



# Department of Homeland Security Office of Inspector General

## The State of Tennessee's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2006 through 2008





**Homeland  
Security**

JAN 13 2011

Preface

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

The attached report presents the results of the audit of the State of Tennessee's management of State Homeland Security Program and Urban Areas Security Initiative grants awarded during Fiscal Years 2006 through 2008. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company's report identifies one reportable condition where State management of the grant funds could be improved, resulting in one recommendation addressed to the Assistant Administrator, Grant Programs Directorate, Federal Emergency Management Agency. Foxx & Company is responsible for the attached auditor's report dated October 22, 2010, and the conclusions expressed in the report.

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

A handwritten signature in blue ink that reads "Anne L. Richards".

Anne L. Richards  
Assistant Inspector General for Audits



October 22, 2010

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

Dear Ms. Richards:

Foxx & Company performed an audit of the State of Tennessee's management of the Department of Homeland Security's State Homeland Security Program and Urban Areas Security Initiative grants for Fiscal Years 2006 through 2008. The audit was performed according to our Task Order No. TPD-FIG-BPA-07-0007 dated September 29, 2009. This report presents the results of the audit and includes recommendations to help improve the State's management of the State Homeland Security Program and Urban Areas Security Initiative grants.

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

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

Sincerely,

Foxx & Company

Martin W. O'Neill  
Partner

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## Abbreviations

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

# OIG

*Department of Homeland Security  
Office of Inspector General*

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## **Executive Summary**

Foxx & Company completed an audit of the State of Tennessee's Management of State Homeland Security Program and Urban Areas Security Initiative grants awarded during fiscal years 2006 through 2008. The audit objective was to determine whether the State distributed and spent Homeland Security Grant Program funds strategically, effectively, and in compliance with laws, regulations, and guidance. The audit included a review of approximately \$40.9 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded by the Federal Emergency Management Agency to the State of Tennessee.

Generally, the State did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and developed measurable goals and objectives based upon risk assessments. The State's funding allocations were linked to all-hazard capabilities. Also, the State's procurement methodology and practices were in conformance with federal requirements. The State effectively monitored the grant programs.

However, the State needed to improve its compliance with inventory requirements for equipment purchased with grant funds. Our one recommendation calls for the Federal Emergency Management Agency to initiate improvements which, if implemented, should help strengthen program management, performance, and oversight.

Federal Emergency Management Agency and State officials verbally concurred with our finding and recommendation, and elected not to provide written comments.

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## Background

The Homeland Security Grant Program is a federal assistance grant program administered by the U.S. 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 was 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 grant program was transferred to DHS, applicable Department of Justice grant regulations and legacy systems still were used as needed to administer the program. For example, through Fiscal Year (FY) 2008 the Office of Justice Programs' Grants Management System was used to receive grantee applications and to administer the award and reporting processes. Also, prior to the transfer, the State Administrative Agency entered payment data into the Office of Justice Programs' Phone Activated Paperless Request System, which was a drawdown payment system for grant funds. That payment system was replaced in April 2007 by FEMA's Payment and Reporting System. This system allows grantees to make payment requests and complete and transmit their quarterly Financial Status Reports online.

### Homeland Security Grant Program

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, deter, respond to, and recover from terrorist attacks, major disasters, and other emergencies. The Homeland Security Grant Program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administration costs. Depending on the fiscal year, the program included some or all of the programs:

- **State Homeland Security Program** supports the implementation of State Homeland Security Strategies to address the identified planning, organization, equipment, training, and exercise needs to prevent, protect against, respond

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to, and recover from acts of terrorism and other catastrophic events.

- **Urban Areas Security Initiative Program** funds address the unique planning, organization, equipment, training, and exercise needs of high-threat, high-density Urban Areas, and assists the areas in building an enhanced and sustainable capacity to prevent, protect against, respond to, and recover from acts of terrorism.
- **Law Enforcement Terrorism Prevention Program** provides resources to law enforcement and public safety communities (working with their private partners) to support critical terrorism prevention activities, including: establishing / enhancing fusion centers and collaborating with non-law enforcement partners, other government agencies, and the private sector.
- **Citizen Corps Program** mission is to bring community and government leaders together to coordinate the involvement of community members in emergency preparedness, planning, mitigation, response, and recovery.
- **Metropolitan Medical Response System Program** supports the integration of emergency management, health, and medical systems into a coordinated response to mass casualty incidents caused by any hazard. Successful MMRS grantees reduce the consequences of a mass casualty incident during the initial period of a response by having augmented existing local operational response systems before an incident occurs.

### **State Administrative Agency**

The governor of each state appoints a State Administrative Agency to administer the Homeland Security Grant Programs. The State Administrative Agency is responsible for managing these grant programs according to established federal guidelines. It is also responsible for allocating funds to local, regional, and other state government agencies.

In 2003, Tennessee's Governor designated the State of Tennessee's Department of Military to be the State Administrative Agency for the Homeland Security Grant Programs. The Department of Military administered all of the Homeland Security

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Grant Programs grants included in our audit. The State's homeland security organizational chart is included in Appendix B.

The State of Tennessee is divided into 3 Regions and 11 State Homeland Security Districts, including 2 Urban Areas Security Initiative areas: Nashville and Memphis. District Councils comprised of local government officials within the State Homeland Security Districts determine grant funding priorities within the Districts. The Department of Military and the Office of Homeland Security work closely with the State Homeland Security Districts and Urban Areas Security Initiative areas to support their needs, synchronize strategies, and establish consistent priorities across Tennessee.

### **Grant Funding**

The State of Tennessee received approximately \$54.5 million from the Homeland Security Grant Program during FYs 2006 through 2008. As part of this program, the State received \$40.9 million in State Homeland Security Program and Urban Areas Security Initiative grants. The State Administrative Agency awarded subgrants to counties, state agencies, and two Urban Areas Security Initiative areas. The counties and urban areas purchased equipment and distributed it to local governments and first responders. These entities also provided training and planned exercises. The State of Tennessee subawarded State Homeland Security Program and Urban Areas Security Initiative grants to the following:

- 2006: 64 subawards to 60 counties, 3 state agencies, and 1 urban area;
- 2007: 82 subawards to 77 counties, 4 state agencies, and 1 urban area; and
- 2008: 71 subawards to 65 counties, 4 state agencies, and 2 urban areas.

Table 1 displays a breakdown of the Homeland Security Grant Program awards to the State of Tennessee by year.



**Table 1**

<b>Tennessee Homeland Security Grant Program Awards Fiscal Years 2006 through 2008 (‘000s)</b>				
<b>Funded Activity</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>Total</b>
State Homeland Security Program	\$ 4,780	\$ 8,250	\$12,880	\$25,910
Urban Areas Security Initiative	\$ 4,200	\$ 4,590	\$ 6,236	\$15,026
Law Enforcement Terrorism Prevention Program	\$ 3,480	\$ 5,890	Not Applicable	\$ 9,370
Citizen Corps Program	\$ 373	\$ 282	\$ 287	\$ 942
Metropolitan Medical Response System Program	\$ 929	\$ 1,033	\$ 1,285	\$ 3,247
<b>Total</b>	<b>\$13,762</b>	<b>\$20,045</b>	<b>\$20,688</b>	<b>\$54,495</b>

Foxx & Company completed an audit of the State of Tennessee’s management of DHS’ State Homeland Security Program and Urban Areas Security Initiative grants awarded during FY 2006 through FY 2008. The objective of the audit was to determine whether the State distributed and spent Homeland Security Grant Program funds strategically, effectively, and in compliance with laws, regulations, and guidance. Nine researchable questions provided by the DHS OIG established the framework for the audit. The researchable questions were related to the State Administrative Agency’s planning, management, and evaluations of grant activities. Appendix A provides additional details on the purpose, scope, and methodology of this audit, including the nine researchable questions.

## **Results of Audit**

### **State Grants Management Practices Were Generally Effective, But Require Some Improvements in Inventory Compliance**

Generally, the State did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and developed measurable

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goals and objectives based upon risk assessments. The State's funding allocations were linked to all-hazard capabilities. Also, the State's procurement methodology and practices were in conformance with federal requirements. The State effectively monitored the grant programs.

However, the State needed to improve its compliance with inventory requirements for equipment purchased with Homeland Security grant funds.

## **Compliance with Inventory Requirements**

Three subgrantees visited during the audit were not performing the required physical inventories of assets procured with federal grant funds. As a result, the state did not have reasonable assurance that assets procured with Homeland Security grant funding were adequately safeguarded to prevent loss, damage, or theft of the property.

A provision in FEMA regulations on administrative requirements for grants to state and local governments, found in Code of Federal Regulation Title 44 § 13.32(d) *Management requirements*, lists requirements for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place. It requires, at a minimum, the following:

- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.
- If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

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In addition, the State of Tennessee's contract with subgrantees requires the subgrantees to:

- Be responsible for the accountability, maintenance, management, and inventory of all property purchased totally or in part with federal grant funds;
- Maintain a perpetual inventory system for all equipment purchased with federal funds;
- Conduct annual inventories, compare the results of the inventory with the subgrantees property records, and investigate any differences; and
- Adjust the inventory control report to reflect the results of the physical inventory and subsequent investigation.

The State was not enforcing the requirement under its grantee-subgrantee contracts to perform physical inventories of assets. The subgrantees visited, including the ones that were not complying with the physical inventory requirements, were maintaining appropriate property records. The property records being maintained complied with FEMA and state property management requirements and included a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, the cost of the property, and the percentage of Federal participation in the cost of the property. However, physical inventories provide visual assurances concerning the location, use, and condition of property. Without routine physical inventories, the state and subgrantees did not have reasonable assurance that the property was being adequately safeguarded to prevent loss, damage, or theft.

Officials from the three non-compliant subgrantees said that, once the equipment was purchased and passed down to subrecipients, they believed that they no longer had responsibility for the equipment. One subgrantee official said that staff was not available to perform physical inventories of all the equipment purchased with Homeland Security grant funding.

Nevertheless, the State and the subgrantees were responsible for ensuring that inventory requirements were enforced. After discussing our observation with State officials, all the subgrantees were notified to comply with the inventory requirements in the Tennessee grantee-subgrantee contract.

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## **Recommendation**

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Tennessee Department of Military to:

**Recommendation #1:** Enforce the requirement to conduct physical inventories of equipment purchased with federal funds and develop and implement procedures, as part of routine monitoring visits, to ensure that inventories are being conducted.

## **Management Comments and Auditors' Analysis**

FEMA and State officials verbally concurred with our finding and recommendation and elected not to provide written comments.

The State provided us a copy of an email it sent to all grant subrecipients. The email reaffirmed physical inventory requirements and directed the subrecipients to submit copies of inventory control reports to the State. In addition, State officials said that, as a part of routine monitoring, they will ensure that grant-funded equipment is inventoried as required by federal regulations. These actions meet the intent of our recommendation. As a result, this recommendation is considered resolved and closed.

## **Appendix A**

### **Purpose, Scope, and Methodology**

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The purpose of the audit was to determine whether the State of Tennessee distributed and spent State Homeland Security Program and Urban Areas Security Initiative grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The goal of the audit was to identify problems and solutions that can help the State of Tennessee better prepare for and respond to threats acts of terrorism, and other hazards. The audit further enabled us to answer the following nine researchable questions:

- Were measurable goals developed from plans?
- Do funded plans link all-hazards capabilities to goals?
- Were funds and resources distributed based on goals?
- Does the State accurately measure risk?
- Does the State measure response capabilities?
- Can the State demonstrate improved performance?
- Were grants administered compliantly?
- Did the State monitor grant programs?
- What innovative practices can be used by other states?

The scope of the audit included the State Homeland Security Program and Urban Areas Security Initiative grant awards for Fiscal Years 2006, 2007, and 2008 as described in the Background section of this report.

The audit methodology included work at FEMA Headquarters, state offices, and numerous local government and first responder locations. To achieve our audit objective, we analyzed data, reviewed documentation, and interviewed the key state and local officials directly involved in the management and administration of Tennessee's Homeland Security Grant Program. As listed below, we conducted site visits and held discussions with officials from the Memphis and Nashville urban areas, six Homeland Security Districts, six counties, six state agencies, and ten first responder locations in order to determine if program grant funds were expended according to grant requirements and grant-funded property was safeguarded.

#### Urban Areas

- Memphis
- Nashville

## Appendix A

### Purpose, Scope, and Methodology

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#### Districts and counties:

- Homeland Security District 1, Washington County
- Homeland Security District 2, Knox County
- Homeland Security District 4, Putman County
- Homeland Security District 5, Davidson County
- Homeland Security District 5, Williamson County
- Homeland Security District 7, Montgomery County
- Homeland Security District 11, Shelby County

#### Tennessee state agencies

- Department of Agriculture
- Department of Health
- Department of Safety
- Department of Transportation
- Emergency Management Agency
- Office of Homeland Security

#### First Responder organizations

- Knox County Fire Station
- Knox County Sheriff's Department Aviation Hanger
- Memphis Police Department
- Memphis Fire Engine Company No. 1
- Memphis Fire Engine Company No. 3
- Nashville Fire Department
- Nashville Fire Station
- Nashville Police Department
- Washington County Bomb Squad
- Washington County Hazmat Team

At these locations, we interviewed responsible officials, reviewed documentation supporting State and subgrantee management of the grant funds, and physically inspected equipment procured with the grant funds.

We conducted the audit between December 2009 and May 2010, according to *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2007 Revision). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Appendix A**

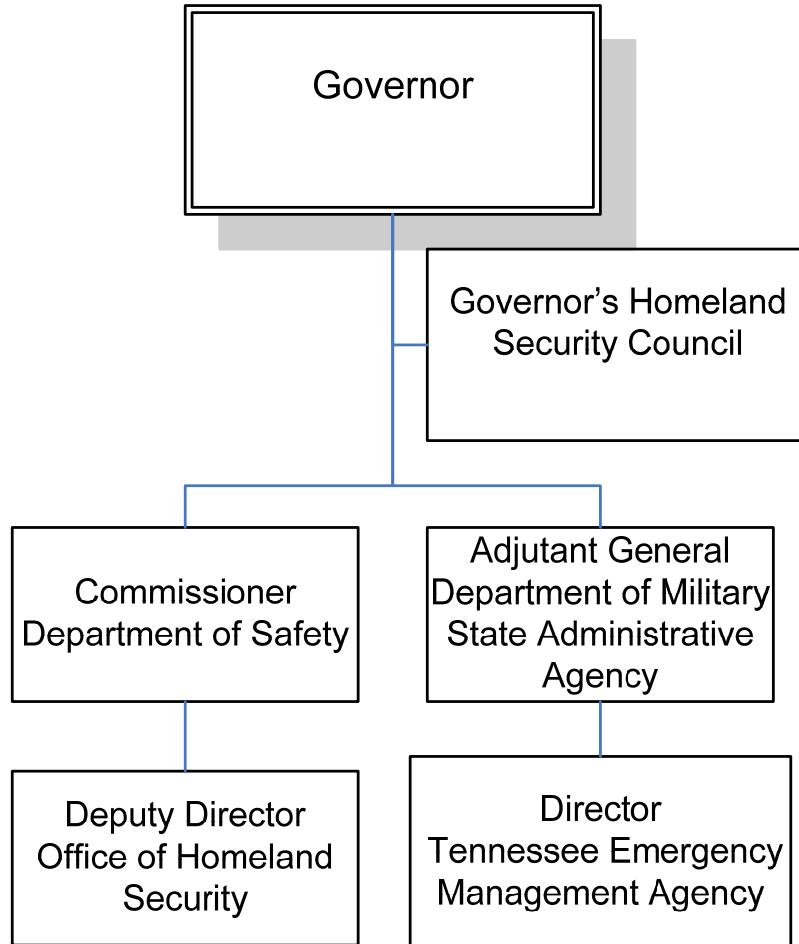
### **Purpose, Scope, and Methodology**

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Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. This was a performance audit as defined by Chapter 1 of the *Standards*, and included a review and report of program activities with a compliance element. Foxx & Company was not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had we been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of Tennessee.

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

State of Tennessee  
Homeland Security Offices





## **Appendix C**

### **Report Distribution**

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#### **Department of Homeland Security**

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

#### **Federal Emergency Management Agency**

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

#### **Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

#### **Congress**

Congressional Oversight and Appropriations Committees, as appropriate



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- Email us at [DHSOIGHOTLINE@dhs.gov](mailto:DHSOIGHOTLINE@dhs.gov); or
- Write to us at:  
DHS Office of Inspector General/MAIL STOP 2600,  
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245 Murray Drive, SW, Building 410,  
Washington, DC 20528.

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