*Office of Inspector General*

**U.S. Department of Homeland Security**
Washington, **DC 20528**

**Homeland Security**

October 17,2006

MEMORANDUM FOR: Steve Kempf
Regional Director, FEMA Region II

FROM: David M. Zavada
Assistant Inspector General for Audit

SUBJECT: *Audit of Emergency Management Performance Grant Funds Awarded to the Virgin Islands Territorial Emergency Management Agency*
Audit Report Number DA-07-01

We audited Emergency Management Performance Grant (EMPG) funds awarded to the Virgin Islands Territorial Emergency Management Agency (VITEMA). The objective of the audit was to determine whether VITEMA accounted for and expended grant funds in compliance with financial and program regulations.

EMPG funds may be used to develop, maintain, and improve state and local emergency management programs. The objective of the program is to provide support for comprehensive emergency management programs that include terrorism consequence management at the state and local levels, and mitigation, preparedness, and response and recovery capabilities for all hazards.

VITEMA is responsible for managing the Virgin Island's emergency management programs and for providing fiscal oversight of EMPG funds. VITEMA received three EMPG awards totaling $1,868,296 from the Federal Emergency Management Agency (FEMA). The grants were awarded in fiscal years (FY) 2002,2003, and 2004 and provided 100 percent federal funding. After FEMA awarded the grants, responsibility for managing the EMPG program was transferred to the Department of Homeland Security (DHS) Preparedness Directorate's Office of Grants and Training (G&T) in FY 2004. We addressed the recommendations in this report to FEMA because they retain oversight responsibility for EMPGs that they awarded.

Our audit covered the grant period October 2001 to June 2005, during which VITEMA expended $1,800,186 and drew down $1,868,296 of FY 2002,2003 and 2004 EMPG funds. We reviewed the appropriateness of $558,703 of these expenditures. Audit work was performed at the VITEMA on St. Thomas, United States Virgin Islands (VI).

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit methodology included tests of VI and VITEMA accounting records; interviews with VI, VITEMA, and FEMA officials; reviews of a judgmental sample of expenditures; and other auditing procedures considered necessary under the circumstances.

## RESULTS OF AUDIT

VITEMA did not expend and account for all EMPG funds according to federal regulations and EMPG guidance. We questioned $190,877 of costs claimed by VITEMA because they improperly allocated personnel costs totaling $188,969, and professional service charges totaling $1,908 to the grant. VITEMA also did not comply with federal and local procurement regulation and policies in awarding $29,250 of contracted professional services. VITEMA did not follow required cash management procedures when receiving and disbursing federal funds. In addition, VITEMA did not comply with reporting requirements according to federal regulations, 44 Code of Federal Regulations (CFR) § 13.41(b)(4) and EMPG guidance.

### Finding; A: Allocable Cost

VITEMA charged $188,969 to EMPG for personnel costs that should have been allocated to other activities. For costs to be allocable, the U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. VITEMA charged 100 percent of the salaries of three employees to EMPG. However, these employees did not spend 100 percent of their time on EMPG activities.

1. The Special Assistant to the Director performed duties to aid the Director of VITEMA in the overall management of the agency. The Special Assistant assisted with the preparation of the agency's local budget, developed funding requests for presentation to the VI Legislature, and prepared periodic reports on EMPG activities for presentation to the VI Governor's Office.

2. The Federal Program Manager prepared grant applications and budgets for various federal grants, and had fiscal oversight of all federal grants awarded to VITEMA.

3. The Hazard Mitigation Planner functioned as the Pre-Disaster Mitigation (PDM) Coordinator and charged 100 percent of her time to EMPG. However, VITEMA had a separate grant for PDM activities that should have been charged its appropriate share of the PDM Coordinator's time.

We question the charges as follows:

| Staff | Fiscal Year | Salaries Charged to EMPG | Time Spent on EMPG[1] | Amount Allocable to EMPG | Questioned |
|---|---|---|---|---|---|
| Special Assistant | 2002 | $ 42,276 | 60% | $ 25,366 | $ 16,910 |
| to Director | 2003 | 41,806 | 60% | 25,084 | 16,722 |
| | 2004 | 41,161 | 30% | 12,348 | 28,813 |
| Federal Programs | 2002 | 31,653 | 85% | 26,905 | 4,748 |
| Manager | 2003 | 35,000 | 85% | 29,750 | 5,250 |
| | 2004 | 35,000 | 85% | 29,750 | 5,250 |
| Hazard Mitigation | 2002 | 37,275 | 0% | 0 | 37,275 |
| Planner | 2003 | 37,001 | 0% | 0 | 37,001 |
| | 2004 | 37,000 | 0% | 0 | 37,000 |
| Total | | $338,172 | | $149.203 | $188.969 |

In addition, we questioned the $1,908 of professional service charges that should have been allocated to another program. VITEMA charged $1,908 of professional service charges for Community Emergency Response Team (CERT) activities to the FY 2002 EMPG. CERT is a former FEMA program that was transferred to the Preparedness Directorate'' G&T in August 2004.

VITEMA, FEMA, and G&T officials initially disagreed with our findings during the exit conferences. They said that it is appropriate for VITEMA to allocate 100 percent of these employees' salary costs to EMPG because the employees were engaged in preparedness activities that are allowable under the grant. Subsequently, we received additional documentation from VITEMA and FEMA related to this finding. FEMA documentation showed that VITEMA also received a separate PDM grant that should have been used to fund the PDM work of VITEMA's Hazard Mitigation Planner. Once the EMPG Program Officer was informed about the PDM grant, they agreed that further work was needed to determine if VITEMA appropriately allocated its employees' salary costs to its EMPG. We reiterate our finding. We also added a recommendation requesting that Region II require VITEMA to submit documentation supporting their allocation of salary costs to their EMPG.

***Recommendations***

We recommend that the Regional Director, FEMA Region II:

1. Disallow the $190,877 of questioned costs unallocable to EMPG; pending Region II's final determination about the eligibility of the VITEMA salary costs allocated to the grant.

2. Require VITEMA to submit supporting documentation that clearly identifies the PDM activities that benefit EMPG.

[1] We obtained the percentages from VITEMA's Director and staff because the staffs timesheets did not indicate what work was being performed or show an allocation of time to tasks.

3. Ensure that VITEMA more accurately accounts for and charges staff time to its various grant programs in the future. Specifically, VITEMA should establish a timekeeping system that accurately captures the time its staff spends on EMPG activities.

**inding B: Improper t ti**

VITEMA did not comply with federal procurement regulations or local procurement policies when they entered into verbal contracts valued at $29,250 for training and maintenance services. As a result, FEMA has no assurance that the contracts were properly awarded and reasonable. According to 44 CFR § 13.36(b)(9), the grantee is required to maintain records detailing the significant history of procurements, including the rationale for the method of procurement, the basis for contractor selection, and the basis for contract price. In addition, the grantee is required to use their own procurement procedures when not inconsistent with federal law and regulations identified in 44 CFR § 13.36(b)(1).

The VI Procurement Policy requires that contracts for professional services be procured through the use of a Request for Proposal. The requesting agency must first submit a letter of request to the VI Department of Property and Procurement for approval. Then, the contract must be sent to the Department of Justice for a "legal sufficiency" review and, if approved, to the Governor for final approval.

VITEMA reimbursed several contractors for various services charged to their EMPG based on verbal agreements. VITEMA did not document the rationale for the method of procurement; the basis for contractor selection and contract price; and did not receive the required approval from the VI Department of Property and Procurement or the Governor's office.

VITEMA officials concurred with our findings.

***Recommendation:***

We recommend that the Regional Director, FEMA Region II:

4. Require that VITEMA follow all federal regulations and their own procurement policies and procedures as it relates to EMPG funds expended for contracts.

5. Notify VITEMA that future grant expenditures that are based on a verbal agreement will be disallowed.

**Finding C: Cash Management**

VITEMA did not follow cash management procedures to minimize the time elapsing between the receipt of Federal funds and the disbursing of costs incurred.

According to the Cash Management Improvement Act of 1990 (CMIA), regulations in 31 CFR § 205.11(a), a State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the U. S. Treasury and the State's payout of funds for Federal assistance program purposes.

VITEMA received $632,810 of FY 2003 EMPG funds between March 2003 and May 2004. VITEMA disbursed $490,657 as of July 2005. However, almost two years after funds were received, $142,153 of FY 2003 EMPG funds remains unspent.

In addition, on May 24,2004, VITEMA received $285,334 from FEMA and allocated $126,119 for indirect costs. Of the $126,119, VITEMA accounted for $53,512 as Departmental indirect costs. However, as of March 22,2006, $33,824 of the Departmental indirect costs had not been expended.

VITEMA officials concurred with our findings. They are currently reviewing their records to determine whether additional expenditures should have been charged to the grants and to determine the exact amount of any funds that remain unspent. VITEMA expects to complete their review in 60 days.

***Recommendation:***

We recommend that the Regional Director, FEMA Region II:

6. Require VITEMA to develop and implement cash management procedures that minimize the amount of time grant funds are held before being disbursed.

7. Work with VITEMA to determine the exact amount of any unspent grant funds and require that those refunds be refunded within 30 days of the final determination.

**<u>Finding D: Reporting Requirements</u>**

VITEMA has not provided FEMA with timely financial status and performance reports as required by 44 CFR § 13.41(b)(4) and the EMPG guidance. Quarterly reports are due 30 days after the reporting period and final reports are due 90 days after the expiration or termination of grant support.

VITEMA did not submit FY 2003 and FY 2004 Financial Status Reports (FSR) in a timely manner. FEMA uses this report to monitor the status of grant funds. We reviewed two FSRs for FY 2002, one FSR for FY 2003, and three FSRs for FY 2004 that were submitted for EMPG. Four of the six FSRs were submitted one to four months late.

VITEMA did not submit final Performance Reports for FY 2003. Performance reports identify the status of performance measures. The Grantee did not submit the final FY 2003 Performance Report that was due December 30,2003.

In addition, VITEMA did not properly report on the status of performance measures. As a result, FEMA was unable to determine whether VITEMA completed performance measures and used grant funds effectively. According to EMPG Guidance the performance measures are the basis for the performance report and the report should include a brief narrative describing or listing activities completed during the reporting period and their effect (positive or negative) on the reported progress. It further states that if the performance measure is based on other than a numerical outcome, an indication of the timing and basis for determining that the measure has been met must be provided.

At the end of our exit conference on July 13,2006, VITEMA officials provided us with final FSRs for FYs 2002 through 2004, and the final Performance Report for FY 2004.

***Recommendation:***

We recommend that the Regional Director, FEMA Region II:

8. Notify VITEMA that they must comply with applicable financial and performance reporting requirements under EMPG.

9. Set a deadline for VITEMA to submit late reports, and state what actions FEMA will take if the reports are not submitted to Region II by the deadline.

10. Require VITEMA to establish a process for monitoring the timely preparation and submission of financial status and performance reports, and to submit written requests for time extension.

## DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

On July 10,2006, we provided a discussion draft report to VITEMA officials and to DHS officials in FEMA's Region 11-Caribbean Division and Preparedness Directorate's G&T. On July 13,2006, we conducted separate exit conferences with VITEMA officials, and Region II and G&T officials. VITEMA and Region II officials agreed with all of our findings and recommendations, except for those cited under Finding A. As discussed under Finding A, we reiterated the finding and made modifications to the draft report where appropriate.

Please advise this office within 30 days of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please contact Belinda Finn at (202) 254-4100.

cc: Michael Komack, Audit Liaison, FEMA
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