004, the EMHSD auditors have required subrecipients to provide an inventory of all purchases as part of the on-site subrecipient monitoring review. To further strengthen subrecipient monitoring, EMHSD will begin requiring an annual submission of the inventory by subrecipients to District Coordinators.

#### Finding 7

**Recommendations:** We recommend that the Grant Programs Directorate within the Federal Emergency Management Agency require the State of Michigan's State Administrative Agency to:

1. Review the County's need for the unused trailer and if it is not needed, disallow the \$11,000 claimed as the cost of the trailer.
2. Direct the County to terminate the use of the tow vehicle for personal commuting, determine the appropriate disposition of the emergency tow vehicle and, if appropriate, disallow the \$22,800 claimed for the cost of the vehicle.
3. Clearly communicate to subgrantees that equipment procured with first responder grant funds must be needed, used for intended purposes, and maintained in an immediately accessible and ready condition at all times.

**Agency Response:** The SAA agrees with the concept in this finding that expenditures must be in compliance with the grant award. EMHSD auditors conduct on-site reviews that include a physical review of equipment.

In response to recommendation #1, EMHSD auditors contacted the subrecipient regarding the use of the equipment. The subrecipient responded that subsequent to the OIG review, the trailer has been equipped. EMHSD is reviewing the issue for compliance and appropriate follow-up. In response to recommendation #2, the EMHSD auditors also discovered this issued during the EMHSD on-site monitoring visit. EMHSD is requiring appropriate documentation. If non-compliance is determined, EMHSD will require the return of funds from the subrecipient to

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EMHSD and then will return to DHS. In response to recommendation #3, in addition to requiring compliance in EMHSD guidance, additional communication will be provided during EMHSD grant guidance included in the grant agreement with local jurisdictions and discussed at subrecipient monitoring visits.

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