

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

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





**Homeland
Security**


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Preface

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

This report addresses the State of Minnesota's management of State Homeland Security Program and Urban Areas Security Initiatives grants awarded during fiscal years 2007 through 2009. 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 seven reportable conditions where the State of Minnesota's management of the grant funds could be improved, resulting in 15 recommendations addressed to the Assistant Administrator, Grant Programs Directorate. Foxx & Company is responsible for the attached auditor's report dated October 25, 2011, and the conclusions expressed in the report.

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

Anne L. Richards *for* 
Assistant Inspector General for Audits



October 25, 2011

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

Dear Ms. Richards:

Foxx & Company performed an audit of the State of Minnesota's management of the Department of Homeland Security's State Homeland Security Program and Urban Areas Security Initiative grants for Fiscal Years 2007 through 2009. The audit was performed in accordance with our Task Order No. TPD-FIG-BPA-07-0007, Order No. 10 dated September 27, 2010. This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Program and Urban Areas Security Initiative grants.

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

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

Sincerely,

Foxx & Company
Martin W. O'Neill
Partner

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Abbreviations

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

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

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

The objectives of the audit were to determine if the State of Minnesota distributed and spent State Homeland Security Program and Urban Areas Security Initiative grant funds (1) effectively and efficiently and (2) in compliance with applicable federal laws and regulations. We were to also address the extent to which grant funds enhanced the State of Minnesota's ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters. The audit included a review of approximately \$54.7 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded to the State of Minnesota during fiscal years 2007 through 2009.

Generally, the State of Minnesota did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State of Minnesota's plans linked funding to all-hazard capabilities and to goals that were established based on risk assessments. However, we identified seven areas for improving grants management: state strategy updates, subgrantee monitoring, property management, grant expenditure reviews, financial status and progress reporting, fusion center sustainability, and internal controls over financial operations.

Our 15 recommendations call for the Federal Emergency Management Agency to initiate improvements which, if implemented, should help strengthen program management, performance, and oversight. Written comments to the draft report are incorporated as appropriate and included in their entirety in appendix B.

Background

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

The State of Minnesota (State) received \$62 million in Homeland Security Grant Program funds over the course of fiscal years (FYs) 2007, 2008, and 2009. This included \$54.7 million in State Homeland Security Program and Urban Areas Security Initiative grants. Appendix A provides details on the purpose, scope, and methodology for this audit, and appendix C provides background on the Homeland Security Grant Program.

The Governor of the State of Minnesota designated the Department of Public Safety's Division of Homeland Security and Emergency Management as the State Administrative Agency, the entity responsible to administer the Homeland Security Grant Program. The State Administrative Agency is responsible for managing the grant programs in accordance with established federal guidelines and allocating funds to local, regional, and other Minnesota government agencies. The State Administrative Agency organization is depicted in appendix D.

Within Minnesota, the State Administrative Agency subawarded Homeland Security Grant Program funds to 50 subgrantees throughout the State over the 3-year period.

Results of Audit

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

Generally, the State did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State's plans linked funding to all-hazard capabilities and to goals that were established based on risk assessments. However, improvements were needed to enhance Minnesota's management of the grants, including:

- State strategy updates,
- Monitoring of subgrantees,
- Property management controls and accountability,
- Grant expenditure reviews,

-
- Financial status and progress reporting,
 - Fusion center sustainability, and
 - Internal controls over financial operations.

Our 15 recommendations call for the Federal Emergency Management Agency (FEMA) to initiate improvements which, if implemented, should help strengthen program management, performance, and oversight. These improvements will enhance the effectiveness of the State's overall use of the grant funds to improve preparedness and response capabilities.

State Strategy Updates

The State of Minnesota's Homeland Security Strategy (Strategy) was not up to date. The Strategy was last updated January 18, 2008, and addressed the four mission areas and seven¹ national priorities as required. However, the Strategy was limited in its effectiveness because:

- The Strategy referred to a comprehensive risk, capabilities, and needs assessment completed in October 2003. The Strategy stated an "updated assessment will be accomplished during calendar year 2006 with guidance from the Office for Domestic Preparedness," but an updated assessment was not performed;
- The Strategy lacked measurable goals and objectives; and
- The process to collect and report performance data in the Strategy required updating and refinement.

As a result, the State's strategy was not based on current capabilities and needs, did not have measurable goals and objectives, and did not permit the State to use measured progress toward goals and objectives when making funding and management decisions. Accordingly, the State did not have a basis to evaluate the effect of grant expenditures on its preparedness and response capabilities.

FEMA's State and Urban Area Homeland Security Strategy, Guidance on Aligning Strategies with the National Preparedness Goal (Strategy Guidance), dated July 22, 2005, states that the primary determinants of an overall successful strategy are the quality of the goals and performance against those goals. The Strategy Guidance stated that the State Administrative Agency and Urban Area Working Group should assess the strategy's objectives to determine whether the measures are meaningful, that the measurement methodology is sound, and the measures can be verified with reliable data.

¹ This number was increased to eight for the FY 2010 and later grants.

The Strategy Guidance also stated that objectives should be:

- Specific, detailed, particular and focused – helping to identify what is to be achieved and accomplished;
- Measurable – quantifiable, providing a standard for comparison, and identifying a specific achievable result;
- Achievable – the objective is not beyond a State, region, jurisdiction or locality’s ability;
- Results-oriented – identifies a specific outcome; and
- Time-limited – a target date exists to identify when the objective will be achieved.

The Strategy Guidance added that objectives, which have corresponding implementation steps, should be guided by solution areas – Planning, Organization, Equipment, Training, and Exercises – that support achievement of the goal and reduce shortfalls in capabilities.

Implementation steps provide a road map to the accomplishment of the goals and objectives. Once an objective has been established, implementation steps should be constructed that will provide guidance to the State or Urban Area on how the objective will be achieved.

With respect to updating state strategies, the Strategy Guidance recognized the value of each state having an ongoing process of review and refinement as new lessons are learned, new priorities are realized, and new homeland security guidance is issued. The Strategy Guidance stated that updated State and Urban Area Homeland Security Strategies will then provide a context for performing the strategic exercise of asking “How are we organized?” and “How are we managing our homeland security programs?”

Strategy Needs to be Updated With a Comprehensive Risk, Capabilities, and Needs Assessment

The State had not updated its risk, capabilities, and needs assessments since 2003. Although the state strategy was updated in January 2008, the strategy was not complete because the State Administrative Agency did not update the needs assessment in 2006 as intended. As a result, the State strategy and justifications for FEMA Homeland Security Grant funds for FYs 2007, 2008, and 2009 were based upon outdated strategy and assessments that did not consider such factors as new risks, needs assessments, and capability improvements achieved with previous years’ grant monies.

The 2003 State Strategy was developed from a comprehensive risk, capabilities, and needs assessment completed by designated state jurisdictions. It was based on the National Response Plan and integrated with the Minnesota National Incident Management System. The assessment was completed in October 2003 with guidance from FEMA. The results of the assessment helped to identify gaps between the current and desired level of equipment, training, and exercises at the local and state levels.

The 2003 State Strategy stated that an updated assessment would be accomplished during calendar year 2006 with guidance from FEMA. However, state officials said that the updated assessment was never completed. Instead, the State relied on the input from 23 working groups consisting of subject matter experts that came together each year during the grant process to review potential projects for homeland security funding. These working groups reviewed and scored proposed projects and made recommendations to the State's Senior Advisory Council. The Council reviewed and approved projects which became the investment justifications submitted by the State as part of its yearly application to FEMA for grant funds.

While the members of the Senior Advisory Council represent all first responder disciplines, as well as the state officials responsible for the administration of federal preparedness grants, the activities of the working group were not used to update the State's strategy because the group was not tasked to do this. Without an updated State strategy there was no assurance that the projects for which FEMA funding was being requested would lead to the most effective result for improving the State's capabilities.

Strategy Lacks Measurable Goals and Objectives

The State Strategy contained 14 broad based goals which supported the 4 national mission areas and 7 national priorities. The Strategy also had 74 objectives with a total of 340 implementation steps to support the 14 broad based goals. However, the objectives and implementation steps were not specific, measurable or results oriented. To illustrate, 148 of the 340 implementation steps had no specific dates for completing the implementation step or how often the step would be performed. Other time frames cited in the Strategy were for years prior to the effective date of the Strategy and reflected status conditions that likewise were years old. The following are examples of shortcomings found in the Strategy:

Table 1: Shortcomings in State Strategy

<i>Goal</i>	<i>Objective</i>	<i>Shortcoming</i>
To develop and enhance the planning and analysis capabilities at all levels of government within the state of Minnesota to prevent, respond to, and recover from terrorism, major disaster, and other emergencies.	The State of Minnesota will develop a statewide plan for the evacuation of citizens in preparation for or in response to terrorism, a major disaster, or other emergencies.	The objective and corresponding implementation steps do not include: <ul style="list-style-type: none"> • Time frames for completion of the objective.
The State of Minnesota will enhance a regional capacity to prevent, prepare for, respond to, recover from, and mitigate a Chemical, Biological, Radiological, Nuclear Event.	Based on best practices, establish baseline for equipment and training for regional Emergency Operations Centers. Encourage development of Emergency Operations Centers that promote multi-agency communications and collaboration during an event.	The objective and corresponding implementation steps do not include: <ul style="list-style-type: none"> • Specific or measurable language; • Time frames for completion of the objective.
The State of Minnesota, in cooperation with law enforcement agencies throughout the state, will develop and maintain an efficient and expeditious sharing of information and intelligence that could prevent possible terrorist attacks.	Enhance Minnesota's ability to prevent and detect terrorism events.	The objective and corresponding implementation steps do not include: <ul style="list-style-type: none"> • Specific or measurable language; • Current or specific timeframes for completion of the objective.
Implement a strategy for homeland cyber-security directed toward the safeguard and protection of sensitive and private information and the continuity of the State of Minnesota's extended critical infrastructure and operations.	Critical Infrastructure Security and Management Phases - To maintain the level of security across the critical infrastructure over time. Activities will shift from design, build, and statewide project coordination to ongoing support and program facilitation.	The objective and corresponding implementation steps do not include: <ul style="list-style-type: none"> • Specific or measurable language; • Current or specific timeframes for completion of the objective.
Enhance the direct and immediate response capability of both local and state response agencies.	Enhance mutual aid capacity in Minnesota.	The objective and corresponding implementation steps do not include: <ul style="list-style-type: none"> • Specific or measurable language; • Current timeframes for completion of the objective.

In other instances, the Strategy included steps with no completion date. For example, one objective stated:

“Create and maintain CriMNet, a statewide framework of people, processes, data standards, and technology focused on providing accurate and comprehensive data to the criminal justice community to prevent terrorist attacks.”

An implementation step for this objective states:

“Ensure compliance with data privacy laws and court rules of access, about 15% complete.”

The status does not reflect what date the 15% was achieved or was projected to be achieved.

In addition to steps included in the revised January 2008 strategy that did not have completion dates, some steps referred to dates that had passed. Seventeen of the 340 implementation steps had completion dates in 2004. However, there was no status reflected to show whether the steps had been completed or whether the information has not been collected to update the status.

Process to Collect and Analyze Performance Data Needs Improvement

The goals and objectives in the Strategy did not include performance measures that enabled the State to track progress made in achieving the goals. In addition, the State did not have an adequate process to collect, measure, and analyze performance data related to the accomplishment of the goals and objectives outlined in the Strategy.

The State relied on the activities of working groups to informally update the training, exercise, and equipment needs for their disciplines in local jurisdictions. While the working groups were charged by the State Administrative Agency with the responsibility to review all potential projects for inclusion into the investment justifications, the working groups did not participate in updating the plan or assessing progress toward meeting goals and objectives.

According to the 2009 grant application guidance furnished to subgrantees by the State Administrative Agency, quarterly progress reports containing a summary of actual accomplishments of the grant projects in a narrative format were required. These

progress reports were due 30 days after the end of each calendar year quarter. However, our review of selected progress reports showed that the reports were not prepared or lacked sufficient data to track progress, and were generally not sufficient to track progress in accomplishing goals and objectives. State Administrative Agency officials attributed the lack of progress reporting to the need for metrics to measure accomplishments. The State Administrative Agency officials said that the lack of metrics was partially due to a lack of guidance from FEMA.

Without measurable goals and objectives, performance measurements, and a mechanism to collect objective, results-oriented data from local jurisdictions and first responders, the State did not have a basis to evaluate the effect of grant expenditures on its preparedness and response capabilities. Also, the State was unable to determine progress toward goals and objectives when making funding and management decisions.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #1: Formalize a policy and document procedures for periodically updating the State Strategy based upon current risk, capabilities, and needs assessments.

Recommendation #2: Incorporate goals and objectives in the updated State Strategies that are specific, measurable, achievable, results-oriented, and time-limited.

Recommendation #3: Develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendation 2 and with the intent of recommendations 1 and 3. The officials concurred with the intent to increase accountability in meeting the goals and objectives of the State Homeland Security Strategy for recommendations 1 and 3 and will work to continue to strengthen the language of the guidance provided to the States. FEMA

officials also said they would recommend that the State develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives. However, FEMA stated that it cannot legally require the State to take the actions included in recommendations 1 and 3 at this time.

In regard to recommendation 2, FEMA officials said that FEMA had approved Minnesota's revised Homeland Security Strategy of June 2011. It is FEMA's opinion that Minnesota's revised goals and objectives meet the federal requirements and will serve the state well in its homeland security efforts going forward. FEMA will also strengthen the language in the guidance regarding progress measurement. FEMA concluded that recommendation 2 had been addressed and requested that the recommendation be closed. However, because the State is proposing to update its strategy in response to the recommendation, the recommendation will remain open.

State of Minnesota officials also agreed with recommendations 1 through 3. The officials said they will update the State's strategy to include a policy statement adopting a 2-year planning cycle for reviewing and revising the strategy. The officials said the strategy update will include goals and objectives that are specific, measurable, achievable, results-oriented, and time-limited. Key performance measures and indicators will also be developed. The State estimated that the strategy update will be completed by December 31, 2011.

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

Monitoring of Subgrantees

The Minnesota State Administrative Agency did not adequately monitor subgrantee activities for the FY 2007, 2008, and 2009 Department of Homeland Security (DHS) grants. The State Administrative Agency conducted only limited monitoring and did not have subgrantee program performance monitoring policies and procedures in place until December 31, 2009. As a result, the State did not have adequate information to assess whether or not the subgrantees were efficiently and

effectively using grant funds to accomplish program objectives, or that the grants were managed in accordance with federal requirements.

Code of Federal Regulations Title 44 §13.40, *Monitoring and reporting program performance*, establishes requirements for monitoring grant program performance. The regulations require grantees to (1) provide day-to-day management of all grants and subgrant supported activities and (2) assure that subgrantees comply with applicable federal requirements and achieve program performance goals. The regulations also specify that the grantees' monitoring programs cover each function, program, or activity, and require subgrantees to adhere to the same performance monitoring and reporting standards as required of grantees.

Office of Management and Budget Circular A-133, Part 3-M, *Subrecipient Monitoring*, also includes grantee monitoring requirements. Part 3-M states that grantees are responsible for monitoring subgrantees' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subgrantees administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

The State Administrative Agency developed a protocol for monitoring subgrantees, which went into effect on December 31, 2009. This protocol established that on-site visits to subgrantees would be conducted for subgrantees selected by State Administrative Agency Program and Grants staff. However, the protocol did not identify how the subgrantees would be selected, how many subgrantees would be visited each year, or when these visits would commence.

State Administrative Agency officials said that the subgrantee monitoring consisted of document reviews conducted during the quarterly financial status report reviews, interactions with subgrantee representatives during periodic working group meetings, and occasional subgrantee visits or telephone calls. However, an official from only one of the 22 subgrantees we visited said that State Administrative Agency officials had made an on-site visit. Also, the State Administrative Agency did not prepare a written report to document the visit. Subgrantee and State Administrative Agency officials agreed that program performance monitoring needed to be improved. In this regard, we believe the development of a checklist for use by monitors during evaluations of subgrantee program performance would help to ensure consistency in the scope and methodology of the program evaluations from subgrantee to subgrantee.

A FEMA Region V site monitoring visit to the State Administrative Agency held July 19, 2010 through July 23, 2010 found that the office was

“slow in implementing the subgrantee monitoring program” and recommended that the State Administrative Agency “Energize and fully implement their subgrantee monitoring program.” A State Administrative Agency official said that the lack of staffing and financial resources has limited the ability to effectively monitor subgrantee program performance. At the time of our audit, the Grants Program section had four staff members who were responsible for reviewing reimbursement requests from subgrantees for Homeland Security Grant Program funds. Also, an additional State Administrative Agency staff member was responsible for overseeing the Urban Areas Security Initiative activities. The Urban Areas Security Initiative point of contact, who has been in the position for the past 3 years, said that she has not had time to make on-site visits to the respective Urban Areas Security Initiative subgrantees.

During the week of March 28, 2011, the State Administrative Agency hired an individual to conduct on-site monitoring visits. The creation of this position was an important accomplishment in the State’s efforts to comply with federal monitoring requirements. However, the majority of the grant expenditures for FY 2007 had already been made and expenditures for the FYs 2008 and 2009 were well underway by March 2011. With the number of subgrantees across the State, we question whether one individual can adequately provide sufficient coverage of all grant award recipients state-wide.

Implementing a subgrantee monitoring program that includes periodic on-site visits would provide the State Administrative Agency with first-hand knowledge of subgrantees’ use of State Homeland Security Program and Urban Areas Security Initiative grant funds, and whether the subgrantees were accomplishing program objectives. On-site visits would also provide the State Administrative Agency with reasonable assurance that the subgrantees were managing the FY 2007 through 2009 funds in accordance with federal requirements. For example, the issues we noted on inadequate property management controls could have been discovered and resolved had the State Administrative Agency performed subgrantee on-site monitoring visits.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #4: Establish a policy and monitoring procedures that include the frequency of on-site visits,

methodology for selecting subgrantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

Recommendation #5: Develop a checklist for evaluating subgrantee compliance with federal grant requirements.

Recommendation #6: Identify criteria and methodology for assessing subgrantee efficiency and effectiveness in accomplishing grant program objectives during monitoring visits.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendations 4 and 5, and with the intent of recommendation 6. With regard to recommendations 4 and 5, FEMA officials recently recommended that the State establish a more cohesive plan aggressively requiring timely on-site visits. FEMA added that it monitors all states to ensure compliance with grant guidance and all Federal regulations and legislation. FEMA is requiring the State to submit the monitoring plan to the FEMA Program Analyst within 90 days of the receipt of the final report. FEMA is also requiring the State to submit to FEMA documentation describing the method by which subgrantees are informed about their obligations to comply with a subrecipient grant award. FEMA requested that recommendations 4 and 5 be resolved and open pending implementation of the stated corrective action.

For recommendation 6, FEMA officials said they concurred with the intent of the recommendation but cannot legally require the State to structure its monitoring activities to achieve a particular outcome. However, FEMA will request the State Administrative Agency to review and make improvements to its current subgrantee monitoring program within 180 days. FEMA requested that this action be closed.

State of Minnesota officials agreed with recommendations 4 through 6. The officials said a document was being developed that will provide guidance for the monitoring process. The document will include:

- A policy and process for determining the frequency and recipients of on-site visits, and
- A checklist that will be used to ensure that subgrantees are in compliance with federal requirements.

The officials also said that a process was being established for measuring efficiency and effectiveness of subgrantees. The process will include a comparison of projected timelines and activity to date, goals to outcomes, and open dialogue with subgrantee representatives. Once developed, the process will be included in the monitoring policy and procedure document. The estimated completion date for completion of the new policies, procedures, and the checklist is December 1, 2011.

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

Property Management Controls and Accountability

The Minnesota State Administrative Agency did not enforce the requirement that subgrantees establish and maintain effective control and accountability systems to:

- Safeguard property procured with Homeland Security Grant Program funds, or
- Provide assurances that the property was used solely for authorized purposes.

As a result, the State Administrative Agency and subgrantees did not have reasonable assurance that property purchased with federal grant funds was being used as intended and adequately safeguarded to prevent loss, damage, or theft.

Code of Federal Regulations Title 44 §13.3, *Definitions*, defines equipment as tangible, non-expendable, personal property having a useful life of more than 1 year and an acquisition cost of \$5,000 or more per unit. 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. Equipment and supplies are considered personal property. Code of Federal Regulations Title 44 §13.32(d)(2), also requires that:

- A control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of equipment and other personal property procured with federal funds, and
- A physical inventory of the property be taken and the results reconciled with the property records at least once every 2 years.

In addition, Code of Federal Regulations Title 44 §13.20, *Standards for financial management systems*, requires that effective control and accountability be maintained for all personal property procured with federal funds. Sensitive equipment that is portable such as lap-top computers and handheld radios should be safeguarded even though the cost of the equipment might be less than the \$5,000.

Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. The federal regulations covering property management controls are included by reference in the State Grant Agreements provided to all subgrantees along with the grant award.

The State Administrative Agency did not have written procedures to ensure that the property management accountability requirements were being enforced and the required 2-year inventory reconciliations were being conducted. State Administrative Agency officials told us that property management control requirements are provided as a part of the accompanying subgrant award documentation. However, the State Administrative Agency stated that follow up activities with subgrantees to ensure that property management standards were being adhered to were not performed. Of the 22 subgrantees we visited, only 8 had property management records that complied with federal property management requirements. The remaining subgrantees had various shortcomings, which included the following examples:

Table 2: Property Management Shortcomings Noted

# of Subgrantees	Description of Example
13	Property management records did not contain all the required data elements required by Code of Federal Regulations Title 44 §13.32 (e.g., ownership, location, disposal, or serial numbers).
3	Required 2-year inventory reconciliations were not performed.
1	Property management records were not maintained for items purchased (e.g., \$390,000 of radios that were purchased over a year ago) Auditor's note: We did verify the existence of the radios at the subgrantee.
1	Equipment inventory files maintained informally (i.e., in large envelope).
1	Unable to locate an item purchased with grant funds (i.e., a 7 kilowatt electric generator that cost about \$20,200). Subsequent to our field work, the subgrantee located the generator.

The lack of written policies and procedures, no follow up with subgrantees to verify that assets were recorded and protected, and inadequate staffing and funding contributed to the noncompliance with federal property management requirements.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #7: Establish procedures to ensure that subgrantees are complying with property management requirements.

Recommendation #8: Direct subgrantees to establish and maintain property management records in accordance with federal requirements for equipment purchased with federal funds, inventory all property purchased with grant funds to meet the federal 2-year reconciliation requirement.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendations 7 and 8. The officials stated that the State Administrative Agency is required to provide a plan for managing grant funded property and equipment to their FEMA Grant Program Directorate Program Analyst within 90 days of the receipt of the final report. FEMA requested that these recommendations be considered resolved but open pending implementation of the stated corrective action.

State of Minnesota officials agreed with recommendations 7 and 8. The officials said a document was being developed that will include a set of procedures to ensure subgrantees comply with property management requirements. Once completed, these procedures will be included in the monitoring and policy document that is being developed (see Management Comments for recommendations 4 through 6 above). The officials said that the Grant Staff will share federal property management requirements with all subgrantees. The estimated completion date is December 1, 2011.

If properly implemented, the actions identified in FEMA and the State's responses will resolve the condition identified during the

audit. The recommendations are considered resolved and will remain open until such time that the State has implemented the corrective action.

Grant Expenditure Reviews

The Minnesota State Administrative Agency did not have written policies and procedures to guide its financial review section in examining subgrantees requests for reimbursement. In addition, documentation was not always available to support approvals of subgrantee reimbursement requests. As a result, the State Administrative Agency could not ensure that its reviews of reimbursement requests provided consistent validations that grant expenditure were allowable, allocable, authorized, and in accordance with grant requirements.

Code of Federal Regulations Title 44 §13.20, *Standards for financial management systems* and the Department of Homeland Security Financial Guide require that grantees and subgrantees maintain an accounting system together with adequate internal controls to assure grant expenditures are allowable, allocable, authorized, and consistent with federal, State, and grant requirements. Documentation of procedures is an important internal control technique to ensure consistency in the outcomes of the process.

Minnesota State Administrative Agency officials said that to be approved, reimbursement requests must include supporting invoices and related documents that authenticated the transaction. However, we found two instances where approved reimbursement requests did not include invoices for: (1) a \$392,000 purchase of handheld digital portable radios, and (2) a \$64,000 purchase of a wireless X-ray system. While invoices were subsequently obtained from the subgrantees, reimbursements should not have been approved by the State Administrative Agency without the appropriate documentation to support the purchase and receipt of the equipment items.

State Administrative Agency officials stated they have not taken the time to generate written policies and procedures. Without written policies and procedures, the State of Minnesota was not providing sufficient management oversight to ensure that grant funds were spent in compliance with federal regulations. In addition, by paying requests for reimbursements without supporting documentation, the State could not ensure that its reviews of reimbursement requests provided consistent validation that grant expenditure were allowable, allocable, and authorized in accordance with grant requirements.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #9: Prepare written policies and procedures for the review and approval of subgrantee reimbursement requests.

Recommendation #10: Implement the written policies and procedures and ensure that subgrantee reimbursement requests are supported by appropriate documentation.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendations 9 and 10. The officials stated that the State Administrative Agency is required to provide supplemental subgrantee grant guidance describing how subgrantee reimbursement requests are processed, evaluated, and approved to their FEMA Grants Program Directorate Program Analyst within 90 days of the receipt of the response to the final report. FEMA requested that recommendation 9 be closed, and that recommendation 10 be considered resolved and open pending implementation of the stated corrective action.

State of Minnesota officials agreed with recommendations 9 and 10. The officials said that draft policies and procedures for subgrantee reimbursement requests have been prepared and will be finalized by November 16, 2011.

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

Financial Status and Progress Reporting

Subgrantees did not submit the State's required quarterly financial status reports in a timely manner. In addition, the subgrantees did not always submit State required quarterly progress reports. As a result, the State did not know the current status of subgrantees' financial activities, the subgrantees progress in improving preparedness and response capabilities,

or any problems being experienced that could delay subgrantee improvement projects.

Code of Federal Regulations Title 44 §13.20, *Standards for financial management systems*, and the Department of Homeland Security Financial Guide, require that all grantees maintain records which permit preparation of reports and adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grants or subawards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, or income. The records must be sufficient to permit preparation of reports required by these regulations and the statutes authorizing the grants.

The Minnesota State Administrative Agency required that subgrantees submit a financial report along with copies of itemized invoices for actual costs incurred at least quarterly, but not more than monthly, and within 30 days of the period covered by the invoice. These quarterly financial reports are designed to provide the State with financial information about the activities (expenditures and unliquidated obligations) as reflected in the subgrantees' official accounting records.

In addition to the financial reports, the State Administrative Agency required subgrantees to submit quarterly progress reports. The progress report includes a section to identify any problems that may be causing, or would cause, the project to be delayed.

The State Administrative Agency relied on the financial and progress information provided by the subgrantees to generate the statewide financial status documents and make a determination of the progress being made by the subgrantees in using grant funds. However, as shown in the following table, five financial status reports exceeded the quarterly requirement, with one report covering 28 months.

Table 3: Range of Months for Filing Financial Status Reports

Subgrantee	Award	Amount	Reported Period	# of Months
Subgrantee #1	FY 2008	\$150,000	09/01/08 to 12/31/10	28
Subgrantee #2	FY 2007	\$1,692,000	10/01/08 to 06/30/10	21
Subgrantee #3	FY 2007	\$31,415	09/01/08 to 12/03/09	15
Subgrantee #4	FY 2007	\$434,500	07/01/10 to 12/31/10	6
Subgrantee #5	FY 2009	\$53,050	07/12/10 to 01/07/11	5

In addition, 5 of the 22 subgrantees did not submit progress reports from October 1, 2007 through June 30, 2010. For example, one subgrantee received \$1.69 million of grant funds in FY 2007 and had spent \$1.687 million by June 30, 2010 while not providing the State Administrative Agency any progress reports. Another subgrantee received grant funds of \$590,934 in FY 2007, expended all the grant funds by June 30, 2010, but never submitted a progress report for the entire grant performance period.

Subgrantee progress reports are a key factor in monitoring subgrantee accomplishments. State Administrative Agency officials agreed that, in the absence of on-site subgrantee monitoring, the progress reports were important sources for the State to obtain the subgrantees' views on the progress being made to enhance preparedness and response capabilities. In addition, the State Administrative Agency told us that during Calendar Year 2010, it started a process of not approving financial reimbursement payments until such time that the Progress Reports were submitted and entered into the State Administrative Agency's automated grants management system. The State Administrative Agency believed this process would speed up the submission of the financial reports by the subgrantees.

Also, State Administrative Agency's automated grants management system could not generate reports to track the submission of required financial status and progress reports. The State Administrative Agency officials said that more attention is now being given to subgrantee submissions of financial status and progress reports. In addition, the officials said that a new automated grants management system was being developed that would include the ability to produce reports and track subgrantee reporting.

Subgrantee non-compliance with the State Administrative Agency's quarterly reporting requirements resulted in the State not receiving timely information on the subgrantees' financial activities. Without progress reporting, coupled with insufficient subgrantee monitoring, the State Administrative Agency was not aware of the subgrantees' progress being made to improve preparedness and response capabilities. In addition, the State Administrative Agency was not aware of any problems being experienced by the subgrantees that could delay improvement projects.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #11: Develop and implement procedures to ensure that subgrantees submit financial status and progress reports in a timely manner.

Recommendation #12: For those subgrantees that did not submit financial status reports, develop a mechanism to identify noncompliance and take appropriate action to ensure financial status reports are submitted.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendations 11 and 12. The officials stated that the State Administrative Agency will be required to develop subgrantee financial and progress reporting processes that ensure timely submissions of the required reports within 90 days of the receipt of the final report. Within 180 days, the State will be required to submit documentation describing the State's subgrantee financial reporting procedures. FEMA requested that these two recommendations be resolved and open pending implementation of the stated corrective actions.

State of Minnesota officials also agreed with recommendations 11 and 12. The officials said that the State has incorporated quarterly progress and financial status reports into their new on-line grant management system. E-mail notices will be sent to subgrantees when quarterly reports are due. The system will generate exception reports for those subgrantees who do not file their quarterly reports, and notices will be sent out accordingly.

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

Fusion Center Sustainability

The Minnesota State Administrative Agency does not have a viable sustainment plan for its fusion center to ensure continuity of operations during funding shortfalls. The State Legislature failed to provide funding for the fusion center for the State FY 2009 budget year. Also, the State Administrative Agency did not have a commitment of funding from State sources for future years because of the State of Minnesota's financial condition. Without continued federal grant funding, the capability may be lost and sustaining long term activities of the fusion center may not be possible.

The DHS Grant Program Guidance and Application Kits, as well as the Investment Justification Reference Guides for FYs 2007, 2008, and 2009, state that grant proposals must clearly describe the long term approach to sustaining the capabilities created or enhanced by the investment or why the investment will not be sustained beyond the period of performance of the grant award. This information would be used by FEMA to evaluate the anticipated effectiveness of the proposed investments. The Investment Justification Reference Guide added that the proposal should describe plans for maintaining the capabilities of the investment, including any additional sources of funding to be used, if necessary, and future plans for sustaining the investment, if any.

The State of Minnesota has one fusion center, which focuses on sharing information and threat analysis in real time with appropriate stakeholders. The fusion center provides weekly bulletins on state, regional, national, and international terrorist and criminal activity. The fusion center provides access to DHS advisories and information bulletins, FBI threat analysis documents, and trend analysis to appropriate agencies on a secure network.

Using FY 2008 Homeland Security Grant Program funds, the State Administrative Agency awarded the Fusion Center \$352,000 for the grant period September 1, 2008 through August 31, 2011. These funds were to be used for operation costs and supervision. Funded items included the Director's salary, training, and other related costs to maintain and manage the fusion center. Using FY 2009 Homeland Security Grant Program funds, the State Administrative Agency awarded the fusion center an additional \$282,000 to provide for the continuance of operations and staffing for the grant period September 1, 2009 through March 31, 2012.

The fusion center Investment Justifications for FY 2008 and 2009 included concerns about the sustainment of the fusion center's capabilities in the long run should Homeland Security funding be discontinued or

severely reduced. Both the FY 2008 and 2009 Investment Justifications stated that federal funding continued to be the primary source of sustainability for the fusion center. According to the Investment Justifications, the growth of the fusion center and its services was valuable in the State's efforts to prevent terrorism. The FY 2008 Investment Justification stated that it was incumbent on the State of Minnesota to recognize that it has a responsibility to continue to provide information and intelligence sharing to protect its citizens.

The Department of Public Safety, the parent organization of the State Administrative Agency, requested funding from the State Legislature in 2009 to sustain the cost of management staff and intelligence analysts following the FY 2008 Homeland Security Grant Program funding period. Although the Department included budget funding provisions for the fusion center, the State Legislature did not provide any funds to the Department that year for the fusion center. The FY 2009 Investment Justification added that due to the current status of the State's fiscal problems, there was no defined plan for seeking funding from the State. Therefore, the fusion center would need to rely on DHS grant funding for sustainability.

At the conclusion of our field work, the State Administrative Agency had not been able to obtain a commitment from the State legislature to fund fusion center operations should federal grant funding end or be significantly reduced. In addition, State Administrative Agency officials said that funding from other fusion center stakeholders that include local law enforcement agencies whose own budgets are constrained, would not be sufficient to sustain operations.

Without a plan for sustaining the activities of the fusion center that are currently funded with Homeland Security Grant Program funds, the capabilities of the fusion center could be significantly impacted if federal funding decreases or is eliminated completely. Most significantly, the fusion center's ability to help develop and maintain information sharing and intelligence to law enforcement agencies, including information that could prevent possible terrorist attacks, could be lost.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #13: Develop a viable sustainability plan identifying the most important capabilities of the fusion center and sources of funding to maintain those capabilities in future years.

Management Comments and Auditors' Analysis

FEMA officials concurred with the intent of recommendation 13. FEMA acknowledged that developing a sustainment plan would be both prudent and valuable to the State and the local jurisdictions which have benefited from these grants. However, the officials stated that FEMA cannot legally require this recommended action and the State of Minnesota is not in violation of Federal regulations or grant requirements. According to FEMA, imposing this requirement on Minnesota is unreasonable and inequitable, since sustainment plans are not a requirement of all grant recipients. The issue of long-term sustainment of initiatives is a cross-cutting issue that should be discussed at the highest levels of DHS, as requiring a State or Urban Area to complete such a task has broad policy implications for the Homeland Security Grant Program.

Due to budget constraints at the federal and state levels, this unfunded mandate to create such a plan would place undue burden on the State. However, FEMA officials said that they will recommend that the State examine ways to sustain State Fusion Center Operations utilizing the Homeland Security Grant Program investment justification process within 90-days of the receipt of the final report.

State of Minnesota officials agreed with recommendation 13. The officials said the State is assessing community needs and capabilities along with the future scope of the Minnesota Joint Analysis Center (Fusion Center). Conversations with DHS and public safety officials are occurring and recommendations will be provided to the State Governor and Legislature. These recommendations will be forwarded to the Governor by December 2011 and the 2012 legislative session starts January 24, 2012. A viable sustainability plan is predicated upon the Governor and Legislature approval.

The corrective actions proposed by FEMA and the State represent a good beginning to resolving the condition identified during the audit. The recommendation is considered resolved and will remain open until the Governor approves a sustainability plan that identifies ways to sustain State Fusion Center Operations.

Internal Controls over Financial Operations

The State Administrative Agency has not fully documented internal controls or performed risk assessments of the homeland security program. The State's Office of Legislative Audit reported in March 2009², and again in March 2010³, that the Department of Public Safety had not documented its risk assessment for internal controls over (1) compliance with federal single audit requirements, (2) its monitoring process that assesses the quality of internal controls over compliance with federal single audit requirements, and (3) the quality of internal control performance over time. The 2009 Report also stated that the Department of Public Safety had an increased likelihood of a control deficiency if it did not clearly communicate to all staff its risk, control activity, and monitoring policies and procedures.

Code of Federal Regulations Title 2 Part 225 *Cost Principles for State, Local and Tribal Governments* states that as a fundamental premise "Government units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices." This Section also states "Governmental units assume responsibility for administering funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award."

Minnesota's Department of Finance Policy 0102-01, details that each State department head, such as the Commissioner of the Department of Public Safety, has the responsibility to identify, analyze, and manage business risks that impact a department's ability to maintain financial strength and the overall quality of its products and government services. This policy also requires communication of the internal control policies and procedures that, at a minimum, should include mechanisms for monitoring results and reporting significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

The State's Office of Legislative Audit reported in March 2009, that the Department of Public Safety needed to develop a comprehensive internal financial control structure to identify deficiencies, assess the degree of risk of these deficiencies, design control procedures to address significant risks, and monitor whether controls were working as designed and effectively reducing the risks to an acceptable low level. The report

² The State's Office of Legislative Audit Report No. 09-11, dated March 26, 2009, "Department of Public Safety Federal Compliance Audit Year Ended June 30, 2008,"

³ The State's Office of Legislative Audit Report No. 10-04, dated March 4, 2010; "Department of Public Safety Federal Compliance Audit Year Ended June 30, 2009."

concluded that the Department of Public Safety would continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure. The report recommended that the Department of Public Safety should "...frequently review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes." In March 2010, the Office of Legislative Audit again reported the same finding and conclusion with a similar recommendation as in the prior year report.

Another audit by the Office of Legislative Audit had also demonstrated the need for this recommendation, in part, through its identification of issues with the Department of Public Safety's administration of homeland security funds. Specifically, Office of Legislative Audit reported⁴ in March 2008, that the Department of Public Safety had:

- Erroneously included expenditures in the Homeland Security Grant Program;
- Insufficient evidence to support some purchases;
- Did not properly obligate funds to its subgrantees for the Homeland Security Grant Program; and
- Did not adequately safeguard fixed assets purchased with federal program funds (inventory system did not contain required information).

During our audit, we also found internal control weaknesses over financial operations. For example, as reported in an earlier finding, we found insufficient evidence at the time reimbursements were approved to support \$456,000 of homeland security purchases. The supporting documentation was found only as a result of auditor inquiry. The need for:

- an updated strategy,
- adequate monitoring, and
- a sustainability plan for the fusion center,

are additional examples of financial-related internal control weaknesses. State Administrative Agency officials stated that the Department of Public Safety had not recently analyzed risks or internal controls in their administration of Homeland Security Grant Program funds received during the period covered in the scope of our audit.

The State Administrative Agency has not successfully implemented the Office of Legislative Audit's report recommendation. The Department of

⁴ Office of Legislative Audit's Report No. 08-08, dated March 20, 2008, on "The Department of Public Safety Federal Program Compliance Year Ended June 30, 2007"

Public Safety's February 25, 2010 response to the Office of Legislative Audit's recommendation stated that the Department of Public Safety had created an internal audit unit to perform a risk review of the department's activities and will formally document its risk control activities and internal control monitoring functions for federal program requirements once the unit is staffed. However, the State Administrative Agency did not accomplish either of these tasks because the internal audit unit has not been staffed.

Accordingly, there is an increased risk that the deficiencies identified in the audits of the Office of Legislative Audit, and the issues identified during our audit, will not be fully addressed and could persist. As a result, until the weaknesses in internal controls over financial operations are corrected, the State Administrative Agency will continue to be in non-compliance with requirements for efficient and effective administration of federal awards through the application of sound management practices.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #14: Implement Office of Legislative Audit's recommendation that the Department of Public Safety documents its risks, control activities, and internal control monitoring functions for federal program requirements.

Recommendation #15: Establish a process that documents significant control deficiencies and risks that are periodically identified, as well as the corrective actions taken to address the deficiencies.

Management Comments and Auditors' Analysis

FEMA officials concurred with recommendations 14 and 15. The officials stated that FEMA has requested the State Administrative Agency to devise a timeline for developing risk management processes and a risk management plan that will help document needed internal controls that will reduce risk. The State will be required to submit a timeline to FEMA within 90 days of the receipt of the response to the final report. FEMA requested that these recommendations be resolved and open pending implementation of the stated corrective actions.

State of Minnesota officials also agreed with recommendations 14 and 15. The officials said the Department of Public Safety has created an Internal Audit Unit and an Internal Audit Director position. The positions will be filled as soon as possible. The Department of Public Safety will formally document its risks, control activities, and internal control monitoring functions for federal program requirements once the Internal Audit Unit is staffed. The officials said an updated department-wide internal control policy was approved on May 6, 2010. The Internal Audit Director will work closely with the Minnesota Management and Budget Agency and become an active member of the State Internal Audit Committee to gain knowledge and develop expertise in internal controls. The estimated completion date is December 1, 2011.

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

Appendix A

Purpose, Scope, and Methodology

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

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

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

In 2006, separate Minneapolis and St. Paul Urban Areas Security Initiatives were merged into a single Urban Areas Security Initiative, which was named the Twin Cities Urban Areas Security Initiative. The separate working groups, comprised of the metropolitan communities and first responders, were joined together to form the Twin Cities Urban Areas Security Initiative working group. The current Twin Cities Urban Areas Security Initiative is made up of 12 members, with only 7 being voting members. All 12 members are part of the working group that identifies specific needs for the Urban Areas Security Initiative. These needs are prioritized and carried forward into each year's Investment Justifications and grant applications.

The Urban Areas Security Initiative working group decided that grant funds awarded will be divided according to the by-laws developed and accepted by all of the Urban Areas Security

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Initiative members. These by-laws identify specific percentages of disposition of the grant awards among the Urban Areas Security Initiative members, which are made upon receipt of the Urban Areas Security Initiative grant award from DHS. A State Administrative Agency staff member is the point of contact for the Twin Cities Urban Areas Security Initiative, and this individual maintains all the financial records of grant awards, grant expenditures, grant revisions, grant expenditure changes, and is an ad hoc member of the Urban Areas Security Initiative. This State Administrative Agency staff member was the audit team's primary source of information for the Twin Cities Urban Areas Security Initiative.

In accordance with the audit guide, provided by the DHS Office of Inspector General (OIG), Foxx & Company auditors conducted audit work at the State Administrative Agency and visited 22 subgrantees including the Twin Cities Urban Areas Security Initiative. The 22 sites visited received 86.6% of the overall 3-year grant awards, with expenditures representing 50.2% of the dollar value expended. The awards for State Homeland Security Program and Urban Areas Security Initiative funds for FYs 2007 through 2009 for the grant recipients visited represented the following percentage of the awards for these years respectively:

- 91% of the 2007 State Homeland Security Program grant
- 98% of the 2007 Urban Areas Security Initiative grant
- 88% of the 2008 State Homeland Security Program grant
- 90% of the 2008 Urban Areas Security Initiative grant
- 66% of the 2009 State Homeland Security Program grant
- 98% of the 2009 Urban Areas Security Initiative grant

The subgrantees visited include:

State Agencies

- Department of Agriculture
- Department of Health
- Department of Military Affairs
- Department of Public Safety – Bureau of Criminal Activity
- Department of Public Safety – Homeland Security and Emergency Management
- Office of Enterprise Technology

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Urban Areas Security Initiative Subgrantees

- City of Bloomington
- City of Minneapolis
- City of St. Paul
- Dakota County
- Hennepin County
- Ramsey County
- Washington County

Regions

- Region 1 -- Olmsted County
- Region 2 -- St. Louis County
- Region 3 -- Northwest Regional Development Council
- Region 4 -- West Central Emergency Management Services
- Region 5 -- Murray County
- Region 6 -- Anoka County

First Responders

- City of St. Cloud
- Kanabec County
- Metropolitan Emergencies Service Board

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

Homeland Security Grant Program FYs 2007 through 2009				
Funded Activity	FY 2007	FY 2008	FY 2009	Total
State Homeland Security Program	\$6,580,000	\$12,260,000	\$10,985,500	\$29,825,500
Urban Areas Security Initiative	\$8,460,000	\$8,206,000	\$8,248,100	\$24,914,100
Total	\$15,040,000	\$20,466,000	\$19,233,600	\$54,739,600
Law Enforcement Terrorism Prevention Program	\$4,690,000	Not Applicable	Not Applicable	\$4,690,000
Citizen Corps Program	\$258,136	\$259,052	\$257,808	\$774,996
Metropolitan Medical Response System Program	\$516,290	\$642,442	\$642,442	\$1,801,174
Grand Total	\$20,504,426	\$21,367,494	\$20,133,850	\$62,005,770

Source: Federal Emergency Management Agency

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At each location, we interviewed responsible officials, reviewed documentation supporting State and subgrantee management of the awarded grant funds (including expenditures for equipment, training, and exercises), and physically inspected some of the equipment procured with the grant funds. In addition, we met with representatives of first responder organizations, such as fire, police, sheriff and health organizations, to discuss the grant process and the benefits the grant funds have brought to their organization and communities.

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

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

We conducted the audit between December 2010 and May 2011, in accordance with *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.

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.

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Accordingly, Foxx & Company was neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had Foxx & Company been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to their 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 Minnesota.

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 Federal Emergency Management Agency and State of Minnesota officials.

Appendix B Management Comments to the Draft Report

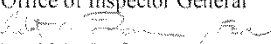
U.S. Department of Homeland Security
500 C Street, NW
Washington, DC 20417



FEMA

OCT 7 2011

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

FROM: 
David J. Kaufman
Director
Office of Policy and Program Analysis

SUBJECT: Comments to OIG Draft Report, *The State of Minnesota Management of State Homeland Security Program (SHSP) and Urban Areas Security Initiatives (UASI) Grants Awarded during Fiscal Years 2007 through 2009*

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

OIG Recommendation #1: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to formalize a policy and document procedures for periodically updating the State Strategy based upon current risk, capabilities, and needs assessments.

FEMA Response: FEMA concurs with the intent of this recommendation, specifically with the intent to increase accountability in meeting the goals and objectives of the State Homeland Security Strategy (SHSS). Although FEMA supports the OIG's recommendation to regularly update the State Strategy, FEMA cannot legally require the recommended action at this time.

The National Preparedness Directorate (NPD) is the FEMA entity responsible for developing guidance regarding the Homeland Security Strategy (HSS) process and preparedness performance measurement systems. NPD is revising the guidance for HSS content. It is anticipated that, in preparation for the FY 2012 Homeland Security Grant Program (HSGP)

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application cycle, this new guidance will be released by the end of the year 2011 for the FY 2012 HSGP application cycle. FEMA will require the State to formalize a policy and document procedures for updating the State strategy in compliance with revised guidelines developed by NPD.

FEMA will continue to strengthen the language of the guidance in regards to this recommendation and requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #2: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to incorporate goals and objectives in the updated State Strategies that are specific, measurable, achievable, results-oriented, and time-limited.

FEMA Response: FEMA concurs with the recommendation. FEMA approved the state's HSS revision of June 2011. It is FEMA's opinion that these revised goals and objectives are specific, measurable, achievable, results-oriented and time limited, and will serve the state well in its homeland security efforts going forward. Based on the resubmitted HSS, FEMA concludes that this recommendation has sufficiently been addressed and requests that the action be closed.

OIG Recommendation #3: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to develop performance measures and collect and analyze performance data from sub grantees to measure progress towards achieving goals and objectives.

FEMA Response: FEMA concurs with the intent of this recommendation, specifically with the intent to increase accountability in meeting the goals and objectives of the SHSS. Although FEMA supports the OIG's recommendation to regularly update the State Strategy, FEMA cannot legally require the recommended action at this time. FEMA NPD is responsible for the HSS guidance, and is revising the guidance and content of the HSS which is anticipated for release by the end of the year 2011 for the FY 2012 HSGP application cycle.

FEMA will recommend that the state develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals. FEMA will continue to strengthen the language of the guidance in regards to this recommendation and requests that the action be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #4: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to establish a policy and monitoring procedures that include the frequency of on-site visits, methodology for selecting subgrantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

FEMA Response: FEMA concurs with this recommendation. FEMA recognizes the value of having documented processes for conducting business activities to reduce the risk of failure and

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the State has developed policies and procedures for managing sub grantee's program performance, and fiscal compliance requirements. FEMA has recently recommended the State to establish a more cohesive plan that is aggressively used requiring timely on-site visits. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA is required to submit this plan to their GPD Program Analyst. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #5: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to develop a checklist for evaluating subgrantee compliance with federal grant requirements.

FEMA Response: FEMA concurs with this recommendation. The Code of Federal Regulations (CFR) Title 44, Section 13, provides detailed instructions grant recipients must follow when implementing Federal grant funding. Each state is monitored by FEMA to ensure compliance with grant guidance and all Federal regulations and legislation. Grantees must comply with all Federal requirements per their acceptance of the applicable grant terms and conditions, also known as special conditions of the grant award. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA will be required to submit to FEMA documentation describing the method by which subgrantees are informed about their obligations to comply with a subrecipient grant award. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #6: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to identify criteria and methodology for assessing sub grantee efficiency and effectiveness in accomplishing grant program objectives during monitoring visits.

FEMA Response: FEMA concurs with the intent of this recommendation. Although FEMA supports the intent of the OIG's recommendation to enhance the State's ability to measure progress while it conducts on site monitoring visits, FEMA cannot require the State to structure its monitoring activities to achieve a particular outcome. However, in keeping with the recommendation, FEMA will, within 180 days of the receipt of the response to the final report via the grantee notification letter, request the SAA to review and make improvements to its current subgrantee monitoring program. FEMA recommends this action be closed.

OIG Recommendation #7: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to establish procedures to ensure that subgrantees are complying with property management requirements.

FEMA Response: FEMA concurs with this recommendation. The Code of Federal Regulations (CFR) Title 44 § 13.32 (d), *Management requirements*, states the minimum requirements for managing equipment and replacement equipment purchased with grant funds. Each state is monitored by FEMA to ensure compliance with the property management requirements cited

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within 44 CFR. Grantees must comply with these standards in accordance with the applicable grant terms, conditions and assurances. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA is required to provide a plan for managing grant funded property and equipment to their GPD Program Analyst. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #8: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to direct subgrantees to establish and maintain property management records in accordance with federal requirements for equipment purchased with federal funds, inventory all property purchased with grant funds, and periodically inspect equipment to meet the federal 2-year reconciliation requirement.

FEMA Response: FEMA concurs with this recommendation. The CFR Title 44 § 13.32 (d), *Management requirements*, states the minimum requirements for managing equipment and replacement equipment purchased with grant funds. Each state is monitored by FEMA to ensure compliance with the property management requirements cited within 44 CFR. Grantees must comply with these standards in accordance with the applicable grant terms, conditions and assurances. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA is required to provide a plan for managing grant funded property and equipment to their GPD Program Analyst. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #9: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to prepare written policies and procedures for the review and approval of sub grantee reimbursement requests.

FEMA Response: FEMA concurs with this recommendation. FEMA acknowledges the need for consistency in review of all grant funded local, regional and state projects. Within 90 days of the receipt of the response to the final report via the grantee notification letter, the SAA will be required to provide supplemental subgrantee grant guidance describing how subgrantee reimbursement requests are processed and approved. FEMA requests that this recommendation be closed.

OIG Recommendation #10: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to implement the written policies and procedures and ensure that subgrantee reimbursement requests are supported by appropriate documentation.

FEMA Response: FEMA concurs with this recommendation. FEMA acknowledges the need for consistency in review of all grants funded, local, regional and state projects. FEMA concurs with the intent of the recommendation as a best practice with the understanding that the state is already compliant with its reporting requirements cited within the FEMA grant program guidance packages. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA is required to provide documentation describing how subgrantee

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reimbursement requests are evaluated and processed to their GPD Program Analyst. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #11: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to develop and implement procedures to ensure that subgrantees submit financial status and progress reports in a timely manner.

FEMA Response: FEMA concurs with this recommendation. FEMA acknowledges that the State Administrative Agency (SAA) for the State of Minnesota must ensure that sub grantees submit financial and progress reports in a timely manner. Within 90 days of the receipt of the response to the final report via the grantee notification, the SAA will be required to develop sub grantee financial and progress reporting processes to ensure that timely submissions of the reports occur. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

Recommendation #12: For those subgrantees that did not submit financial status reports, develop a mechanism to identify non-compliance and take appropriate action to ensure financial status reports are submitted.

FEMA Response: FEMA concurs with the OIG recommendation. Within 180 days of the receipt of the response to the final report via the grantee notification letter, the SAA will be required to submit documentation describing the State's subgrantee financial reporting procedures. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #13: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to develop a viable sustainability plan identifying the most important capabilities of the fusion center and sources of funding to maintain those capabilities in future years

FEMA Response: FEMA concurs with the intent of the recommendation. While FEMA acknowledges that developing a sustainment plan would be both prudent and valuable to the State and the local jurisdictions which have benefitted from these grant funds, we also acknowledge that there is no requirement for them to do so. FEMA cannot legally require the recommended action.

Minnesota is not in violation of regulations or grant requirements by not having a sustainment plan. Imposing this requirement on Minnesota is unreasonable and inequitable, since sustainment plans are not a requirement of all grant recipients. The issue of long-term sustainment of initiatives is a cross-cutting issue that should be discussed at the highest levels of DHS, as requiring a State or Urban Area to complete such a task has broad policy implications for the Homeland Security Grant Program. Due to budget constraints at the federal and state levels, this unfunded mandate to create such a plan would place undue burden on the State.

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FEMA suggests the following corrective action:

Within 90 days of the receipt of the final report, PGD will recommend that the SAA examine ways to sustain State Fusion Center operations utilizing the HSGP investment justification process. FEMA believes this satisfies the intent of the recommendation and requests that this recommendation be resolved and closed.

OIG Recommendation #14: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to implement Office of Legislative Audit's recommendation that the Department of Public Safety document its risks, control activities, and internal control monitoring functions for federal program requirements.

FEMA Response: FEMA concurs with this recommendation. FEMA recognizes the value of having processes in place to reduce risk during the conduct of daily business activities. FEMA requests that the SAA devise a timeline for developing risk management processes. Within 90 days of the receipt of the response to the final report via the grantee notification letter, the SAA is required to submit to FEMA a timeline the SAA will follow to develop a risk management plan that supports the internal controls and monitoring functions of the State. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #15: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to establish a process that documents significant control deficiencies and risks that are periodically identified, as well as the corrective actions taken to address the deficiencies.

FEMA Response: FEMA concurs with this recommendation. FEMA recognizes the value of having documented processes for conducting business activities to reduce risk. FEMA will request that the SAA develop a timeline to generate a risk management plan that will help document needed internal controls that will reduce risk. Within 90 days of the receipt of the response to the final report via the grantee notification letter, the SAA will be required to submit a timeline to FEMA. FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

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

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MINNESOTA DEPARTMENT OF PUBLIC SAFETY



Homeland Security and Emergency Management

444 Cedar Street • Suite 223 • Saint Paul, Minnesota 55101-6223
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Alcohol
and Gambling
Enforcement

Bureau of
Criminal
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Driver
and Vehicle
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Emergency
Communication
Networks

Homeland
Security and
Emergency
Management

Minnesota
State Patrol

Office of
Communications

Office of
Justice Programs

Office of
Pipeline Safety

Office of
Traffic Safety

State Fire
Marshal

Date 09-13-11

Martin W. O'Neill
Foxx & Company
700 Goodall Complex
324 West Ninth Street
Cincinnati, OH 45202

Dear Mr. O'Neill:

We were provided a copy of the draft audit report of the Homeland Security Program and Urban Area Security Initiative Grants for Fiscal Years 2007 through 2009. Thank you for the opportunity to go over the recommendations at the exit conference. It will be very helpful to our management of Homeland Security Grants in the future. This is our written response to the recommendations presented in the draft report.

Recommendations

We [Foxx & Company] recommend that the Assistant Administrator, Grant Programs Directorate, require the Minnesota Department of Public Safety and its Division of Homeland Security and Emergency Management to:

Recommendation #1: Formalize a policy and document procedures for periodically updating the State Strategy based upon current risk, capabilities, and needs assessments.

Minnesota Response #1:

MN HSEM will amend its current state homeland security strategy (dated June 2011) to include a policy statement in Section I adopting a two-year planning cycle for reviewing and revising the strategy. After validating the organization's mission, vision, and values, we will conduct a thorough situational analysis that looks at strengths, weaknesses, opportunities, and challenges/threats. We will use the Threat and Hazard Identification and Risk Assessment (THIRA) methodology to help us understand the risks we face, facilitate efforts to identify capability and resource gaps, focus capability improvements, and drive actions to manage those risks.

Estimated Completion Date
December 31, 2011

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Recommendation #2: Incorporate goals and objectives in the updated State Strategies that are specific, measurable, achievable, results-oriented, and time-limited.

Minnesota Response #2:

As part of the strategic plan update described in response to recommendation #1, HSEM will develop specific, measurable, achievable, result-oriented, and time-limited (SMART) goals to close our capability gaps and achieve our strategic end state(s). Nested under each of those strategic goals, will be SMART objectives that must be achieved in order to accomplish those higher goals. After that, we will develop action plans/implementation steps necessary to achieve the supporting objectives. The action plans are critical to deploying the strategic plan.

Estimated Completion Date

December 31, 2011

Recommendation #3: Develop performance measures and collect and analyze performance data from sub grantees to measure progress towards achieving goals and objectives.

Minnesota Response #3:

The final step in the strategic plan update process will be the development of key performance measures and indicators. These measurements will focus on the accomplishment of actions plans, effectiveness of process improvement initiatives, and satisfaction of key success factors in order to track our progress towards achieving our strategic goals and objectives. This data will be collected, validated, distributed, presented, and reviewed on a quarterly basis. We will develop a consistent performance measurement scorecard to regularly distribute the metrics to all stakeholders. Analysis of performance measures will drive adjustments to operations and future strategy changes.

Estimated Completion Date

December 31, 2011

Recommendation #4: Establish a policy and monitoring procedures that include the frequency of on-site visits, methodology for selecting sub grantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

Minnesota Response #4:

The department created a Grant Monitor position, which was filled in the spring of 2011. The Grant Monitor is currently working on establishing a policy and set of procedures to guide the monitoring process. Once established, they will be incorporated into a written document that will provide guidelines for the monitoring of all state administered Homeland Security Grant Program grants. This document will include a policy and process for determining the frequency and recipients of on-site visits, and a protocol for reviewing financial and performance related activities during the visits.

Estimated Completion Date

December 1, 2011

Recommendation #5: Develop a checklist for evaluating sub grantee compliance with federal grant requirements.

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Minnesota Response #5:

The Grant Monitor is currently working on developing a checklist that will be used to ensure that sub-grantees are administering their Homeland Security Grant Program grants in accordance with all federal requirements. This checklist will be thorough and detailed, and allow for the state's monitoring to be consistent and clear. Once completed, it will be included as an attachment to the monitoring policy and procedure document.

Estimated Completion Date
December 1, 2011

Recommendation #6: Identify criteria and methodology for assessing sub grantee efficiency and effectiveness in accomplishing grant program objectives during monitoring visits.

Minnesota Response #6:

The Grant Monitor is currently working on establishing a clear process for measuring efficiency and effectiveness of sub-grantees. It is expected that this process will include a thorough comparison of projected timelines and activity to date; goals to outcomes, and open dialogue with sub-grantee grant program representatives. Once completed, this criteria and methodology will be included in the monitoring policy and procedure document.

Estimated Completion Date
December 1, 2011

Recommendation #7: Establish procedures to ensure that sub grantees are complying with property management requirements.

Minnesota Response #7:

The Grant Monitor is currently working on formulating a set of procedures to ensure that sub-grantees are in compliance with property management requirements. Once completed, it will be included in the monitoring policy and procedure document and used to measure the compliance of sub-grantees as a part of the monitoring process.

Estimated Completion Date
December 1, 2011

Recommendation #8: Direct sub grantees to establish and maintain property management records in accordance with federal requirements for equipment purchased with federal funds. inventory all property purchased with grant funds, and periodically inspect equipment to meet the federal 2-year reconciliation requirement.

Minnesota Response #8:

The Grant Monitor is currently working on formulating a set of procedures to ensure that sub-grantees are in compliance with property management requirements. Once completed, it will be included in the monitoring policy and procedure document and used to measure the compliance of sub-grantees as a part of the monitoring process. Additionally, Grant Staff will share federal property management requirements, including the development of property management records and completion of property inventories and equipment inspections, with all sub-grantees.

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Estimated Completion Date

December 1, 2011

Recommendation #9: Prepare written policies and procedures for the review and approval of sub grantee reimbursement requests.

Minnesota Response #9:

Draft policy and procedure have been prepared and will be finalized within 60 days.

Estimated Completion Date

November 16, 2011

Recommendation #10: Implement the written policies and procedures and ensure that sub grantee reimbursement requests are supported by appropriate documentation.

Minnesota Response #10:

Draft policy and procedure have been prepared and will be finalized within 60 days.

Estimated Completion Date

November 16, 2011

Recommendation #11: Develop and implement procedures to ensure that sub grantees submit financial status and progress reports in a timely manner.

Minnesota Response #11:

HSEM has instituted quarterly progress reports and quarterly financial status reports in its on-line grant management system, DPS E-Grants. Each sub-grantee receives a e-mail notice that quarterly reports are due. If a sub-grantee does not file a quarterly progress report, then he/she is unable to file a quarterly financial status report to receive reimbursement for expenditures. After the due date, the grant manager will produce a report from E-Grants that will indicate which sub-grantees have not filed progress reports and the grant manager will again generate an e-mail notification that the progress report and financial status report are past-due. Sub-grantees are expected to submit financial status reports on a quarterly basis even if no expenditures were incurred in a particular quarter.

Estimated Completion Date

Completed

Recommendation #12: For those sub grantees that did not submit financial status reports, withhold payment for expenditures until final status reports are submitted.

Minnesota Response #12:

HSEM has instituted quarterly progress reports and quarterly financial status reports in its on-line grant management system, DPS E-Grants. Each sub-grantee receives a e-mail notice that quarterly reports are due. If a sub-grantee does not file a quarterly progress report, then he/she is unable to file a quarterly financial status report to receive reimbursement for expenditures. After the due date, the grant manager will produce a report from E-Grants that will indicate which sub-grantees have not filed progress reports and the grant manager will again generate an e-mail notification that the progress report and financial status report are past-due. Sub-grantees are expected to submit financial status reports on a quarterly basis even if no expenditures were incurred in a particular quarter.

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Estimated Completion Date
Completed

Recommendation #13: Develop a viable sustainability plan identifying the most important capabilities of the fusion center and sources of funding to maintain those capabilities in future years.

Minnesota Response #13:

The state of Minnesota is in the process of assessing the needs of the communities and assessing the capabilities and future scope of the Minnesota Joint Analysis Center (MNJAC). We are entering into conversations with the Deputy Undersecretary for Intelligence and Analysis of the Department of Homeland Security (DHS) and a number of public safety officials to provide information regarding the DHS perspective as well as funding and future considerations. We hope to use this meeting as a springboard toward a larger discussion on what the future Minnesota Fusion Center should encompass.

From these conversations, the Department of Public Safety which is the parent organization of Homeland Security and Emergency Management (the SAA) will develop a recommendation for the Governor/Legislature. This will be the basis for a MNJAC sustainability plan.

The stakeholder meeting will be conducted in October 2011. The recommendation will be forwarded to the Governor's office by December, 2011. The 2012 legislative session begins January 24, 2012.

Recommendation #14: Implement Office of Legislative Audit's recommendation that the Department of Public Safety document its risks, control activities, and internal control monitoring functions for federal program requirements.

Minnesota Response #14:

The department has created an Internal Audit Unit and an Internal Auditor Director position. Our agency has attempted to fill the position several times, without success. The department is in the process of reviewing a new set of applications and plans on filling this position as soon as possible. In addition, the Department of Public Safety leadership met with the Internal Control and Accountability Director and an Internal Control Specialist from the Minnesota Management and Budget Agency (MMB) on February 16, 2011. The purpose of the meeting was to review risk assessment training information compiled by MMB to assist DPS with future internal control development and implementation. The department will more formally document its risks, control activities, and internal control monitoring functions for federal program requirements once the Internal Audit Unit is staffed. An updated Department Wide Internal Controls policy was approved on 5/6/2010.

Estimated completion Date
November 1, 2011

Recommendation #15: Establish a process that documents significant control deficiencies and risks that are periodically identified, as well as the corrective actions taken to address the deficiencies.

Minnesota Response #15:

The department is in the process of trying to fill the Internal Audit Director position. Once this is accomplished, the Internal Audit Director will work with the DPS Audit Committee, and be responsible for establishing a process to document, monitor and create corrective action plans for significant control deficiencies.

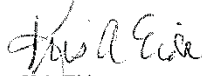
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Also, the Internal Audit Director will work closely with Minnesota Management and Budget (MMB), and become an active member of the state Internal Audit Committee to gain knowledge and develop expertise in internal controls.

Estimated completion Date
December 1, 2011

If you have any further questions or concerns please feel free to contact Jon Huspek @ 651-201-7454.

Sincerely,



Kris Eide
Director
Homeland Security & Emergency Management

Appendix C

Homeland Security Grant Program Background

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

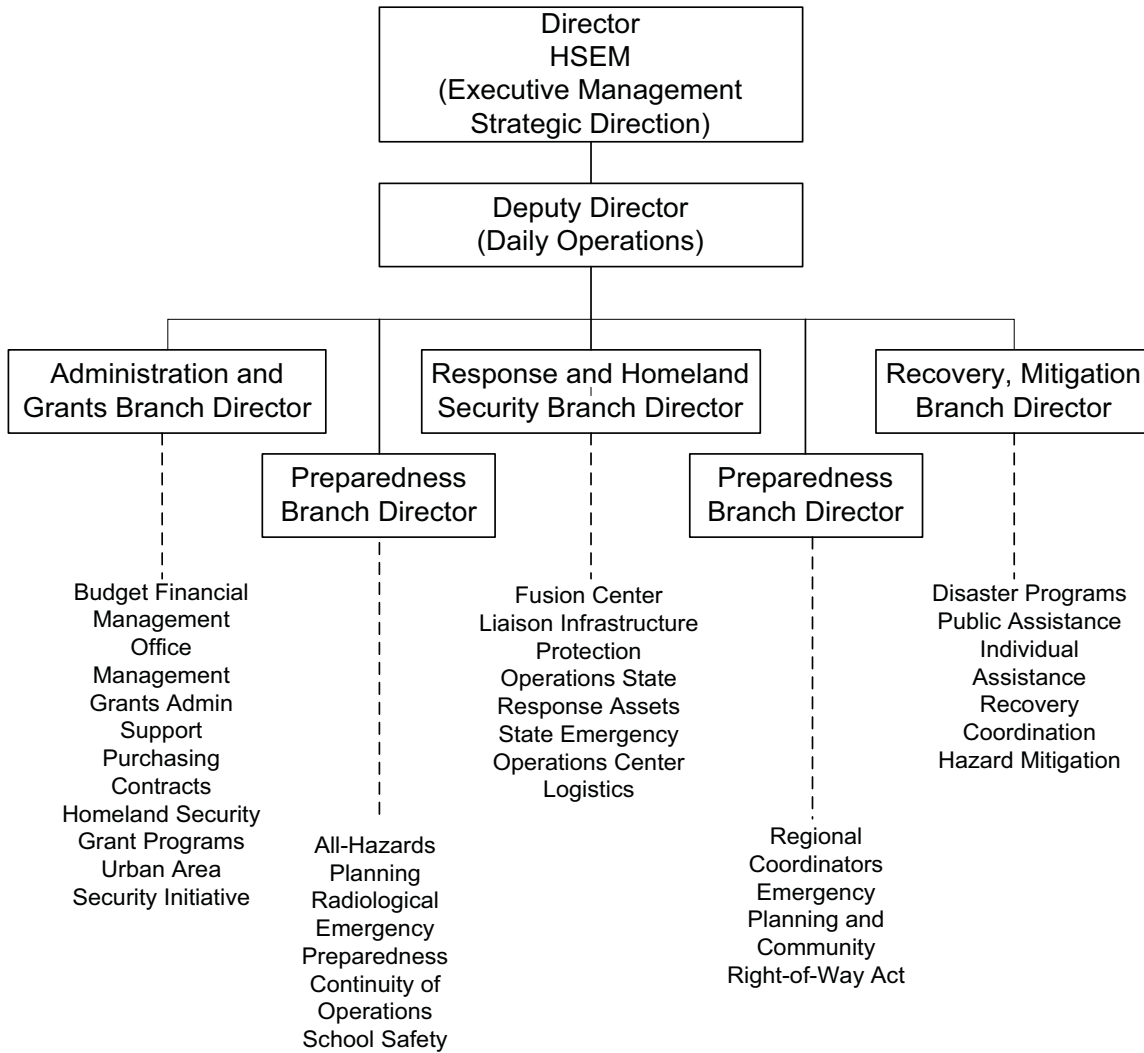
- **State Homeland Security Program** provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from acts of terrorism and other catastrophic events. The program supports the implementation of the State Homeland Security Strategy to address the identified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

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

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

Appendix D
Minnesota State Administrative Agency Organization

Minnesota Homeland Security and Emergency Management
 2011



Source: Minnesota Division of Homeland Security and Emergency Management

Appendix E
Report Distribution

Department of Homeland Security

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