

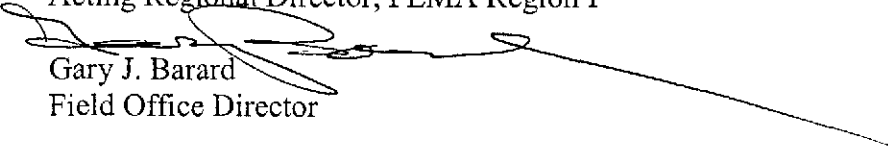
U.S. Department of Homeland Security
3003 Chamblee-Tucker Road
Atlanta, Georgia 30341



**Homeland
Security**

August 8, 2005

MEMORANDUM FOR: Kenneth L. Horak
Acting Regional Director, FEMA Region I

FROM: 
Gary J. Barard
Field Office Director

SUBJECT: Audit of the State of New Hampshire
Administration of Disaster Assistance Funds
Audit Report No. DA-26-05

Attached for your review and follow-up are five copies of the subject audit report that was prepared by an independent accounting firm, Soza & Company, Ltd under contract with the Office of Inspector General. In summary, Soza & Company determined that the State of New Hampshire's Bureau of Emergency Management should improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On July 5, 2005, your office responded to the draft report. Based upon your response, the findings are resolved, but require an additional response describing actions taken to implement the recommendations.

Please advise the Atlanta Field Office-Audit Division by November 8, 2005 of the action taken. Should you have any questions, please contact George Peoples or me at (770) 220-5242.

Attachments

August 5, 2005

U.S. Department of Homeland Security
Office of the Inspector General
Washington, D.C. 20005

perotsystems

In accordance with Contract No. GS-23F-9843H, dated November 21, 2001, and Order No. TPD-FIG-03-K-00019, dated May 19, 2003, Soza & Company, Ltd. conducted an audit of the State of New Hampshire's Bureau of Emergency Management to assess its compliance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 106-390, as amended) and applicable Federal regulations. This audit was initiated by Soza & Company, Ltd. (SOZA). Soza was acquired by Perot Systems Government Services, Inc. (Perot Systems) in February 2003 in a 100-percent stock purchase, and continued to operate as a wholly owned subsidiary of Perot Systems until all Soza contracts were novated to Perot in November 2004 and Soza was dissolved at the end of that year.


The audit objectives were to determine if New Hampshire's Bureau of Emergency Management (grantee) administered the grant programs in accordance with Federal regulations, and accounted for, reported, and used the Federal Emergency Management Agency's (FEMA) funds properly. We identified two program management findings related to compliance with Federal regulations, as well as three financial management issues primarily related to the financial records and internal controls. This report presents the results of our audit and includes recommendations to help improve the State of New Hampshire's administration of the FEMA's disaster assistance programs.

Our audit was conducted in accordance with the applicable *Government Auditing Standards*, 1994 Revision, as amended. Although the audit report comments on costs claimed by the State of New Hampshire, we did not perform a financial statement audit, the purpose of which would be to render an opinion on the financial statements. The scope of our audit consisted of program and financial activities for five (5) Presidential disaster declarations and one (1) emergency declaration, all of which occurred between January 3, 1996 and March 28, 2001, and were financially open as of September 30, 2002. The audit included the Public Assistance (PA), Hazard Mitigation (HM), and Individual and Family Grant (IFG) programs for each disaster, as applicable.

We appreciate the cooperation and assistance received from both the grantee and FEMA Region I personnel. Where applicable, we have considered the views of the grantee and FEMA Region I officials when writing this report. FEMA regional office and grantee officials generally concurred with our findings and recommendations, and are taking corrective actions to resolve the findings discussed in the report.

If you have any questions, or if we can be of any further assistance, please contact Terry H. Byce at (703) 289-6836.

Sincerely,



Terry H. Byce, CPA, CISA, CGFM
Director, Financial and Business Service Group
Perot Systems
Fairfax, Virginia

I. EXECUTIVE SUMMARY

Soza & Company, Ltd. completed an audit of the administration of the disaster assistance grant programs by the New Hampshire Bureau of Emergency Management (grantee). The objectives of this audit were to determine if the grantee administered the Federal Emergency Management Agency (FEMA) Disaster Assistance Grant Programs in accordance with the Robert T. Stafford Act and appropriate Federal regulations, properly accounted for, reported, and expended the FEMA disaster assistance funds, and operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities. This report focuses on the systems and procedures within the grantee for assuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and the requirements set forth in Title 44 of the Code of Federal Regulations, *Emergency Management and Assistance*, (44 CFR). The Federal share of the funds obligated and expended for each of the disasters included in the audit scope is presented in Attachment A of this report. Our audit concentrated on the grantee's use, management, and reporting of FEMA program funds received under the Public Assistance (PA), Individual and Family Grant (IFG), and Hazard Mitigation (HM) programs.

Our audit period included five (5) major disasters declared by the President of the United States and one emergency declaration, all of which occurred between January 3, 1996 and March 28, 2001, and were financially open as of September 30, 2002. The following table identifies the programs that had been implemented within each of the disasters or emergency declaration.

Disaster No.	Declaration Date	Type of Disaster	Programs Implemented
1077	January 3, 1996	Excessive Rain, High Winds, and Flooding	PA and HM
1144	October 29, 1996	Fall Northeastern Rainstorm	PA, IFG, and HM
1199	January 15, 1998	Severe Ice Storms, Rain, and High Winds	PA, IFG, and HM
1231	July 2, 1998	Severe Storms and Flooding	PA, IFG, and HM
1305	October 18, 1999	Damage from Tropical Storm Floyd	PA and HM
EM-3166	March 28, 2001	Snow Emergency	PA

In accordance with our agreement with the Office of Inspector General (OIG), the audit focused on the grantee's program and financial management procedures and practices. During the audit, we emphasized the need to identify the causes of each reportable condition. In addition, we have made recommendations that, if implemented properly, would improve the grantee's management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings reported below are discussed in the body of the report.

Our testing identified the following instances of noncompliance:

PROGRAM MANAGEMENT

1. The grantee did not have procedures in place to ensure that subgrantees are complying with the requirements of the Single Audit Act of 1996.
2. The grantee was unable to provide disbursement records supporting payments reportedly made to Individual and Family Grant program recipients.

FINANCIAL MANAGEMENT

1. The grantee had not drawdown and disbursed funds in a timely manner.
2. The grantee was unable to document the program outlays reported to FEMA on the Financial Status Reports. Furthermore, the grantee's records did not fully identify the amounts for which the state and/or subgrantee was responsible.
3. The grantee did not have adequate procedures in place to prevent overpayments to subgrantees.

Where applicable, we considered the views of the grantee and FEMA Region I officials when writing this report.

II. INTRODUCTION

State agencies are the first to respond once a disaster has occurred. Depending on the size and severity of the disaster, the State's Governor may request the President of the United States to declare a major disaster, which would make relief grants available through FEMA. After the President declares the disaster, FEMA provides financial assistance, through a designated agency within the affected state, by implementing one or more grant programs.

The New Hampshire Bureau of Emergency Management (grantee) is New Hampshire's lead agency for the coordination of emergency management programs and response measures. Its mission is to protect the lives, property, and environment of the people of New Hampshire from the threat or occurrence of emergencies resulting from any natural or man-made disaster, including, but not limited to: floods, fires, earthquakes, windstorms, tsunamis, technological incidents, droughts, terrorism, epidemics, hurricanes, and tornadoes. The preparation for and carrying out of all emergency functions is the grantee's responsibility and is accomplished through the four phases of emergency management: mitigation, preparedness, response, and recovery. Grantee activities to meet this end include coordination, planning, training, drills, exercises, and financial assistance.

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, governs disasters declared by the President of the United States. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to the state, as the grantee; and to state agencies, local governments, eligible private nonprofit organizations, Indian Tribes, and Alaska Native Villages, as subgrantees. On October 30, 2000, the President signed the Stafford Act amendments into law (Public Law 106-390). These amendments are effective only for disasters declared after October 2000. In addition, 44 CFR provides further guidance as to the requirements for the implementation, administration, and management of disaster relief grants.

Our audit concentrated on the grantee's use, management, and reporting of FEMA program funds received under the Public Assistance (PA), Individual and Family Grant (IFG), and Hazard Mitigation (HM) programs. Three permanent employees managed these programs on a daily basis and other state employees assisted them in carrying out their functions during active and inactive disasters.

The New Hampshire Department of Health and Human Services (DHHS) was responsible for managing the IFG program on the grantee's behalf. However, the grantee was responsible for the financial management of the IFG program. DHHS had one individual responsible for the management of the IFG grant, on the grantee's behalf. As of 2004, the State of New Hampshire has elected for FEMA to manage the IFG program on its behalf.

Public Assistance Grants:

Public Assistance (PA) grants are awarded for the repair and replacement of facilities, removal of debris, and the implementation of emergency protective measures necessary after a disaster occurs. In order for a subgrantee to receive funds through the PA grant, a designated representative of the subgrantee must complete FEMA Form 90-49, *Request for Public Assistance*. FEMA and grantee personnel will review the *Request for Public Assistance* and determine if the subgrantee is eligible to receive funds under the PA grant program. If the subgrantee is eligible, FEMA will assign a Public Assistance Coordinator (PAC) to the subgrantee, which serves as the subgrantee's customer service representative and will be responsible for managing the subgrantee's projects. In addition, the grantee may assign a State Applicant Liaison (liaison) to the subgrantee, who is responsible for ensuring that the subgrantee's needs are met. Once the PAC and liaison have been assigned, the three parties schedule a "Kickoff Meeting," where the subgrantee's specific eligibility and documentation needs are discussed. After the "Kickoff Meeting" the PAC verifies the initial eligibility of the subgrantee and subsequently prepares the *Project Worksheet (PW)*¹. FEMA will then review the PW and, if approved, they will obligate the necessary funds. The total costs of the projects are shared by FEMA and the grantee with FEMA covering at least 75 percent of the eligible costs. The remaining funds are paid by non-Federal sources, to include the grantee and/or local governments and agencies.

44 CFR provides that PA projects be classified as either "small" or "large." The classification is based on a project threshold, which is adjusted annually to incorporate changes in the Consumer Price Index for All Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold as of October 1, 2001 was \$52,000; therefore, projects costing less than \$52,000 are classified as "small," whereas projects costing \$52,000 or more are considered "large" projects.

In order to prevent unnecessary delays, the Federal share of the costs for small projects is disbursed soon after FEMA's approval. However, for large projects, progress payments are made to the subgrantees based on actual costs, as documented. After a large project has been completed, the grantee evaluates and reports the final cost to FEMA which will then adjust the amount of the large project to reflect the actual costs incurred.

¹ Prior to the use of Project Worksheets, Disaster Survey Reports were used.

Individual and Family Grants:

The Individual and Family Grant (IFG) program provides financial assistance to individuals and families who have sustained damage or developed serious needs because of a natural or man-made disaster. Subgrantees wishing to obtain assistance under this program may first be required to apply to the Small Business Administration (SBA) for a disaster loan. If the SBA determines that the subgrantee is not eligible for a SBA loan, SBA will refer the subgrantee to the IFG program for consideration. In order for assistance to be available through this grant, the Governor of the State must specifically express the intent to implement this program. This expressed intent must include an estimate of the size and cost of the program. The total costs of the program are shared by FEMA and the grantee, with FEMA covering 75 percent of the allowable costs. The remaining funds are paid by non-Federal sources from funds made available by the grantee.

Hazard Mitigation Grants:

The Hazard Mitigation (HM) Grant program is awarded to states to help reduce the potential damages from future disasters. The grantee must submit a letter of intent to participate in the program, and subgrantees must submit a Hazard Mitigation grant proposal to the grantee. Even though the grantee is responsible for setting the priorities for the selection of specific projects, the final approval comes from FEMA. Grants are awarded to state agencies, local governments, eligible private non-profit organizations, Indian Tribes, and Alaska Native Villages. The amount of assistance available under this program must not exceed 20 percent² of the total assistance provided under the other assistance programs. The total costs of the program are shared by FEMA and the grantee, with FEMA covering up to 75 percent of the program costs. The remaining funds are paid by non-Federal sources.

Administrative Funds:

Under the PA and HM programs, FEMA may grant three types of administrative funds to the grantee for overseeing the program.

1. *Administrative Cost Allowance:* Provided to the grantee to cover any extraordinary costs that are directly associated with administering the program. This allowance amount is determined by using a statutorily mandated sliding scale percentage that is applied to the total amount of Federal assistance awarded under each program for each disaster. This allowance is intended only for extraordinary costs. For example, costs incurred for preparing Project Worksheets or final inspection reports, processing project applications, conducting final audits and related field inspections, overtime, per diem, and travel expenses are considered administrative costs. However, the administrative cost allowance does not include provisions for regular, full-time employees' straight time.
2. *State Management Costs:* Provided to cover only ordinary or regular expenses directly associated with the program.
3. *Indirect Costs:* Provided for activities indirectly associated with the program administration.

² Recent amendments to the Stafford Act, Section 322, increased this percentage from 15 to 20 percent.

For the IFG program, up to five percent of the Federal share of total program costs may be allocated for administrative costs.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives:

To determine if the State of New Hampshire:

1. Administered the FEMA Disaster Assistance Grant Programs in accordance with the Stafford Act and appropriate Federal regulations;
2. Properly accounted for and expended FEMA disaster assistance funds; and
3. Submitted accurate financial expenditure reports for the Disaster Assistance Grant Programs.

Scope:

The scope of our audit included five major disasters and one emergency declaration, under which FEMA awarded 14 grants. These disasters were declared between January 3, 1996, and March 28, 2001.

The cut-off date for the audit was September 30, 2002. However, we also reviewed current activities related to the conditions found during our audit to determine whether the grantee had taken appropriate corrective actions.

Methodology:

We conducted our audit in accordance with the Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs prepared by the OIG.

Our audit work included interviewing key FEMA officials and reviewing documents at the FEMA Region I office in Boston, Massachusetts, to gain an understanding of the internal controls in place as well as to determine current issues and concerns regarding the grantee's administration and management of the disaster assistance programs.

The majority of the audit work was conducted at the grantee's office in Concord, New Hampshire. We interviewed key grantee officials and reviewed documents to gain an understanding of the grantee's organizational structure, internal control system, and policies and procedures that were followed. We also reviewed samples of program files and supporting documentation to determine if prescribed policies and procedures were complied with, expenditures were adequately supported, and financial reports were prepared accurately and on a timely basis.

During the fieldwork phase of the audit, we adjusted our scope, depending on the program being tested, in order to obtain reasonable coverage over each grant program. For each disaster selected, we reviewed the appropriate documentation to determine whether the disaster assistance programs had been implemented in accordance with the applicable regulations. Furthermore, we reviewed the grantee's current systems and procedures to identify any internal control weaknesses or noncompliance situations. Where applicable, we

have considered the views of FEMA Region I and the grantee officials when writing this report.

We also reviewed prior audits performed within the time frame of the disasters included in our audit scope, which included Office of Management and Budget (OMB) Circulars No. A-128 and A-133 audits performed by the New Hampshire Office of the Legislative Budget Assistant. Our audit scope did not include interviews with or visits to subgrantees or project sites; therefore, we did not evaluate the technical procedures used in estimating and processing the repairs caused by disaster-related damage.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified and does not extend to any financial statements of the grantee or the State of New Hampshire.

IV. FINDINGS AND RECOMMENDATIONS

The audit results are summarized in two major sections: Program Management and Financial Management. These sections contain findings and related conclusions and recommendations.

A. Program Management

1. The Grantee Lacked Procedures to Ensure Compliance with the Single Audit Act

The grantee did not have procedures in place to ensure that subgrantees who receive PA and HM funds were: 1.) complying with the requirements under the Single Audit Act; 2.) forwarding these audit reports to the grantee for review; and 3.) taking the necessary actions to correct conditions cited in the reports. Our testing determined that the grantee only advised subgrantees of the audit requirements in close out letters and did not have the procedures in place, as required by 44 CFR 206.207 and 206.437 to ensure that the subgrantees have complied with the audit requirements.

The regulations required the grantee to develop procedures to ensure subgrantees complied with the single audit requirements. Prior to June 30, 1996, subgrantees that received more than \$25,000 in total Federal assistance during a fiscal year were required to have an audit performed in accordance with the Single Audit Act of 1984. For fiscal years beginning after June 30, 1996, subgrantees that expended \$300,000 or more in Federal funds during a fiscal year were required to have an audit performed in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-133.

Grantee officials stated that they informed each subgrantee of the requirements of the Single Audit Act. However, the grantee did not have sufficient staff to ensure that the subgrantees had the audits performed, submitted the reports for review, and corrected the conditions cited in the reports. Grantee officials indicated that there was a hiring freeze mandated by the New Hampshire Governor. As a result, they were unable to hire additional full-time employees to fulfill the monitoring duties related to subgrantee

audits. Grantee officials indicated that if a disaster did occur, they would be allowed to hire temporary personnel to ensure that disaster assistance grants were properly implemented.

Conclusion and Recommendations

Improper grantee oversight increased the risk that subgrantees were not arranging for single audits to be performed. This further increased the risk that the FEMA funds received by subgrantees may have been subjected to misuse.

Accordingly, we recommend that the Regional Director, FEMA Region I, require the grantee to:

1. Assess and/or re-assign the staffing level needed to ensure that subgrantees are complying with the Single Audit Act of 1996; and
2. Implement procedures to ensure compliance with the requirements of the Act, to include:
 - Identifying current and future subgrantees that are required to comply with the single audit requirements;
 - Obtaining applicable audit reports from subgrantees and performing an effective review to identify deficiencies; and
 - Following-up with subgrantees to ensure that corrective actions are taken to resolve the reported findings.

Management's Response

FEMA Region I and New Hampshire Bureau of Emergency Management concur with this finding and recommendations. The Bureau of Emergency Management is now under the Department of Safety; and as such has a new Director of Business Administration with associated financial support. It is the State of New Hampshire's intent to work with the Director of Business Administration as well as the state Auditor's to develop a procedure to comply with the Single Audit Act. Once a procedure is developed it will be forwarded to DHS/FEMA Region I.

Auditor's Additional Comments

The actions described by management adequately address the conditions cited. Therefore, the condition is resolved, but the finding cannot be closed until the recommended actions are taken.

2. The Grantee Did Not Have Supporting Documentation for Costs Claimed Under the Individual and Family Grant

The New Hampshire Department of Health and Human Services (DHHS) was responsible for managing the IFG Program on the grantee's behalf. DHHS officials had destroyed files that pertained to the IFG program implemented under Disaster Nos. 1144, 1199, and 1231.

Specifically, we noted that the only files available for our review included basic summary schedules that listed payees and their respective award amounts. However, information regarding when the applications were received and the source documents supporting the payments were not available for our review.

Therefore, DHHS did not have source documents available to support payments made to IFG sub-recipients. Accordingly, we were unable to:

1. Determine if any IFG applications were accepted 60 days after the disaster was declared;
2. Ensure that payments were made timely and supported by the required source documentation; and
3. Examine supporting documentation to ensure that only allowable costs were claimed under the IFG program.

In accordance with the record retention policy described in 44 CFR 13.42, the files for these three grants should have been retained for three years after the date of the "final" financial status report. The last Quarterly *Financial Status Report*, submitted to FEMA Region I for the grant awarded under Disaster No. 1144 and Disaster No. 1199 were each dated April 9, 2001, and the grantee had not submitted a final report to FEMA for any of the three grants as of September 30, 2002. Therefore, the supporting documentation pertaining to these three grants should have been available for our review.

The New Hampshire DHHS officials indicated that in an effort to save space, the IFG Coordinator contacted FEMA Region I for authorization to destroy documentation related to the IFG grants that had been implemented under Disaster Nos. 1144, 1199, and 1231. DHHS officials indicated that the IFG Coordinator had received verbal authorization from FEMA Region I to destroy the files that contained the source documentation used to justify payment to the IFG sub-recipients. However, the IFG Coordinator has since retired from DHHS and we were unable to verify this reported verbal authorization with officials at FEMA, Region I.

Conclusion and Recommendations

Properly maintaining records and supporting documentation is required to ensure that the IFG program had been implemented in accordance with the applicable regulations. When there is an absence of these records, there is an increased risk that the program may not have been managed and implemented as intended by FEMA.

Accordingly, we recommend that the Regional Director, FEMA Region I, require the grantee to implement procedures to ensure that under future disasters, managers of FEMA programs are fully aware of and comply with the Federal records retention requirements specified in 44 CFR 13.42.

Management's Response

FEMA Region I and New Hampshire Bureau of Emergency Management concur with this finding and recommendations. The State of New Hampshire indicates that the Bureau of Emergency Management will work with the Department of Health and Human

Services to develop a policy to ensure they follow proper procedures regarding records retention for federal disasters.

Auditor's Additional Comments

The actions described by management adequately address the condition cited. Therefore, the condition is resolved, but the finding cannot be closed until the recommended actions are taken.

B. Financial Management

1. The Grantee Had Weak Controls Over the Grant Disbursement Activities

During our testing of the grantee's Federal cash drawdown procedures, we noted instances of noncompliance with the Federal requirement to minimize the time elapsed between the drawdown and disbursement of Federal funds. The grantee obtained Federal funds electronically using the SMARTLINK system, which is the system required for the drawdown of Federal funds for immediate use. However, as discussed below, the grantee failed to comply with the Federal cash management requirements.

We determined that the grantee draws funds from the SMARTLINK system and records this activity with all of its Federal Grant activity in the State of New Hampshire's accounting system. These drawdowns are coded, so that the awarding agency and grant can be identified. We selected a sample of 198 drawdowns of Federal funds, and traced these draws to the related disbursement recorded in the state's accounting records to determine if the funds were disbursed in a timely manner. The results of our testing were as follows:

1. Ten drawdowns, representing \$131,459 under the Public Assistance, Individual and Family Grant, and Hazard Mitigation Grant Programs had been disbursed between 20 and 585 days after the funds were received by the state.
2. Expenditures related to 20 of the drawdowns, representing \$6,674,176, selected under the Public Assistance, Individual and Family Grant, and Hazard Mitigation Grant Programs could not be identified in the grantee's accounting records. The grantee officials were unable to provide an explanation of why these drawdowns could not be identified in their accounting records. Furthermore, the officials indicated that reconciliation between the accounting records and the funds drawn through SMARTLINK had been prepared for each disaster. However, the grantee could not locate any of these reconciliations for our review.

Draw Down Summary Schedule							
Program	Total Draws		Untimely Disbursements			Unable to Identify When Disbursement Made	
	No.	Amt.	No. Of Draws	Aggregate Total	Days Late	No. Of Draws	Aggregate Total
PA	77	\$21,183,165	6	\$98,485	20 to 585	10	\$6,592,841
IFG	17	\$268,711	3	\$12,796	42	8	\$53,523
HM	104	\$1,663,299	1	\$20,178	53	2	\$27,812

44 CFR 13.20(b) requires the grantee to have procedures in place to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of such funds. Also, FEMA Manual 2700.1, *Advance Financing Payment Systems*, paragraph 3-3(d) states, "Recipient organizations funded via the SMARTLINK System generally should not have more than 3 work days' cash on hand."

The grantee officials stated that they were unaware that these drawdowns had not been disbursed in a timely manner. Also, the officials could not explain why the disbursement of some of these drawdowns could not be traced to entries in their official accounting records.

Conclusion and Recommendations

The grantee's failure to implement effective cash management procedures increases the risk that funds may be used for unauthorized purposes.

Accordingly, we recommend that the Regional Director, FEMA Region I, require the grantee to:

1. Implement effective cash management procedures to ensure drawdowns of Federal funds cover immediate cash needs and are timely disbursed within three days to comply with Federal requirements; and
2. Improve accounting procedures to ensure that the drawdown of Federal funds can be traced to the related disbursement records for authorized program purposes.

Management's Response

FEMA Region I and New Hampshire Bureau of Emergency Management concur with this finding and recommendations. The State of New Hampshire indicates that with the realignment of the Bureau of Emergency Management to the Department of Safety and the appointment of a new director of Business Administration to handle financial aspects of the Bureau, recommended controls are established to handle the financial aspects of Bureau responsibilities. New Hampshire further indicates that the Bureau will reinforce the FEMA policy of "Not having more than 3 work days' cash on hand." Additionally, the Bureau will work with the new director of Business Administration to establish procedures that ensure drawdown's of Federal funds can be related to disbursement records.

Auditor's Additional Comments

The actions described by management adequately address the conditions cited. Therefore, the condition is resolved, but the finding cannot be closed until the recommended actions are taken.

2. The Grantee's Financial Status Reports to FEMA Were Not Properly Completed or Supported

During our testing of the SF-269a, *Financial Status Report*, dated September 30, 2003, we were unable to trace the current period's reported expenditures to the grantee's accounting records. In addition, we were unable to trace the cumulative expenditures reported for four of the nine disasters, to the grantee's accounting records.

Specifically, we found that the grantee had reported \$18,776,199 to FEMA Region I as the cumulative Federal share of expenditures under Disaster Nos. 1199, 1231, 1305, and EM-3166 under the Public Assistance, Individual and Family Grant, and Hazard Mitigation programs. However, the grantee's Integrated Financial System (IFS) reflected expenditures of only \$18,771,707, which indicated that \$4,492 in expenditures reported to FEMA Region I was unsupported.

Furthermore, we noted that the grantee's accounting records did not fully identify the amounts for which the state and/or local governments were responsible. Specifically, the grantee's accounting records did not clearly identify the state and/or local match, as required by the grant award agreements. Therefore, we were unable to determine what amounts were reported as the state's or local government's share of costs.

44 CFR 13.20(b) requires the grantee to maintain records, which adequately identify the source and application of funds provided for financially assisted activities. Furthermore, the grantee should be able to support all costs reported to FEMA on the forms SF-269a, *Financial Status Report*, including the state and/or local match reported on this form.

The grantee indicated the forms SF-296a are prepared based on the information recorded in IFS along with supporting schedules that reconcile the amounts reported on the forms SF-296a to the amounts recorded in the IFS. The grantee indicated that these supporting schedules could not be located and that the documents may have been misplaced, misfiled, or destroyed. The grantee indicated that the individual who prepared forms SF-269a no longer works for the grantee, due to the merger between the grantee and the Department of Safety. Grantee officials indicated that the responsibilities assigned to this individual were transferred to the Business Administrator. Furthermore, the grantee indicated that they were not aware of the requirement to identify the state and/or local match in their accounting records.

Conclusion and Recommendations

By not ensuring that the expenditures reported to FEMA Region I were supported, there is an increased risk that the expenditures reported may not be accurate and reliable.

We recommend that the Regional Director, FEMA Region I, require that the grantee update/prepare written procedures for correctly completing the Financial Status Reports, and maintain the required supporting documentation to ensure that the amounts reported to FEMA Region I are accurate and properly supported.

Management's Response

FEMA Region I and New Hampshire Bureau of Emergency Management concur with this finding and recommendations. The Bureau will request that the Director of Business Administration develop procedures regarding the preparation of Financial Status Reports and maintenance of associated supporting documentation.

Auditor's Additional Comments

The actions described by management adequately address the conditions cited. Therefore, the condition is resolved, but the finding cannot be closed until the recommended actions are taken.

3. The Grantee Did Not Have Adequate Procedures in Place to Prevent Overpayments to Subgrantees

During our testing of the Public Assistance program, we found that the grantee did not have procedures in place to prevent overpayments to subgrantees. Specifically, we noted that the Town of Weare, under Disaster No. 1144, had been paid \$108,502 as their Federal share of funds. However, the town was only eligible to receive \$75,328 in Federal funds. The difference of \$33,174 represented an overpayment of Federal funds. This total overpayment of \$33,174 occurred because under Project 04476, the original Damage Survey Report (DSR) amount was de-obligated and supplemental DSRs were written for this project. However, during the final inspection, the de-obligated DSR amount was included in the total project costs.

According to grantee and FEMA officials, an agreement existed between both parties that made FEMA responsible for determining project cost eligibility and preparing the DSRs. During the course of a project, a subgrantee is paid for the portion of project costs that have been incurred to date. The grantee was responsible for monitoring large subgrantees' progress through quarterly status reports, which identify the costs incurred to date. In addition, the grantee was responsible for reviewing the subgrantees' invoices for accuracy and cost overruns. Once the subgrantee has completed the entire project, FEMA performs a final inspection and prepares a final inspection report, which indicates the remaining amount due to the subgrantee. The grantee then pays the subgrantee based on the amount shown on the final inspection report.

In this particular case, FEMA had written four DSRs for the Town of Weare. However, the original DSR had been de-obligated and was not properly accounted for in the final inspection report. As a result, the grantee paid the town based on the amount listed on the final inspection report. However, because the grantee did not have procedures in place to independently verify the amount prior to payment, the subgrantee received an overpayment of \$33,174 in Federal funds. The grantee indicated that they were not aware of this overpayment until it was brought to their attention during the course of our audit.

Even though this particular subgrantee's project had been closed out and our testing indicated that this was an isolated incident, there were no procedures in place to prevent a similar situation from occurring in the future.

44 CFR 13.20(b)(2) requires grantees to maintain records, which adequately identify the source and application of funds provided for financially assisted activities.

Conclusion and Recommendations

By not having procedures in place to ensure that subgrantees are only paid for authorized expenditures there is an increased risk that subgrantees will be paid for unapproved amounts, which could lead to the potential misuse of Federal funds.

We recommend that the Regional Director, FEMA Region I, require the grantee to develop procedures to:

1. Prevent and identify overpayments made to subgrantees;
2. Ensure that subgrantees receive payment only for allowable and eligible costs under the disaster assistance grants; and
3. Promptly recover any overpayments and return to FEMA.

Management's Response

FEMA Region I and New Hampshire Bureau of Emergency Management concur with this finding and recommendations. The Bureau of Emergency Management has developed an Access database that generates spreadsheets to assist personnel in tracking payments to sub grantees. The new system will enable Bureau personnel to prevent and/or identify overpayments to sub grantees; and if necessary, allow them to recover overpayments to be returned to FEMA. In addition, the overpayment in question was a direct result of FEMA incorrectly closing out a project and writing a final project worksheet based upon this error. The Bureau will work with the FEMA Public Assistance staff to cross check written project worksheets.

Auditor's Additional Comments

The actions described by management adequately address the conditions cited. Therefore, the condition is resolved, but the finding cannot be closed until the recommended actions are taken.

V. ATTACHMENTS

Attachment A-1

**Summary Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002**

All Disasters Numbers 1077 through 1305, and Emergency Declaration Number 3166

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$21,191,806	\$277,702	\$3,333,057	\$24,802,565
Local Match/State Share	7,063,935	92,567	1,111,019	8,267,521
Total Award Amount	<u>\$28,255,741</u>	<u>\$370,269</u>	<u>\$4,444,076</u>	<u>\$33,070,086</u>
Source of Funds				
Federal Share	\$20,967,848	\$268,711	\$2,724,906	\$23,961,465
Local Match/State Share	6,989,283	89,570	908,302	7,987,155
Total Source of Funds	<u>\$27,957,131</u>	<u>\$358,281</u>	<u>\$3,633,208</u>	<u>\$31,948,620</u>
Application of Funds				
Federal Share	\$20,963,401	\$268,307	\$2,808,338	\$24,040,046
Local Match/State Share	6,952,688	89,436	936,113	7,978,237
Total Application of Funds	<u>\$27,916,089</u>	<u>\$357,743</u>	<u>\$3,744,451</u>	<u>\$32,018,283</u>
Balance of Federal Funds on Hand	<u>\$4,447</u>	<u>\$ 404</u>	<u>(\$83,432)</u>	<u>(\$78,581)</u>

Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002

Disaster Number 1077 – Declaration Date: January 3, 1996 – Excessive Rain, High Winds, and Flooding

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$2,107,008	\$0	\$330,687	\$2,437,695
Local Match/State Share	702,336	0	110,229	812,565
Total Award Amount	\$2,809,344	\$0	\$440,916	\$3,250,260
Source of Funds				
Federal Share	\$2,107,008	\$0	\$330,687	\$2,437,695
Local Match/State Share	702,336	0	110,229	812,565
Total Source of Funds	\$2,809,344	\$0	\$440,916	\$3,250,260
Application of Funds				
Federal Share	\$2,107,008	\$0	\$330,687	\$2,437,695
Local Match/State Share	667,224	0	110,229	777,453
Total Application of Funds	\$2,774,232	\$0	\$440,916	\$3,215,148
Balance of Federal Funds on Hand	\$ 0	\$ 0	\$ 0	\$ 0

**Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002**

Disaster Number 1144 – Declaration Date: October 29, 1996 – Fall Northeastern Rainstorm

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$1,919,297	\$153,702	\$761,794	\$2,834,793
Local Match/State Share	639,766	51,234	253,931	944,931
Total Award Amount	<u>\$2,559,063</u>	<u>\$204,936</u>	<u>\$1,015,725</u>	<u>\$3,779,724</u>
Source of Funds				
Federal Share	\$1,919,297	\$153,702	\$761,794	\$2,834,793
Local Match/State Share	639,766	51,234	253,931	944,931
Total Source of Funds	<u>\$2,559,063</u>	<u>\$204,936</u>	<u>\$1,015,725</u>	<u>\$3,779,724</u>
Application of Funds				
Federal Share	\$1,910,656	\$153,702	\$761,794	\$2,826,152
Local Match/State Share	636,885	51,234	253,931	942,050
Total Application of Funds	<u>\$2,547,541</u>	<u>\$204,936</u>	<u>\$1,015,725</u>	<u>\$3,768,202</u>
Balance of Federal Funds on Hand	<u>\$8,641</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$8,641</u>

**Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002**

Disaster Number 1199 – Declaration Date: January 15, 1998 – Severe Ice Storms, Rain, and High Winds

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$10,062,145	\$115,000	\$1,663,731	\$11,840,876
Local Match/State Share	3,354,048	38,333	554,577	3,946,958
Total Award Amount	<u>\$13,416,193</u>	<u>\$153,333</u>	<u>\$2,218,308</u>	<u>\$15,787,834</u>
Source of Funds				
Federal Share	\$10,062,145	\$106,527	\$1,226,597	\$11,395,269
Local Match/State Share	3,354,048	35,509	408,866	3,798,423
Total Source of Funds	<u>\$13,416,193</u>	<u>\$142,036</u>	<u>\$1,635,463</u>	<u>\$15,193,692</u>
Application of Funds				
Federal Share	\$10,066,339	\$106,527	\$1,309,047	\$11,481,913
Local Match/State Share	3,355,446	35,509	436,349	3,827,304
Total Application of Funds	<u>\$13,421,785</u>	<u>\$142,036</u>	<u>\$1,745,396</u>	<u>\$15,309,217</u>
Balance of Federal Funds on Hand	<u>(\$4,194)</u>	<u>\$ 0</u>	<u>(\$82,450)</u>	<u>(\$86,644)</u>

**Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002**

Disaster Number 1231 – Declaration Date: July 2, 1998 – Severe Storms and Flooding

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$3,075,411	\$9,000	\$486,446	\$3,570,857
Local Match/State Share	1,025,137	3,000	162,149	1,190,286
Total Award Amount	<u>\$4,100,548</u>	<u>\$12,000</u>	<u>\$648,595</u>	<u>\$4,761,143</u>
Source of Funds				
Federal Share	\$2,862,071	\$8,482	\$318,625	\$3,189,178
Local Match/State Share	954,024	2,827	106,208	1,063,059
Total Source of Funds	<u>\$3,816,095</u>	<u>\$11,309</u>	<u>\$424,833</u>	<u>\$4,252,237</u>
Application of Funds				
Federal Share	\$2,862,071	\$8,078	\$319,606	\$3,189,755
Local Match/State Share	954,024	2,693	106,535	1,063,252
Total Application of Funds	<u>\$3,816,095</u>	<u>\$10,771</u>	<u>\$426,141</u>	<u>\$4,253,007</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ 404</u>	<u>(\$ 981)</u>	<u>(\$ 577)</u>

**Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002**

Disaster Number 1305 – Declaration Date: October 18, 1999 – Tropical Storm Floyd

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$594,694	\$0	\$90,399	\$685,093
Local Match/State Share	198,231	0	30,133	228,364
Total Award Amount	<u>\$792,925</u>	<u>\$0</u>	<u>\$120,532</u>	<u>\$913,457</u>
Source of Funds				
Federal Share	\$584,075	\$0	\$87,204	\$671,279
Local Match/State Share	194,692	0	29,068	223,760
Total Source of Funds	<u>\$778,767</u>	<u>\$0</u>	<u>\$116,272</u>	<u>\$895,039</u>
Application of Funds				
Federal Share	\$584,075	\$0	\$87,204	\$671,279
Local Match/State Share	194,692	0	29,068	223,760
Total Application of Funds	<u>\$778,767</u>	<u>\$0</u>	<u>\$116,272</u>	<u>\$895,039</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Schedule of Source and Application of Funds
New Hampshire Bureau of Emergency Management
Disaster Assistance Grant Program
As of September 30, 2002

Emergency Number 3166 – Declaration Date: March 28, 2001 – Snow Emergency

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$3,433,252	\$0	\$0	\$3,433,252
Local Match/State Share	1,144,417	0	0	1,144,417
Total Award Amount	<u>\$4,577,669</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,577,669</u>
Source of Funds				
Federal Share	\$3,433,252	\$0	\$0	\$3,433,252
Local Match/State Share	1,144,417	0	0	1,144,417
Total Source of Funds	<u>\$4,577,669</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,577,669</u>
Application of Funds				
Federal Share	\$3,433,252	\$0	\$0	\$3,433,252
Local Match/State Share	1,144,417	0	0	1,144,417
Total Application of Funds	<u>\$4,577,669</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,577,669</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>