



Department of Homeland Security Office of Inspector General

The State of California's Management of Urban Areas Security Initiative Grants Awarded During Fiscal Years 2006 through 2008





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.

The attached report presents the results of the audit of the State of California's management of Urban Areas Security Initiative grants awarded during Fiscal Years 2006 through 2008. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company's report identifies eight reportable conditions where State management of the grant funds could be improved, resulting in 19 recommendations addressed to the Assistant Administrator, Grant Programs Directorate, Federal Emergency Management Agency. Foxx & Company also identified two best practices that should be considered for use by other jurisdictions. Foxx & Company is responsible for the attached auditor's report dated February 1, 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
Assistant Inspector General for Audits

A handwritten signature in black ink, appearing to read "Anne L. Richards", written over the printed name.



February 1, 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 California's management of the Department of Homeland Security's Urban Areas Security Initiative grants for Fiscal Years 2006 through 2008. The audit was performed in accordance with our Task Order No. TPD-FIG-BPA-07-0007-0005 dated September 29, 2009. This report presents the results of the audit and includes recommendations to help improve the State's management of the Urban Areas Security Initiative grants. The scope of the audit did not include an audit of the State Homeland Security Program grants awarded to the State of California. Those awards were audited and reported in DHS Office of Inspector General audit report: The State of California's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2004 - 2006, OIG-09-33, February 2009.

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 California'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

Foxx & Company completed an audit of the State of California's Management of Urban Areas Security Initiative grants awarded during fiscal years 2006 through 2008. The audit objectives were to determine whether the State distributed and spent the grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The audit included a review of approximately \$421 million in Urban Areas Security Initiative grants awarded by the Federal Emergency Management Agency to the State of California.

Generally, the State did an efficient and effective job of administering the program requirements, distributing grant funds, and ensuring that all of the available funds were used. The State used reasonable methodologies for assessing threats, vulnerabilities, and prioritized needs, and measured response capabilities and performance using a variety of techniques including exercises and After Action Reports.

Improvements are needed to enhance California's management of the Urban Areas Security Initiative grants, including better reporting of program results, increasing investment oversight, avoiding delays in awarding grant funds, sustaining capabilities in the absence of federal funds, strengthening monitoring of recipients, promoting fair and open competition in procurement, providing greater oversight over reimbursements, and managing cash advances. We identified two best practices that should be considered for sharing with other jurisdictions. The 19 recommendations call for the Federal Emergency Management Agency to initiate improvements which, if implemented, should help strengthen program management, performance, and oversight.

Federal Emergency Management Agency officials concurred or partially concurred with all but one recommendation. State officials concurred or partially concurred with all but one recommendation. Written responses to the recommendations from Federal Emergency Management Agency and State officials are included as Appendices B and C.

Background

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

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

Homeland Security Grant Program

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

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

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

- **Urban Areas Security Initiative** program funds address the unique planning, organization, equipment, training, and exercise needs of high-threat, high-density urban areas, and assists them in building an enhanced and sustainable capacity to prevent, protect against, respond to, and recover from acts of terrorism.
- **Law Enforcement Terrorism Prevention Program** provides resources to law enforcement and public safety communities (working with their private partners) to support critical terrorism prevention activities, including: establishing or enhancing fusion centers and collaborating with non-law enforcement partners, other government agencies, and the private sector.
- **Citizen Corps Program** mission is to bring community and government leaders together to coordinate the involvement of community members and organizations in emergency preparedness, planning, mitigation, response, and recovery.
- **Metropolitan Medical Response System Program** funds support designated jurisdictions to further enhance and sustain a regionally integrated, systematic mass casualty incident preparedness program that enables a response during the first crucial hours of an incident. The program prepares jurisdictions for response to all-hazards mass casualty incidents, including chemical, biological, radiological, nuclear, and explosive terrorism, epidemic disease outbreaks, natural disasters, and large-scale hazardous material incidents.

State Administrative Agency

The governors of each state appoint a State Administrative Agency to administer the Homeland Security Grant Program. The State Administrative Agency is responsible for managing the grant programs in accordance with established federal guidelines. The State Administrative Agency is also responsible for allocating funds to local, regional, and other state government agencies. In 2004, California's Governor designated the Office of Homeland Security to be the State Administrative Agency for the Homeland Security Grant Program. In 2009, the California Office of Homeland Security and the Office of Emergency Services were

merged to become the California Emergency Management Agency. The California Emergency Management Agency is responsible for administering all of the Homeland Security Grant Program grants included in our audit scope. The Agency's organizational structure is depicted in Appendix C.

For the FY 2006 through 2008 grant programs, California had six Urban Areas Security Initiatives: Anaheim-Santa Ana, Bay Area, Los Angeles-Long Beach, Riverside, Sacramento, and San Diego.

Grant Funding

The State of California received approximately \$735 million in funds from the Homeland Security Grant Program during FYs 2006 through 2008. As part of this program, the State received \$421 million in Urban Areas Security Initiative grants. Table 1 shows the Urban Areas Security Initiative grant funds awarded to each of California's six Urban Areas Security Initiatives for the years covered by this audit. One of the urban areas (Riverside) did not receive grant funds during FYs 2006 and 2007.

Table 1

California Homeland Security Grant Program Urban Areas Security Initiative Awards FYs 2006 through 2008				
Urban Areas	FY 2006	FY 2007	FY 2008	Total
Anaheim-Santa Ana	\$11,980,000	\$13,840,000	\$13,425,000	\$39,245,000
Bay Area	\$28,320,000	\$34,130,000	\$37,155,000	\$99,605,000
Los Angeles-Long Beach	\$80,610,000	\$72,580,000	\$70,402,500	\$223,592,500
Riverside	\$0	\$0	\$3,251,500	\$3,251,500
Sacramento	\$7,390,000	\$4,170,000	\$4,045,000	\$15,605,000
San Diego	\$7,990,000	\$15,990,000	\$15,510,500	\$39,490,500
Total	\$136,290,000	\$140,710,000	\$143,789,500	\$420,789,500

Foxx & Company completed an audit of the State of California's management of DHS' Urban Areas Security Initiative grants awarded during FYs 2006 through FY 2008. The objectives of the audit were to determine whether the State distributed and spent Homeland Security Grant Program funds strategically, effectively, and in compliance with laws, regulations, and guidance. Nine researchable questions provided by the DHS Office of Inspector

General established the framework for the audit. The researchable questions were related to the State Administrative Agency's planning, management, and evaluations of grant activities. Appendix A provides additional details on the purpose, scope, and methodology of this audit, including the nine researchable questions.

Results of Audit

State Grants Management Practices Were Generally Effective, But Required Improvements

Generally, the State did an efficient and effective job of administering the program requirements, distributing grant funds, and ensuring that all of the available funds were used. The State used reasonable methodologies for assessing threats, vulnerabilities, and prioritized needs, and measured response capabilities and performance using a variety of techniques including exercises and After Action Reports.

Improvements are needed to enhance California's management of the Urban Areas Security Initiative grants, including:

- Better reporting of program results
- Increasing investment oversight
- Avoiding delays in awarding grant funds
- Sustaining capabilities in the absence of federal funds
- Strengthening monitoring of recipients
- Promoting fair and open competition in procurement
- Providing greater oversight over reimbursements
- Managing cash advances

We identified two best practices that should be considered for sharing with other jurisdictions. We are making 19 recommendations which, if implemented, should help strengthen program management, performance, and oversight.

Improved Program Results Reporting

The State of California cannot demonstrate with sufficient precision that Urban Areas Security Initiative grant funds are being effectively used because the State does not have a system in place to measure the benefits produced by grant-funded programs. State officials have not completed a measurement system to track and report, in quantifiable and measurable terms, how well the Urban Areas Security Initiative grant funds were spent

on programs to improve the preparedness of first responders, address threats, or close capability gaps. As a result, decisions regarding ongoing programs and new programs similar to ongoing programs were made without adequate information on the programs' demonstrated value.

Federal agencies are required by the Government Performance and Results Act of 1993, to measure and report on the results of their programs. The Act provides a model of how federal agencies should measure the results of their programs. Code of Federal Regulations Title 44 § 13.40, *Monitoring and reporting program performance*, requires that grantees monitor grant and subgrant supported activities to assure that performance goals are being achieved. In addition, Department of Homeland Security State and Urban Area Homeland Security Strategy Guidance on Aligning Strategies with the National Preparedness Goal, dated July 22, 2005, states that an objective sets a tangible and measureable target level of performance over time against which actual achievement can be compared, including a goal expressed as a quantitative standard, value or rate. Therefore, an objective 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 Urban Areas Security Initiative subgrantees reported program results and outcomes in such general terms that an assessment of the program benefits was not possible. The California Emergency Management Agency managed grant-funded activities mainly on the basis of compliance with grant requirements and the timely expenditure of funds, not on specific program results. Information on program results is important because California received over \$400 million in Urban Areas Security Initiative grants in the 3 years included in the scope of our audit. The intent of the grants was to improve first responder preparedness and response capability. Without clear performance measures, there was no assurance these funds were well spent.

To illustrate how information on program results could be established, an urban area purchased an automatic license plate reader system for \$6.2 million with FYs 2006 through 2008 Urban Areas Security Initiative grant funds. The license plate reader system included cameras that search

for and capture images of license plates. Information from the cameras, mounted on the roofs of police vehicles, was sent to a central processor that looked for license plate numbers of interest. An alert was transmitted back to the police vehicle when a target plate of interest was found. The system was used to locate stolen cars, to identify vehicles associated with criminal activity such as excessive parking tickets, and for other purposes. Measuring the contribution this program made toward first responder preparedness might include data on the number of stolen vehicles recovered or suspects apprehended, and how the system identified or contributed to the prevention or investigation of terrorist attacks. However, neither the State nor the urban area had established such indicators.

The California Urban Areas Security Initiative grant program procedures created three main opportunities for reporting program results: (1) Investment Justifications, (2) the Urban Areas Security Initiative proposed expenditure plan, and (3) monitoring reviews of Urban Areas Security Initiative activities. Our review of each of the three areas noted the following:

Investment Justifications: Investment Justifications prepared by the State are a principal part of the annual applications for grant funds. However, the Investment Justifications did not indicate how the success of the justified program would be measured. The standard format for Investment Justifications contained a section requiring applicants for grant funds to describe the impact of proposed programs. The Investment Justifications asked applicants to state what outcomes would indicate that the investment would be successful at the end of the grant performance period and how the outcomes would be measured. The Investment Justification instructions indicated, among other things, that proposed investments would be judged on specific outcomes that would determine the investment's success. We reviewed 10 of the 16 application packages for Urban Areas Security Initiative funds during FYs 2006 through 2008. None of the Investment Justifications in the 10 application packages contained performance standards (measures) that would facilitate judgments about whether programs had been successful or how well the programs were addressing first responder preparedness, capability gaps, or threats. Although responsible for approving the Investment Justifications, the State did not ensure that the Investment Justifications included performance standards for measuring accomplishments.

Urban Areas Security Initiative Expenditure Plans: Urban Areas Security Initiative expenditure plans and reports did not describe the impact of program expenditures on preparedness or response capabilities. The California Emergency Management Agency approved program

spending plans proposed by Urban Areas Security Initiatives at the time grant funds were awarded and later approved reimbursement for approved spending through a review of electronic “workbooks” submitted by the urban areas. These workbooks did not call for or contain the kind of performance measures required by the Government Performance and Results Act and other federal requirements. The workbooks were designed to assure that the urban areas complied with grant requirements such as whether costs were allowable and purchased equipment was on the authorized equipment list.

Monitoring Reviews: The State of California Emergency Management Agency is responsible for monitoring urban area grant-funded programs. However, it focused primarily on grant-related administrative and financial requirements and not on measuring improvements or the achievement of program goals. Also, no state-level monitoring of the FYs 2006 through 2008 Urban Areas Security Initiative grant funds had occurred at the conclusion of our audit fieldwork.

Measuring ongoing results for some long term programs, such as a new interoperable communications system, may require interim measures until the system is fully operational. In the interim, measuring the success of spending for these programs could be focused on program planning, progress reports on cost control, adherence to completion schedules, and quality of work performed by contractors. However, we believe for many programs, measures of outcomes would be feasible soon after grant funds were used.

The following table lists large programs (more than \$1 million) funded by one or more of the California urban areas and the possible metrics that could be used to measure outcomes. The list is for illustration and is not meant to be comprehensive.

Table 2

Urban Areas Security Initiative Programs and Possible Outcome Measures		
Program	Function	Possible Results Metric
Video Surveillance Systems	Monitor street or facility activities	Decrease in criminal activity; suspicious activity observed and investigated
Training programs	Train first responders	Student hours of training accomplished; proficiency levels attained
Infrastructure protection	Protect key community resources from attack	Number of sites hardened
Public alert systems	Inform the public of emergencies through telephone messages	Frequency of use; speed and capacity of systems in relation to costs
Mass Evacuation Planning	Prepare for mass evacuations of a jurisdiction	Number of jurisdictions that prepared evacuation plans; number of training events

State officials advised us of the difficulty encountered in developing the measures called for by federal requirements. According to State officials, the State is engaged in developing a detailed measurement system that could, when it is deployed, provide more detailed measures of preparedness improvements for specific areas. They told us that this effort is complex and the State has not received much guidance from FEMA. State officials acknowledged that the measurement system has been in development for several years.

In the State's comments on a similar finding in the February 2009 DHS Office of Inspector General audit report, State officials said that they were in the process of implementing a statewide metrics program for collecting data on emergency resources and capabilities. State officials said at that time that they expected to have most of the data collected by January 2009. The State was still developing the metrics in calendar year 2010 when we were conducting the current audit of the Urban Areas Security Initiative grants.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #1: Develop meaningful metrics for measuring program results, collect results measurement data from

subrecipients, and include these metrics in Investment Justifications and program funding approval deliberations.

Management Comments and Auditors' Analysis

FEMA partially concurred with this recommendation noting that California is in the process of developing a metrics system to help measure program results. FEMA has agreed to follow-up with the State within 6 months after the final report is published to request information on the progress being achieved with the metrics project.

The California Emergency Management Agency agreed with this recommendation and stated it would work with FEMA to develop additional guidelines and/or performance measures to be used during the grant investment justification process. The State has also updated its Site Visit form used by State grant monitors to document progress made in achieving goals and objectives for each project.

We believe the State's metric system once deployed, together with specific efforts to assign performance measures to large investment projects and periodic monitoring of progress achieved, will positively respond to this recommendation.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendation and a plan to implement the recommendation within 90 days.

Increased Investment Oversight

The California Emergency Management Agency's oversight of some of the Urban Areas Security Initiatives major investments did not result in effective and efficient stewardship of federal grant funds. Despite the State's review of proposed grant-funded programs, at least 6 of the 50 programs we examined did not provide the expected or intended benefits for first responders. This occurred primarily because the State's review process did not consider whether the subgrantee adequately planned or documented that the equipment acquired for the programs provided the best value for the grant funds expended. As long as the program equipment met the minimum grant requirements of being listed on the Authorized Equipment List, the State approved the program. In some cases, local program planning was insufficient, untested, and failed to consider the real needs of the jurisdiction. As a result, program results were disappointing in some cases and left critical needs unmet, even

though the urban areas spent millions of dollars of grant funds on the programs.

Appendix A to the Code of Federal Regulations Title 2 § 225, *Grants and Agreements*, states that the application of general principles for determining allowable costs is based on the fundamental premises that those Governmental units:

- Are responsible for the efficient and effective administration of Federal awards through the application of sound management practices; and
- Assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

Following are five examples where lack of major investment oversight resulted in inefficient or ineffective program results:

Fusion Center Software: An urban area purchased a specialized software program for its Fusion Center to evaluate criminal incidents obtained from local law enforcement data files. The software cost more than \$700,000, but did not perform as well as the supplier indicated it would. After about 15 months of use the Fusion Center Director said the system did not provide all of the functionality needed by the Center. Subsequently, the Fusion Center replaced the software program with another software program costing \$1,250,000.

Reverse 911 System: Two urban areas bought reverse 911 systems that when implemented did not meet the urban areas' needs. One of the urban areas purchased a reverse 911 system that was not capable of providing a timely warning message to citizens. It was only capable of reaching about 5,000 home-based telephones per hour, even though there were more than 32,000 homes with telephones in the area being tested that would have needed the warning in a more urgent, timely manner. A test conducted by the urban area of this small section of the city that contained the 32,000 telephones showed that it would take over 6 hours to call the residents.

Furthermore, alternatives already existed to serve this purpose. For example, if this system was needed to alert residents of a pending disaster (e.g., a bomb threat) in the 6 hours, it is very likely public news sources would have the news on the air via radio or television well before the residents were notified by the reverse 911 system. Even though a faster broadcast rate could have been purchased at an added cost, the system relied on home-based telephones when many people rely on cell phones

for their primary telecommunications. Another urban area in California had previously bought a similar system, but was abandoning it to buy a different system following a local area test and determining that the results for the reverse 911 system were poor. The new system offered more capability, speed, and coverage. The investment in the original system was approximately \$178,000.

Office Space Lease: Another urban area spent approximately \$4.4 million of FYs 2006 through 2008 grant funds to lease office space in a large, specially secured building (to accommodate the collocated Fusion Center), for the urban area's administrative offices, Emergency Operations Center training, and several training classrooms. The urban area classified these expenditures as training, which was approved by the State. However, we found that the Emergency Operations Training Center accounted for more than half of the lease cost and was seldom used. The other classrooms were used only 2 or 3 days per week for training and the Urban Areas Security Initiative records did not always show how often the classrooms were used for FEMA approved training. Only FEMA approved training is eligible for grant funding. Because the grant awards for this urban area have declined significantly, the lease expense became the primary use of the Urban Areas Security Initiative grant funds in FYs 2007 and 2008, which is not the best use for the majority of the grant funding for FYs 2007 and 2008.

Personal Protective Equipment: Two urban areas used different strategies in acquiring a new version of a protective suit to shield first responders against chemical, biological, radiological, nuclear, and explosive hazards. The purchases were made to (1) replace existing stocks of protective suits with expiring shelf lives, and (2) provide first responders with suits meeting recently updated FEMA standards.

The two urban areas used different strategies to determine how many suits to buy. One urban area bought more than 5,400 suits at a cost of approximately \$2 million as soon as the new design became available. This single purchase was enough to equip most of the first responders in its jurisdictions, but did not fully consider the limited number of first responders that really required these suits. The second urban area purchased 400 suits at a cost of approximately \$426,795 to outfit the region's special teams of chemical, biological, radiological, nuclear, and explosive specialists.

The costs of these two strategies are significantly different. Although each purchase was approved by the State, there was no documentation available to support the rationale for allowing one urban area to purchase suits for

all first responders versus only purchasing suits for a specified type of first responder at a significantly lesser cost.

Our discussions with program managers revealed that urban areas need to assess the threat and likelihood of a chemical, biological, radiological, nuclear, and explosive event, determine how many suits are needed to address this threat, and prepare a regional response plan for strategically distributing and storing the suits for best response before acquiring the suits. The urban areas should also consider staggered purchases to avoid major replacement costs in a few years when the shelf life for these suits expires.

Training Equipment: Another urban area acquired 55 large screen digital televisions costing \$74,394 as part of a new training system for its Fusion Center to facilitate training of intelligence analysts and others working in the Center, which was justified to the State as a total training package. We visited this Fusion Center, discussed this system and other equipment with the Center Director, and examined the equipment. We learned that the Center had purchased the televisions, but had not purchased the planned training system. The Center Director told us the priority of the training system was being reviewed and it may not be purchased. On the day we visited, all of the televisions were being used to monitor the same television station. The Center Director told us televisions like these are a standard element in most Fusion Centers. However, without the training system, the original justification for purchasing the televisions was not valid.

First responders in subgrantee organizations are called upon to make important decisions about new, sometimes untried, and expensive technologies. We believe that the examples above show that the subgrantees could benefit from the help of State experts in making these decisions. Program leaders are often skilled law enforcement officers, firefighters, or emergency managers skilled in something other than purchasing. These program leaders can struggle with detailed specifications, claimed benefits, warranties, compatibility issues, prices, and a myriad of other product issues. With limited time to research product literature and independent test results, if any are available, program leaders are often forced to rely on manufacturers' claims to guide their purchase decisions. If the product is a great success or falls short of expectations, there is no readily available way to get the word out to other jurisdictions. (See our Best Practice discussion regarding the San Diego Regional Technology Center and its Technology Clearinghouse.)

While the State staff reviewed and approved each of these programs, the State's staff was small and focused on compliance with grant rules and

procedures, not the merit, value, or effectiveness of a particular program. Each year the staff reviewed and considered hundreds of programs from the six urban areas involving nearly \$150 million. The same staff also managed other Homeland Security grants for many other California subgrantees. The State staff advised us that they do not have the resources to perform due diligence on each and every program proposed by the urban areas. Therefore, if a piece of equipment is on the authorized equipment list and the program paperwork is in order, the program is approved for funding. This was the case for the five examples described above.

Poor investments waste resources and reduce the benefits first responders and the urban areas they protect can derive from grant funds. Together, the programs noted above cost millions of dollars and did not provide full value to first responder organizations. All of these investments could have been identified as poor investments when initially proposed or at the approval stage. The missing element was informed grantee oversight. Program outcomes would be improved if the subgrantees had better technical knowledge as they consider new and complex technology or evaluate the impact of proposed programs on first responder needs.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #2: Establish and apply a meaningful review process designed to disclose the value and utility of proposed equipment and systems during the Investment Justification review and the expenditure plan approval processes.

Recommendation #3: Develop and disseminate guidance to California Urban Areas Security Initiatives specifying the importance of efficient and cost effective use of grant funds to improve first responder preparedness.

Management Comments and Auditors' Analysis

FEMA partially concurred with recommendation 2. FEMA suggested that California revise current grant monitoring policy to include the addition of quantifiable goals/criteria to determine the effectiveness of each grant. FEMA's Region IX staff also reviewed the draft report and suggested that the report specifically identify the UASI responsible for the conditions reported. FEMA

did not concur with recommendation 3. FEMA indicated in their written comments that current guidance and oversight provided by FEMA is sufficient to assure California's use of grant funds is efficient and cost effective.

The California Emergency Management Agency agreed with both recommendations and is considering adding performance measures like those discussed in this report to their grant management process. Also, the State will develop and disseminate guidance to the UASIs and all subgrantees specifying the importance of efficient and cost effective use of grant funds to improve first responder preparedness.

The California Emergency Management Agency's plan to expand its guidance and add performance measures to the grant proposal, management and monitoring processes will provide a positive response to these recommendations.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendations and a plan to implement the recommendations within 90 days.

Delays in Awarding Grant Funds

Although the California State Administrative Agency awarded Urban Areas Security Initiative grant funds to an urban area within the time limit specified by FEMA for the FYs 2006, 2007, and 2008 grants, the urban area did not make these grant funds available to subrecipients for 15-18 months after the funds were received. As a result, expenditures for approved programs were delayed, the FYs 2006 and 2007 Urban Areas Security Initiative grant performance periods were extended, and administrative costs increased. Most importantly, these delays prevented timely delivery of needed plans, equipment, exercises, and training to first responders.

FEMA Information Bulletin No. 257, dated July 17, 2007, states that it is important to ensure that funds are obligated and expended in a timely manner, within established periods for performance. In addition, FEMA's Program Guidance for the FY 2008 Homeland Security Grant Program states that FEMA strongly encourages the timely obligation of funds from local units of government to other subgrantees.

FEMA grant guidance specifies that only the California State Administrative Agency, as grantee, is eligible to apply for Homeland Security Grant Program funds, including Urban Areas Security Initiative

grants. FEMA requires the grantee to make approved funds available to local units of government and other designated recipients within either 60 days (FYs 2006 and 2007 grants) or 45 days (FY 2008 grants) after receiving the award from DHS. FEMA grant guidance emphasized to the states that Homeland Security Grant Program funds need to be awarded promptly to Urban Areas Security Initiatives and subrecipients so that needed plans, equipment, exercises, and training can be acquired and provided expeditiously to first responders.

As shown in Table 3, the subrecipients of one urban area waited 17 months for FY 2006 grant funds to be made available after the grant award date. Funds were made available for the FY 2007 grant in about 15 months. For FY 2008, grant funds were made available in April 2010 or about 18 months after the FY 2008 grant performance period began.

Table 3

Urban Areas Security Initiative Grant Awards FYs 2006 through 2008				
Receipt of Grant Funds				
FY	Grantee	Urban Areas Security Initiative	Subrecipient	Months between Awards to Urban Areas Security Initiative and Subrecipients
2006	06/30/06	08/15/06	01/25/08	17 months
2007	08/13/07	10/16/07	01/14/09	15 months
2008	09/08/08	10/23/08	04/06/10	18 months

By contrast, other California Urban Areas Security Initiatives made grant funds available to subrecipients a few weeks after receiving the grant award.

The urban area in question did not promptly make grant funds available to subrecipients for the following reasons:

- The local unit of government for the urban area did not promptly approve the purpose, uses, and associated obligations of the grants, and
- The grant manager’s office and the subrecipients did not timely sign a detailed contract specifying the terms and conditions of the grants and the obligations of the subrecipients.

The Urban Areas Security Initiative officials said that obtaining approval of the local unit of government usually took about 4 months. For the FY 2006 grant, the local unit of government took nearly a year to approve the use of the grant funds. Negotiating and signing the required contract between the grant manager's office and the subrecipients took longer, because of the length of the contract (currently contains 139 pages) to describe the grants and the respective obligations of the grant manager's office and the subrecipients. The grant officials said that much of the delay caused by this process was unnecessary wrangling over word changes that had no impact on the conduct of the grant. The urban area grant officials said that the local unit of government and the subrecipient agencies receiving grant funds carefully negotiate the wording of the contract. As a result, there was much back and forth discussion before the contracts were signed. The Urban Areas Security Initiative managers said that this could be accomplished more quickly if the parties assigned the process a higher priority.

Because of the long delays in making funds available, the subrecipients have not been able to spend the grant funds within the original performance period of the grants. As a result, the Urban Areas Security Initiative managers have requested and received multiple performance period extensions from FEMA. Specifically, the urban area has requested and received 13 project extensions for the FY 2006 grant. It had currently been extended until September 30, 2010, about 2 years longer than originally approved. The FY 2007 grant has been extended another year until April 2011. The urban area's staff advised us that they expect to request additional extensions for both the FYs 2007 and 2008 grants to ensure subrecipients can spend approved funds effectively.

Subrecipient program managers told us lengthy grant approval delays disrupt the procurement process, and delay timely delivery of grant-funded plans, equipment, and services. The delays also add to the cost of managing the programs.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #4: In consultation with the Urban Areas Security Initiative managers, identify process changes to accelerate the grant award approval process to the Urban Areas Security Initiative subrecipients.

Recommendation #5: Establish a timeframe for the urban area to make grant funds available to subrecipients for future Urban Areas Security Initiative grants, consistent with the experience of other California Urban Areas Security Initiatives.

Recommendation #6: Improve the oversight process for assuring Urban Areas Security Initiative compliance with the timeframes.

Management Comments and Auditors' Analysis

FEMA partially concurred with recommendations 4, 5, and 6, noting that timely distribution and dissemination of grant funds is critical to the success of the Homeland Security Grant Program. FEMA has also recommended California implement guidance, policies and processes to ensure timely distribution of grant funds.

The California Emergency Management Agency agreed with recommendations 4, 5, and 6 and stated it will increase its oversight and collaboration with its Urban Areas Security Initiatives to assure that grant funds are distributed promptly. The State also plans to establish specific timelines to help monitor grant fund distribution so that timely intervention can occur.

We believe the actions proposed by the California Emergency Management Agency address the intent of this recommendation, but further action will be needed to assure timely compliance.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendations and a plan to implement the recommendations within 90 days.

Sustaining Capabilities Without Federal Funding

The State of California did not prepare contingency plans addressing potential funding shortfalls if DHS funding was significantly reduced or eliminated. Funding shortfalls could put at risk critical programs intended to respond to terrorist acts and various catastrophes. According to Fusion Center Directors, the Centers would be closed if federal funds were not available because neither the State nor local communities could allocate the resources needed to operate the Centers. Similarly, three large regional communications systems would be at risk because the urban areas did not have an assured source of funds to complete and operate the systems. The California Emergency Management Agency has not identified funding sources to sustain Fusion Centers or to complete the

regional communications projects if federal funds were diminished or discontinued.

Department of Homeland Security Guidance and Application Kits for Homeland Security Grant Program FYs 2007 through 2008 grants required the states to identify their long term approach for sustaining the capabilities acquired through grant fund investments. The Homeland Security Grant Program receives funds through annual appropriations. The amount appropriated varies from year-to-year and is not guaranteed for any future year. Each grant program has specific appropriations and periods of performance within which the funds must be used. Grantees may only fund investments that were included in a specific year's Investment Justifications that were submitted to DHS and evaluated through the agency's peer review process.

The DHS funding provided to grantees through the Homeland Security Grant Program over the past several years has created a perception that this funding will continue indefinitely as would be the case for entitlement programs, such as Medicare and Social Security. Unlike entitlement programs, the annual appropriations for the Homeland Security Grant Program are based on budget justifications provided to the Congress by DHS. Critical programs at risk during funding shortfalls include Fusion Centers and Regional Communication Systems.

Fusion Centers: California has established intelligence collection and analysis Fusion Centers in Sacramento, San Francisco, Anaheim, Los Angeles, San Diego, and a State Center in Sacramento. These Centers are designed to bring together federal, State, and local law enforcement personnel and systems to help identify and prosecute organized drug, gang, and cross-border crime as well as to identify and prevent terrorist acts. Since 2005, California and its Urban Areas Security Initiatives have invested millions of dollars to furnish, equip, and operate these Centers, including the salaries, training, and associated overtime expenses of Intelligence Analysts. For example, one Fusion Center received \$17.4 million from the Urban Areas Security Initiative's FYs 2006 through 2008 grants.

According to the Fusion Center Directors, DHS and the California Emergency Management Agency strongly encouraged establishing the Fusion Centers. The Fusion Centers integrate criminal and terrorism threat intelligence and provide for intake, analysis, fusion, synthesis, and dissemination of that information. Each Center has a different mix of participating agencies that generally include the Federal Bureau of Investigation, Drug Enforcement Administration, Coast Guard, port authorities, County Sheriff, local police, and others.

In addition to intelligence collection and analysis, each Center organizes the Terrorism Liaison Officer program for their region. This program trains law enforcement officers and other first responders to identify potential terrorist acts and properly report the information to Fusion Center staff. The California State Administrative Agency strongly promotes local participation in the Terrorism Liaison Officer program, and even required all local jurisdictions that apply for Homeland Security grant funds to be fully enrolled in the program as one of the conditions for receiving funds.

Fusion Center Directors said their products are highly regarded by the State's law enforcement community. In particular, they cited the benefits to law enforcement outcomes such as arrests and prosecutions provided by collocating representatives from cooperating agencies. We asked Fusion Center Directors and California Emergency Management Agency officials about the ability of the local regions to operate and maintain these Centers if federal grants were reduced or eliminated. The Directors said the Centers are costly and the local communities could not support the Centers without federal Homeland Security or similar grants. These officials noted that if these grants were significantly reduced or eliminated, the Centers would close and much of the investment to establish the Centers would be lost. However, Center Directors told us that there is an unwritten understanding with the Department of Homeland Security Office of Information that the Centers will be funded through the grant program indefinitely.

Regional Communications Systems: Three California Urban Areas Security Initiatives have adopted comprehensive plans to replace or significantly upgrade existing public service communications systems. These communities are relying wholly or in large part on Homeland Security grant funds to develop the plans, conduct the design studies, and purchase initial infrastructure equipment. Two of the urban areas estimated that these systems were expected to cost more than \$1 billion dollars. Neither one of these entities have a firm plan for obtaining funding from local sources for the hundreds of millions of dollars needed to complete acquisition of the systems and to operate the systems.

California has invested nearly \$350 million of the Homeland Security Grant Program funds received from FYs 2003 through 2009 replacing the State's aging and disparate public safety communications systems with modern and interoperable systems. This is one of California top priorities. In addition, the Department of Homeland Security has strongly encouraged California and other states to modernize their communications systems.

Three of California's urban areas have adopted plans to build modern regional interoperable communication systems for voice and data. If completed, all of the first responders in each of these regions would be expected to have full communications interoperability. These Urban Areas report that the State and FEMA have approved their plans and strongly support these efforts.

These projects involve several years of planning and design, hundreds of millions of dollars of equipment and associated costs, and millions of dollars of operating costs once the systems become operational. For example, one urban area had already invested more than \$2 million in planning its regional interoperable communications system. In April 2010, this urban area planned to invest an estimated \$100 million for a system design and engineering analysis. Over the next 3 years the urban area expects to spend about \$1 billion to acquire, install, and test the required infrastructure for the system. The cost of portable and mobile radios for 34,000 first responders and the annual operating fees that will be required to sustain the radios have not yet been estimated. Although the urban area did not have firm financial commitments to pay for the acquisition of the system infrastructure, user equipment, or operations, the urban area's officials planned to proceed with the design phase. The officials expect most of the remaining system costs to be funded by local and state resources. The system is expected to be operational by 2016.

Similar projects are underway in two other urban areas. Although Homeland Security grants have been used to initiate these projects, to fund plans and design studies, and to make equipment purchases, the Urban Areas Security Initiative managers said they plan on obtaining the balance of the funds needed to finish the projects from local resources. However, none of the three urban areas have firm commitments from local jurisdictions to pay for and support these systems. Without firm financial commitments, the initial investment in the projects could be lost if funding to complete the project is not found. Also, if the project is not completed, the initial need for the project would not be fulfilled.

Using federal grant funds to begin large and costly projects, for which funds are not identified or available to complete, can result in a significant waste of the initial investments. Costly design studies and equipment languish while waiting for unfunded components to be acquired to complete the system. Because of the budget shortfalls currently being experienced by the State of California and local jurisdictions, funding in the magnitude necessary to finish these projects is questionable, leaving these already large investments at risk.

The Homeland Security Grant Program funds are not entitlement grants like Medicare or Social Security. These grants are part of the DHS annual appropriation that must be approved by Congress. Therefore, a possibility exists that the grant program funding could be reduced or eliminated in the future. Accordingly, grant agreements for Urban Areas Security Initiative grants should include state and local commitments to sustain such costly and important investments if federal funds were to diminish or not be available. The uncertainty surrounding future funding of California's Fusion Centers and the interoperable communications systems should be resolved while there is ample time to consider and implement suitable options.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency:

Recommendation #7: Identify options for future funding plan for the State's Fusion Centers that would provide for the continuance of the Centers without long term dependency on federal grant funding.

Recommendation #8: Develop options identifying the long term funding requirements for the interoperable public safety communications systems being initiated to include:

- Realistic assessments of state and local government resources available to complete and sustain these programs,
- Identification of federal financial support that may be necessary to complete and operate these systems, and
- Making the completion of this plan a condition of future grant funds approvals for the programs.

Recommendation #9: Require the subgrantee to address long-term sustainability in their proposals and applications for grant funding.

Management Comments and Auditors' Analysis

FEMA partially concurred with recommendations 7, 8 and 9, since according to FEMA the issue will need to be addressed at the Department level. FEMA noted that it is a sound business practice to develop options for potential reductions and or changes in priority for grant funded activities. Therefore, FEMA recommends that Urban Areas Security Initiatives develop a future funding plan

for their fusion centers that would provide for continuance of operation without long term dependency on federal grant funds. Recognizing that this position may require updating of existing grant guidance, FEMA stated that it will initiate discussions to address this issue within the current fiscal year.

The California Emergency Management Agency agreed with recommendations 7, 8 and 9. The State will identify options available for sustaining the Fusion Centers. The State noted that California is experiencing dire financial circumstances and is seeking continued federal assistance consistent with the importance of the national priority for information sharing. The State will also work with the Urban Areas Security Initiatives to develop long-term funding plans for the large scale communications systems now underway. Such plans will include milestone dates which will be monitored as requests for future grants are considered.

We believe the California Emergency Management Agency's proposed actions address the intent of these recommendations and will help the Urban Areas Security Initiatives manage and sustain these significant investments.

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

Monitoring of Urban Areas Security Initiative Recipients

The State Administrative Agency had not conducted on-site monitoring visits to Urban Areas Security Initiative grant recipients for FYs 2006 through 2008 grant awards. While on site monitoring of Urban Area use of grant funds is not mandated, it is necessary in California because documents such as receipts, delivery notices, and contracts supporting the use of these funds were maintained only at the Urban Area grants management offices. While the State monitoring unit proposed to visit Urban Areas Security Initiatives at least once every 3 years, this has yet to occur. In addition, we believe that a 3-year interval is not sufficient to fully evaluate whether grant funds were being used effectively and how the grants were being managed.

According to the Code of Federal Regulations Title 44 § 13.40, *Monitoring and Reporting Program Performance*, grantees are required to provide day-to-day management of all grants and subgrant supported activities, and ensure that grant recipients comply with applicable federal

requirements and achieve program performance goals. This regulation also specifies that grantee monitoring programs cover each program, function, or activity. The State Administrative Agency requires that grant recipients provide various documents to describe their activities and expenditures.

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

The DHS Office of Inspector General's report on the audit of California's State Homeland Security Program grant funds for FYs 2004 through 2006, noted that the State's monitoring program was insufficient to comply with Federal regulations. Site visits were not always conducted and, when visits were conducted, the grant monitors focused primarily on grant-related administrative requirements and not on the achievement of program goals. The scope of the DHS FYs 2004 through 2006 audit did not include Urban Areas Security Initiative funds. However, in commenting on the OIG draft report, State officials said they would begin instituting a program of on-site compliance visits to subgrantees in September 2008. The intended compliance visits have apparently not included Urban Areas.

The State Administrative Agency officials told us that they plan to conduct monitoring visits at 3 of the 6 urban areas that received Urban Areas Security Initiatives grants during FY 2010. However, there is no plan to visit the other three urban areas that received Urban Areas Security Initiative grant funds. The FY 2010 visits would not be timely for the FYs 2006 and 2007 grants since nearly all of these funds would have been spent and reimbursed by the State. In addition, a draft policy, currently under review, includes monitoring grant recipients at least once every 3 years. More frequent visits were not included in the State's plan.

Monitoring of Urban Areas Security Initiatives on a 3-year cycle is too infrequent to make timely assessments of the use of the funds or the progress being achieved in attaining needed capabilities and does not allow the prompt correction of problems. California urban areas manage Urban Areas Security Initiative grants totaling \$420 million, ranging from \$3 million to \$80 million each year (see Table 1). The urban areas oversee programs to acquire equipment, or to provide services, training,

and exercises for multiple jurisdictions. Some purchases involve new and complex technology. Urban Areas Security Initiative management teams are small in size and are often overwhelmed with complying with the many State and federal regulations and grant guidance. Consequently, annual monitoring by the State is essential to assure that the grant goals are being achieved and that grant funds are being properly expended. In the absence of effective monitoring of California Urban Areas Security Initiatives, none of the findings discussed throughout this report were identified or corrected by the State and the urban areas.

State officials said that the monitoring unit was transferred from the grant program area to the fiscal program area in May 2009. This move was made to consolidate monitoring of all grant activities into one unit. This unit was currently in the process of finalizing policies and procedures for the operation of the unit. Prior to the transfer, the unit was not adequately staffed, and had a high turnover of employees. As a result, the unit was unable to conduct timely monitoring of subrecipients. At the time of our audit, the monitoring unit had only four employees assigned to monitor all open Homeland Security Grant Program funds. In addition, workload backlogs may increase because the State of California requires employees to be furloughed on three Fridays each month. Therefore, unless sufficient resources are committed, the backlog of subrecipient monitoring will continue to grow.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #10: Commit sufficient resources to establish and implement policies and procedures for annual on-site monitoring of Urban Areas Security Initiative grant recipients.

Recommendation #11: Require that the on-site monitoring visits include evaluations of the recipients' overall management of the grants, including the progress made toward achievement of program goals.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 10 and 11. FEMA noted in its written comments that oversight management activities, including assessing compliance and progress toward program goals, is critical to the success of the grant programs. FEMA has

pledged to follow up with California within 6 months of the published date of this report on the State's progress.

The California Emergency Management Agency also agreed with recommendations 10 and 11. In written comments the State said that despite limited resources allowed for management and administrative expenses (5%), the State has developed and implemented a subrecipient risk assessment program that allows for fiscal and administrative monitoring. California provided copies of its updated Monitoring Plan and Monitoring Guide. In addition, the California Emergency Management Agency pledged to develop a plan to ensure regular programmatic site visits to Urban Areas Security Initiatives.

We believe monitoring of the Urban Areas Security Initiative fiscal and programmatic performance, including site visits, is critical to grant success. The California Emergency Management Agency's written response shows that the State understands the importance of monitoring Urban Areas Security Initiative performance and has new plans and tools for monitoring performance. If these new plans and tools are put into practice, the State should meet the intent of this recommendation.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendations and a plan to implement the recommendations within 90 days.

Unreported and Unjustified Sole Source Procurements

California UASI agencies did not always report or justify sole source procurements. California Urban Areas Security Initiative agencies did not always adhere to procurement requirements for FYs 2006, 2007, and 2008 grants. The urban areas and their subrecipients:

- Were unfamiliar with procurement regulations required for federal awards;
- Awarded multiple, large, sole source purchases of equipment and services which were either not reported to the State, or were reported and approved, but without adequate supporting documentation; and
- Had not performed written cost and price analyses to show the prices obtained were fair and reasonable for sole source purchases.

Accordingly, there was no assurance that the best price had been obtained for the sole source procurements, and the urban areas were in violation of federal grant requirements.

The Code of Federal Regulations Title 44 § 13.36, *Procurement*, provides uniform administrative requirements for grants and cooperative agreements awarded to state and local governments. These regulations direct the state and local governments to use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procedures conform at a minimum to applicable federal procurement regulations. Federal procurement requirements require that grantees and subgrantees:

- Acquire equipment and services under full and open competition,
- Obtain approval from the State Administrative Agency before proceeding with non-competitive procurements,
- Conduct cost analyses to assure prices obtained through non-competitive procurements are fair and reasonable, and
- Maintain records sufficient to detail the significant history of the procurements.

In particular, the regulations discourage noncompetitive procurements unless the item or service is only available from a single source. In such cases, regulations require that the awarding agency first authorize noncompetitive procurements in writing and that cost analyses be performed to assure the noncompetitive price is fair and reasonable.

The DHS Office of Inspector General reported in February 2009 that California subgrantee managers and county procurement authorities were not familiar with and did not always comply with federal requirements when procuring equipment using Homeland Security Grant Program funds. Multiple sole source procurements were noted that were unreported, did not receive State approval, and did not include a written cost analysis documenting the price obtained was fair and reasonable. These problems were observed in FY 2007 as subgrantees spent grant funds approved in FYs 2004, 2005, and 2006. The Urban Areas Security Initiative funds were not included in the scope of the February 2009 audit.

State officials said that during 2008 and 2009, discussions of competitive procurement requirements were included in meetings involving Urban Areas Security Initiative managers to improve subgrantee awareness of proper procurement procedures. However, when we asked Urban Areas Security Initiative managers about this training, they were not able to recall it or provide associated documents.

Table 4 summarizes procurements made by Urban Areas Security Initiative subgrantees without following applicable procurement requirements. These procurements were made using grant funds awarded for FYs 2006, 2007, and 2008.

Table 4

Examples of Urban Areas Security Initiative Procurements Where Federal Regulations Were Not Followed					
Urban Areas	Equipment	Grant Year	Purchase Amount	Cost Analysis Performed	State Approved
1	Consulting Services	2006	\$ 563,775	No	No
1	Public Safety Radios	2007	\$ 527,343	No	No
2	Information Technology	2007	\$ 515,284	No	No
3	Intelligence Analysis Software	2006	\$ 700,000	No	Yes
3	Intelligence Analysis Software	2007	\$1,250,000	No	Yes
3	Communications System & Radios	2006	\$3,928,473	No	No
3	License Plate Reader	2007	\$6,226,826	No	No *

* A California Emergency Management Agency sole source approval was provided for one of seven systems

The procurement examples in Table 4 were all procured under sole source procedures, two of which were approved by the State. In addition, cost analyses were not performed to ensure that the best value was received by the urban areas. For example, the consulting services contract was justified as sole source procurement by the local purchasing agency for urban area 1 because of the perceived competence of the chosen contractor and the limited time available to the Urban Areas Security Initiative to award the contract before the end of the grant performance period. The State’s approval was not requested for this award. Subsequent to the award of the contract by the urban area, the contract was extended for 5 years and increased in value to almost \$3 million.

Another example is the public safety radios procured by urban area 1. The radios were all bought as purchase orders against a “Master Contract” with a single manufacturer that was originally awarded non-competitively in

1990. Since then, tens of millions of dollars of communications equipment were purchased under this Master Contract. We asked the Urban Areas Security Initiative grant manager whether they had provided training to the purchasing department officials regarding applicable procurement requirements. The manager said they had not done so. We confirmed this during discussions with the purchasing department officials. In 2008, the Urban Areas Security Initiative manager requested and received from the local purchasing department a blanket waiver for sole source procurement of any goods or services to be purchased with Homeland Security grant funds until 2025. With this waiver in hand, no efforts were made to seek State approval of sole source procurements. This waiver and the sole source procurements were in complete disregard of federal grant requirements and immediate action should be taken by the State to freeze all procurement actions until the urban area complies with federal requirements.

For the License Plate Reader purchased by urban area 3, we observed that several jurisdictions were buying automated license plate recognition equipment costing more than \$6 million from a single manufacturer as sole source procurements. The program manager told us that the license plate recognition equipment was not purchased through advertised procurement but from a sole source because it incorporated proprietary software within the database that stored and compared the collected license plate numbers and associated information. To be compatible with and share this information with neighboring jurisdictions, all users had to buy from the same manufacturer. The urban area could not provide documentation that showed it attempted to require that a non proprietary data structure be used to enable all jurisdictions to use license plate readers from any manufacturer. As a result, all new purchases of license plate readers will be made using sole source procurements without competition, even though there are other providers of license plate readers.

Urban Areas Security Initiative grant managers and subrecipients told us that in many cases specific brand preferences for the equipment to be acquired with grant funds have been made. These officials often already had purchased specific types of equipment or were familiar with specific brands of equipment and were concerned about maintaining compatibility with existing equipment. In other cases, equipment and service providers were known, trusted, and past experience indicated the sources provided high quality service. Purchasing officials told us conducting a full and open competition was time consuming and required significant investments of staff resources. The officials said they preferred to issue a purchase order against an existing contract.

State Administrative Agency officials told us that they require urban areas to identify and seek approval for any purchase not acquired competitively. The State officials acknowledged that if the Urban Areas Security Initiative did not identify sole source procurements, the State officials assume all purchases were competitive. Also, State officials said that if the urban areas seek sole source approval and complete the State's form properly, the sole source procurements were generally approved. The State officials do not generally investigate whether competition was possible. The officials rely on local jurisdiction judgment and preference. We observed some sole source procurements were approved by the State, but the accompanying justifications were often brief, not specific, and did not persuade us that a full and open competition was not possible.

Sole source procurements, particularly of high cost equipment and services, deny the purchasing jurisdiction the full economic value of a competitive marketplace and the opportunity to explore innovative approaches to satisfy a need. Non-competitive procurements often cost more and may not provide all available features and services. Sole source procurements often lead to a long series of vendors obtaining a negotiating advantage in subsequent sole source procurements as local jurisdictions and cooperating neighboring jurisdictions acquire items from the same source to maintain compatibility. This condition occurred numerous times in California jurisdictions that were acquiring communications equipment. The acquisition of automated license plate recognition systems by numerous jurisdictions is another example.

Although DHS-OIG reported in February 2009 problems with sole source procurement among Homeland Security grant purchases in California, these practices continued without remediation. Multiple, large procurements were made without competition and, in some cases, without the State being notified. Other sole source procurements were approved by the State but with insufficient documentation. No sole source procurement that we observed was substantiated with a cost analysis to show that the price obtained was fair and reasonable. While State officials acknowledge this problem and have made some effort to correct it, we found little progress since the condition was originally reported.

The amount of grant funds expended as sole source procurements was not identified to the State or to us during the audit. Nevertheless, the grant funds expended in noncompliance with federal regulations should be questioned and disallowed if a review by the State shows that the best value was not obtained.

Recommendations:

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, California Emergency Management Agency to:

Recommendation #12: Develop and provide to all Urban Areas Security Initiatives grant subgrantee managers, within 6 months of this report date, a comprehensive training program on State and federal regulations pertaining to competitive procurement.

Recommendation #13: Prepare, publish, and disseminate a guide detailing procurement regulations for FEMA awards to all California municipal and county purchasing departments that are acquiring equipment or services with Homeland Security grant funds.

Recommendation #14: Complete a review of all grant funded purchases exceeding \$100,000 to identify those made as sole source procurements and:

- Verify that State approval was obtained, sole source procurement was justified, and the price was documented as fair and reasonable,
- Disallow all procurements that fail to meet these requirements, and
- Freeze all procurements for the urban area that has granted a waiver from using advertised procurements until it agrees to adhere to federal grant procurement requirements.

Recommendation #15: For future grant years, disallow any procurement actions that are not in compliance with federal procurement regulations.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 12, 13, 14, and 15. In written comments FEMA pledged to provide California and its Urban Areas Security Initiatives specific training in December 2010 on procurement standards and competition. FEMA also will encourage California to review purchases exceeding \$100,000 under sole source procedures as detailed in recommendation 14. FEMA will also request California to provide documentation of disallowed procurement actions that are not in compliance with federal procurement regulations.

The California Emergency Management Agency also agreed with recommendations 12, 13, and 15, and partially agreed with recommendation 14. The State agreed in written comments to issue a Grant Management Memorandum by December 31, 2010 outlining state and federal regulations regarding competitive procurements. Further, the California Emergency Management Agency will include training on competitive procurements in training workshops to be conducted during December 2010. This guidance will also be added to the State's grant management website. As a part of this training, the State will prepare and provide a procurement guide for Urban Areas Security Initiatives to disseminate to their local procurement agencies. The State has also agreed to revise its sole source procurement request form and to review all such requests. The State will establish a policy allowing grants management staff to disallow sole source procurements not pre-approved by the State.

Regarding recommendation 14, the California Emergency Management Agency said that the State does not have the staff resources to accomplish the recommended review of all funded purchases exceeding \$100,000 to assure federal procurement competition requirements were met. The State plans to meet the intent of this recommendation with the actions detailed above.

In two successive audits of California we have documented problems with unapproved and inappropriate sole source procurements. The corrective actions proposed by FEMA and the California Emergency Management Agency, if implemented and periodically reinforced, can address the intent of these recommendations. However, the California Emergency Management Agency's response for recommendations 12, 13, and 15 is not sufficient to address recommendation 14. Disallowing the noncompliant procurements would send a clear message to Urban Areas Security Initiatives that failure to fully comply with federal competition requirements has undesirable consequences.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendations and a plan to implement the recommendations within 90 days.

Internal Controls Over Reimbursements

California's State Administrative Agency did not require Urban Areas Security Initiative grant fund recipients to provide copies of purchase

orders, delivery receipts, and other documentation with their requests for reimbursement of approved grant fund expenditures. As a result, the State's internal controls over grant expenditures did not provide assurance that expenditures reimbursed to Urban Areas Security Initiative recipients were eligible, allowable, and supportable in accordance with federal requirements.

The Code of Federal Regulations Title 44 § 13.20, *Standards for Financial Management Systems*, and the Department of Homeland Security Financial Guide, require that grantees 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. For source documentation, accounting records must be supported by such documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrantee award documents. Review and verification of supporting documentation is needed to satisfy federal regulations and the DHS financial guide.

The DHS Office of Inspector General audit report issued in February 2009 on the Homeland Security Grant Program grants awarded to California for FYs 2004 through 2006, reported that the California State Administrative Agency did not review supporting documentation for grant expenditures before reimbursing subgrantees. The audit report concluded that the State had no assurance that reimbursements made to subgrantees were valid and eligible, or were appropriately supported by purchase orders, receipts, delivery notices, and similar documents.

A subsequent review by FEMA of California Homeland Security Grant payments made in FY 2008 showed that more than \$24 million (about 19%) of expenditures were not proper. Most of the improper payments identified were caused by insufficient supporting documents. In most cases, this situation was due to the subgrantee not being able to provide the relevant invoices, receipts, or summary level reports. FEMA recommended that documentation compliance metrics be incorporated throughout the grant process to minimize future improper payments. Also, to help overcome lost and missing documents, FEMA recommended a standardized document retention protocol and corresponding training.

Our audit of the FYs 2006 through 2008 grants confirmed that the California State Administrative Agency did not require Urban Areas Security Initiatives to provide documents such as receipts, invoices, and delivery notices with their requests for reimbursement of expenditures. Instead, the State told us they relied on the following four mechanisms to

ensure that expenditures were proper before reimbursements were approved:

1. Urban Areas Security Initiatives' certifications that requests for reimbursement of expenditures were correct,
2. An electronic workbook of program and associated expenditures which detailed intended purchases,
3. Close working relationships with Urban Areas Security Initiatives grant specialists, and
4. Periodic monitoring of Urban Areas Security Initiative grants management, including on-site inspection of expenditure documents.

While these internal controls are helpful, the controls were not sufficient to provide the necessary level of assurance that reimbursements were proper. In addition, the State had not yet monitored the California Urban Areas Security Initiatives for the FYs 2006 through 2008 grant periods at the time of our review. Moreover, the State's monitoring unit did not plan to perform comprehensive annual on-site visits, nor did it have plans to monitor three of the six urban areas in the near future. Review and verification of supporting documentation was needed to satisfy federal regulations and the DHS Financial Guide.

During our visit to one urban area, the Urban Areas Security Initiative grant management team demonstrated a new automated tool developed to track programs managed by their subrecipients. The Urban Areas Security Initiative's Invoice Tracking System included the capability to electronically view key expenditure documents. This tool, which might be a solution to this issue, is more fully described in the Best Practices section of this report.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #16: Strengthen internal controls over Urban Areas Security Initiative grant expenditure reimbursements, for example, through reviews of purchase orders, invoices, and delivery receipts.

Management Comments and Auditors' Analysis

FEMA concurred with recommendation 16. FEMA agreed in written comments to encourage California to strengthen internal controls over grant expenditure reimbursements.

The California Emergency Management Agency also agreed with this recommendation, and stated it would initiate a sampling procedure to review source documentation prior to reimbursing Urban Areas Security Initiatives for their grant funded purchases.

The California Emergency Management Agency's plan to sample and review some reimbursement documentation falls short of what we believe is needed to assure grant funds are being expended properly. We remind the State that one of the California Urban Areas Security Initiatives has developed an electronic system that could facilitate documentation review without the burden of handling, transporting and storing paper documents. We believe a pilot program to try this option, together with the sampling of documents proposed by the State, would more closely meet the intent of this recommendation.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendation and a plan to implement the recommendation within 90 days.

Management of Cash Advances

The State Administrative Agency did not maintain a system for monitoring cash advances and accrued interest for Urban Areas Security Initiative agencies. The State provided cash advances to one of California's Urban Areas Security Initiatives for the FYs 2006 through 2008 grants, which were held by the urban area beyond the time permitted by regulation. Accrued interest was not reported or paid as required. Moreover, the State was not aware of the situation because the State did not have a system to account for the advanced funds or interest due.

According to the Code of Federal Regulations Title 44 §13.21 (c), *Advances*, grantees and subgrantees can be paid in advance, if they demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their expenditure. OMB Circular A-133 Compliance Supplement, Part 4, Section (III) (C), states that grantees are permitted to draw down funds up to 120 days prior to expenditure or disbursement, but must place those funds in an interest-bearing account, with the interest submitted to the U.S.

Treasury. California grant guidance also states that subgrantees may request grant funds up to 120 days prior to expenditure/reimbursement.

In addition, the Code of Federal Regulations Title 44 § 13.21(i) *Interest Earned on Advances*, states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency. FEMA officials advised us that interest accrued from cash advances should be reported on the quarterly Financial Status Report. Interest earned also should be remitted quarterly by the State Administrative Agency to FEMA.

While most California Urban Areas Security Initiatives paid for approved expenditures with local funds and then requested reimbursement from the State with grant funds, one urban area requested and received more than \$29.9 million of cash advances from the State for the FYs 2006 through 2008 grants. For various reasons, the urban area did not promptly spend these funds and a portion of the funds were not spent within the 120-day limit specified in the cash management regulations. Also, accrued interest on these cash advances was not remitted promptly or reported as required.

Table 5 shows cash advances, disbursements, and interest accrued for this urban area from the FYs 2006 through 2008 Urban Areas Security Initiative grants.

Table 5

Urban Areas Security Initiative Cash Advances, Disbursements, and Accrued Interest As of December 31, 2009 FYs 2006 through 2008 Grant Awards				
Grant Year	Advances	Amount Disbursed	Balance	Accrued Interest
2006	\$ 21,132,084	\$ 20,727,665	\$ 404,419	\$ 271,783
2007	\$ 8,792,495	\$ 5,156,562	\$ 3,635,933	\$ 69,618
2008	\$ 15,798	\$ 15,324	\$ 474	\$ 0
	\$ 29,940,377	\$ 25,899,551	\$ 4,040,826	\$ 341,401

Of the \$21,132,084 cash advances for the FY 2006 grant, \$3,059,221 was not spent within the 120 day limit. The records provided by urban area officials were not detailed enough to allow us to determine the total amount of cash advances that were expended within 120 days for the FY 2007 grant. However, we did determine that there was an unexpended balance of \$3,635,933 retained for more than 120 days.

Interest of \$341,401 earned on the cash advanced to this urban area had not been remitted quarterly to the Federal Government. A lump sum payment of \$341,401 of the total accrued interest was made to the federal government at the time of our audit visit to the urban area.

The State Administrative Agency did not adequately monitor cash advanced to this urban area. Therefore, it was not aware of the urban area's noncompliance with reporting and payment of interest requirements. As a result, accrued interest due was not reported by the State on the quarterly financial status report as required.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to:

Recommendation #17: Establish policies and procedures to ensure that cash advances to subgrantees are only provided based on immediate disbursement requirements and that procedures are in place to minimize the time needed to expend these funds.

Recommendation #18: Require subgrantees to return funds advanced if not expended within 120 days of the advance being provided.

Recommendation #19: Require subgrantees to track accrued interest on cash advances, remit the interest earned in accordance with requirements to FEMA, and report the interest earned on the Financial Status Reports.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 17, 18, and 19. FEMA noted in written comments that grant funds must be expended in accordance with 44 CFR Part 13.

The California Emergency Management Agency also agreed with these recommendations. The State in written comments advised of new procedures established to manage and account for cash advances, accrued interest, and associated reporting.

We believe these procedures can significantly improve the control and accounting for cash advances and meet the intent of this recommendation.

The Assistant Administrator, Grant Programs Directorate, needs to provide corrective actions for the recommendations and a plan to implement the recommendations within 90 days.

Two California Urban Areas Security Initiatives Are Using Innovative Systems That May Be Best Practices

The San Diego and Los Angeles-Long Beach urban areas were using innovative systems to better invest and manage Urban Areas Security Initiative grant funds.

- San Diego's Technology Clearinghouse helps subrecipients make more informed purchasing decisions, and
- The Invoice Tracking System developed by Los Angeles-Long Beach provides an on-line tool for managing subrecipient programs.

These systems merit broader use in California and should be considered for evaluation and use in other jurisdictions.

San Diego's Technology Clearinghouse

San Diego Urban Areas Security Initiative managers said that when technical experts assist first responders in selecting equipment and other products these programs tend to be more successful. Were such efforts more broadly coordinated, program success could increase throughout California,

California first responders are inundated with new and improved products designed to help them prevent and respond to terrorist acts and natural disasters. Program Leaders are often highly trained law enforcement officers, firefighters, or emergency managers skilled in something other than purchasing. The Program Leaders can struggle with detailed specification, claimed benefits, warranties, compatibility issues, prices, and a myriad of other product issues. With limited time to research product literature and independent test results, if any are available, Program Leaders are often forced to rely on manufacturer's claims to guide purchase decisions. If the product meets, exceeds, or falls short of expectations, there is no readily available way to get the word out to other jurisdictions.

The San Diego urban area is helping first responders be better buyers by investing in a Regional Technology Center and its Technology Clearinghouse initiative. This initiative is designed to

evaluate new technologies and provide local jurisdictions detailed, independent assessments of equipment and systems being considered by first responders. The evaluations feature both technical assessments and testing under realistic conditions by first responders. The evaluations also include assessments by other first responders who have purchased and used the prospective equipment or system. The Center's reports are clearly presented, objective, and readily available electronically. As a result, San Diego first responders have timely sources of available product evaluations to help them make better investment decisions.

Los Angeles-Long Beach Invoice Tracking System

The Los Angeles-Long Beach urban area received more than \$70 million of Urban Areas Security Initiative grant funds each year for the 3 year period. Tracking the documentation associated with hundreds of programs supported with the grant funds posed a significant problem. The Urban Areas Security Initiative managers, accountants, and subrecipients were all frustrated with a paper-based system that too often was associated with reimbursement delays, misunderstandings, and inefficiency. The Urban Areas Security Initiative managers resolved these problems with an innovative, on-line Invoice Tracking System. The System allows the program teams to digitally record and store all essential program documentation. The documentation is then available for use by Urban Areas Security Initiative managers and the urban area's accounting department. The urban area staff said this tool has eliminated much of the uncertainty surrounding the status of programs during the purchasing and approval process. They emphasized the value of being able to electronically view key purchase documents

The Los Angeles-Long Beach System allows any approved system user to sign on and determine the program status in real time, view essential documents, review expenditures, and determine the status of reimbursement requests without any need for paper documents, specialized software, or storage. The Los Angeles-Long Beach Invoice Tracking System could offer similar benefits to other Urban Areas Security Initiatives management teams. The System could also be beneficial to the California Emergency Management Agency in its response to the DHS Office of Inspector General's and FEMA's reported concerns that the State does not review purchase orders, sales invoices, or delivery notices before reimbursing urban areas and other subgrantees for incurred expenses.

Appendix A

Purpose, Scope, and Methodology

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

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

The scope of the audit included the Urban Areas Security Initiative grant awards for FYs 2006, 2007, and 2008 as described in the Background section of this report and summarized in Table 1.

The audit methodology included work at FEMA Headquarters, State of California offices, each of the six urban areas that received grants, and various subrecipient locations. To achieve our audit objectives, we analyzed data, reviewed documentation, and interviewed key state, Urban Areas Security Initiative, and local officials directly involved in the management and administration of the State of California's Homeland Security Grant Programs.

We conducted six site visits and held discussions with appropriate officials from all six of the urban areas receiving Urban Areas Security Initiative grants. The visits and discussions were performed in order to determine if program grant funds were expended according to grant requirements and State-established priorities. During each of these visits we conducted a general meeting with subrecipients to discuss their use of Urban Areas Security Initiative grants, the impact these grants had on first responder preparedness, and the management of the grants by the Urban Areas Security Initiative teams. During these visits we met with approximately 400 subrecipients.

Appendix A

Purpose, Scope, and Methodology

We conducted site visits to the six California Urban Areas Security Initiatives representing all three State emergency management regions, and to 35 subrecipient organizations. We visited:

- Coastal Region
 - Bay Area Urban Area (San Francisco)
 - Alameda County Sheriff
 - Contra Costa County Emergency Management
 - Northern California Regional Intelligence Center
 - Oakland Office of Emergency Services
 - San Francisco Bay Area Rapid Transit Authority
 - San Francisco Bomb Squad
 - San Francisco Department of Public Works
 - San Francisco Emergency Operations Center
 - San Jose Police Department
 - San Mateo County Sheriff
 - Santa Clara Public Health Department
- Inland Region
 - Sacramento Urban Area
 - City of Sacramento Government Center
 - Sacramento Police Department
 - Sacramento Regional Office of Homeland Security
- Southern Region
 - Anaheim-Santa Ana Urban Area
 - Anaheim Angles Stadium
 - Anaheim Fire Department
 - City of Santa Ana Civic Center
 - Garden Grove Police Department
 - Orange County Fire Authority
 - Santa Ana Police Department

Appendix A

Purpose, Scope, and Methodology

- Los Angeles-Long Beach Urban Area
 - City of Los Angeles Communications Department
 - Long Beach Fire Department
 - Long Beach Police Department
 - Los Angeles County Fire Department
 - Los Angeles County Sheriff
 - Los Angeles Police Department
- Riverside Urban Area
- San Diego Urban Area
 - City of San Diego Communications Department
 - City of San Diego Purchasing Department
 - San Diego County Sheriff's Office
 - San Diego Fire Department
 - San Diego Fusion Center
 - San Diego State University Research Foundation
 - San Miguel Fire Department
 - Vista Fire Department

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.

We conducted the audit between December 2009 and May 2010, 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.

Appendix A
Purpose, Scope, and Methodology


Accordingly, we were neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had we been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of California.

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

Appendix B
FEMA Management Comments on the Draft Report

December 6, 2010

MEMORANDUM FOR: Michael Sivi
Director
Grants Management Division, DHS OIG

FROM: Elizabeth M. Harman 
Assistant Administrator

SUBJECT: Response to Draft OIG: The State of California's
Management of Urban Areas Security Initiatives Awarded
During Fiscal Years 2006 through 2008

Thank you for the opportunity to comment on the subject draft report entitled, "The State of California's Management of Urban Areas Security Initiatives Awarded During Fiscal Years 2006 through 2008". The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure the program. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report.

Thank you for the opportunity to respond to the report and to work with the Office of the Inspector General during this engagement.

Attachment

cc: Annette Hampton, RMBA
Mildred Lloyd, GPD Audit Liaison

Response to Draft Report

**The State of California's Management of Urban Areas Security Initiative Grants Awarded
during Fiscal Years 2006 through 2008**

December 6, 2010

Appendix B

FEMA Management Comments on the Draft Report

I. Introduction

During the formal exit conference held Oct 25, 2010 many issues relating to the finding of this draft report were discussed amongst all Federal parties. The findings and recommendations within the Draft Report focused on improvements needed to enhance California's management of UASI grants. FEMA's Grant Programs Directorate (GPD) and FEMA Region IX Grants Management Division provided their concurrence, partial concurrence, or non-concurrence on each of the 19 recommendations.

The State is ultimately responsible for all programmatic and fiduciary actions that are connected directly or indirectly with the Homeland Security Grants examined under this review. Many of the findings are historic, systemic and permeate the State and UASI programs throughout the FY04-FY08 timeframe. FEMA recommends the corrective recommendations be adopted and implemented by the State and the UASI program/financial managers. The use of "concur" throughout the report means that GPD and Region IX agrees with the recommendations as a way forward to improvement and provides a path for remediation under a corrective action plan, but is not intended to infer that the recommendations that are not clearly codified by federal regulations, laws, statute or guidance can be fully enforced as mandates. Therefore, we will be prescriptive in the creation of the corrective action plan and on the cooperation and coordination of the State Administrative Agency (SAA) to reform, adopt, and implement these recommendations.

OIG Recommendation #1: We recommend that the Assistant Administrator, Grants Program Directorate, require the California Emergency Management Agency to develop meaningful metrics for measuring program results, collect results measurement data from subrecipients, and include these metrics in Investment Justifications and program funding approval deliberations.

FEMA Response: FEMA partially concurs with this recommendation. GPD discussed how the issues within the finding have come up in other audits. GPD indicated that the SAA is in the process of developing a metrics system as indicated in the 2008 State OIG Corrective Action Plan. However, it appears that at this point the metrics is more of a state inventory and resource typing database. It is unclear to FEMA at this point if this will evolve into a program that captures results measurement, such as preparedness capabilities. FEMA will follow-up with the State within six months of the final report and request additional information on its progress in developing a metrics system.

OIG Recommendation #2: We recommend that the Assistant Administrator, Grants Program Directorate, require the California Emergency Management Agency to establish and apply a meaningful review process designed to disclose the value and utility of proposed equipment and systems during the Investment Justification review and the expenditure plan approval processes.

FEMA Response: FEMA partially concurs with this recommendation. In addition, FEMA suggests revising current State Homeland Security Grant monitoring program policy to include quantifiable goals or criteria to determine the effectiveness of each grant

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FEMA Management Comments on the Draft Report

specific to each grant year. The policy should indicate the method for selecting sub grantees to be visited, and the number or frequency of monitoring visits each year for both State Homeland Security Program grants and Urban Area Security Initiative grants.

In addition, FEMA Region IX suggested that the names of the UASI that corresponds to the specific findings in the OIG report be listed to increase ownership and accountability. The Grant Development and Administration Division (GPD) within the Federal Emergency Management Agency's (FEMA) Grant Programs Directorate (GPD) requests that the State Office of Homeland Security submit a revised Homeland Security Grant Program monitoring policy to their GPD Program Analyst within 90 days to include more quantifiable goals and criteria for determining the effectiveness of each grant. The updated policy should include:

- a.) A clear method for selecting sub grantees to be visited,
- b.) The number or frequency of monitoring visits each year for both SHSP (State Homeland Security Program) grants and UASI (Urban Area Security Initiative) grants, and
- c.) The protocols to be followed during the monitoring visits.

OIG Recommendation #3: We recommend that the Assistant Administrator, Grants Program Directorate, require the California Emergency Management Agency to develop and disseminate guidance to California Urban Areas Security Initiatives specifying the importance of efficient and cost effective use of grant funds to improve first responder preparedness.

FEMA Response: FEMA non-concurs with the recommendation.

The grant guidance states that "Grant recipients will be monitored periodically by DHS staff, both programmatically and financially, to ensure that the project goals, objectives, performance requirements, timelines, milestone completion, budgets, and other related program criteria are being met. Monitoring will be accomplished through a combination of office-based reviews and on-site monitoring visits. Monitoring will involve the review and analysis of the financial, programmatic, performance and administrative issues relative to each project and will identify areas where technical assistance and other support may be needed."

On-site monitoring visits and office-based reviews assist the program office in identifying recurring problems that grantees may have that can be addressed through additional clarification on the website, incorporation into the training modules, and modifications to the grant guidance. The program office will continue to stress its importance in training and as part of monitoring. The program office carries out actions to ensure that all grantees are aware of the requirements of the program and their

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FEMA Management Comments on the Draft Report

individual grant award. FEMA diligently works to ensure that all grantees are complying with the requirements set forth in the grant award.

Additionally, grant guidance under “Grantee Responsibilities” clearly states that the grantee must agree to “Retain grant files and supporting documentation for 3 years, after the conclusion and closeout of the grant or any audit subsequent to closeout.” FEMA is taking necessary actions to ensure that grantees comply with federal documentation requirements and will not take any additional action on this recommendation.

OIG Recommendation #4: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to, in consultation with the Urban Areas Security Initiative managers, identify process changes to accelerate the grant award approval process to the Urban Areas Security Initiative subrecipients.

FEMA Response: FEMA partially concurs with this recommendation. FEMA agrees with the findings in that the timely distribution and dissemination of grant funds is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes including milestones and timelines to ensure the timely distribution of grant funds to achieve and implement program goals and objectives. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes

OIG Recommendation #5: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to establish a timeframe for the Urban Area to make grant funds available to subrecipients for future Urban Areas Security Initiative grants, consistent with the experience of other California Urban Areas Security Initiatives.

FEMA Response: FEMA partially concurs with this recommendation. FEMA agrees with the findings in that the timely distribution and dissemination of grant funds is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes including milestones and timelines to ensure the timely distribution of grant funds to achieve and implement program goals and objectives. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes

OIG Recommendation #6: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to establish an oversight process for assuring Urban Areas Security Initiative compliance with the timeframes.

FEMA Response: FEMA partially concurs with this recommendation. FEMA agrees with the findings in that oversight management activities including assessing compliance and progress toward program goals is critical to the success of our programs. Therefore,

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FEMA Management Comments on the Draft Report

we recommend that the California EMA implement guidance, policies and processes to ensure the achievement of Federal goals and initiatives through monitoring. The state is the only entity charged with passing down funds to the Urban Area in HSGP grants. GPD can make a suggestion to the grantee regarding the recommendation but cannot promulgate requirements related to such timeframes. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes.

OIG Recommendation #7: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency identify options for future funding plan for the State's Fusion Centers that would provide for the continuance of the Centers without long term dependency on federal grant funding.

FEMA Response: FEMA partially concurs with this recommendation. It is a sound and proactive business practice to develop options for the potential reduction and or change in priority for grant funded activities, therefore it is recommended that UASIs develop a future funding plan for the State's Fusions Centers that would provide for the continuance of the Centers without long term dependency on federal grant funding. FEMA will follow-up with the State within six months of the final report and request additional information on its future funding plan. For additional rationale regarding partial concurrence, please refer to FEMA's response to recommendation #9.

OIG Recommendation #8: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to develop options identifying the long term funding requirements for the interoperable public safety communications systems being initiated to include:

- Realistic assessments of state and local government resources available to complete and sustain these programs,
- Identification of federal financial support that may be necessary to complete and operate these systems, and
- Making the completion of this plan a condition of future grant funds approvals for the programs

FEMA Response: FEMA partially concurs with this recommendation. For additional rationale regarding partial concurrence, please refer to FEMA's response to recommendation #9.

OIG Recommendation #9: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency subgrantee to address long-term sustainability in their proposals and applications for grant funding .

FEMA Response: FEMA partially concurs with this recommendation. Given that GPD partially concurs with recommendations 7 through 9, this issue will have to be addressed at a higher level within the Department or Administration. The corrective action plan

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FEMA Management Comments on the Draft Report

should be developed in a way that addresses the recommendation and can provide a meaningful outcome but is not in violation of program guidance regarding the State's responsibility for the development of sub-recipient policies and procedures. FEMA will initiate the discussion to address this issue within the current fiscal year.

OIG Recommendation #10: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to commit sufficient resources to establish and implement policies and procedures for annual on-site monitoring of Urban Areas Security Initiative grant recipients

FEMA Response: FEMA concurs with this recommendation. FEMA agrees with the findings in that oversight management activities including assessing compliance and progress toward program goals is critical to the success of our programs. Therefore, we recommend that within the current fiscal year the California EMA implement guidance, policies and processes to ensure the achievement of Federal goals and initiatives through monitoring. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes.

OIG Recommendation #11: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to require that the on-site monitoring visits include evaluations of the recipients' overall management of the grants, including the progress made toward achievement of program goals.

FEMA Response: FEMA concurs with this recommendation and will encourage the State to begin developing ways to incorporate evaluations of the recipients' overall management of grants into on-site monitoring within six months of the final report. GPD has already begun implementing the corrective action for recommendation 10. Region 9 requested that OIG add language to recommendation 11 to include implementing past corrective actions regarding monitoring. As stated in FEMA's response to recommendation 10, FEMA agrees with the findings in that oversight management activities including assessing compliance and progress toward program goals is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the achievement of Federal goals and initiatives through monitoring.

OIG Recommendation #12: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, California Emergency Management Agency to develop and provide to all Urban Areas Security Initiatives grant sub-grantee managers, within 6 months of this report date, a comprehensive training program on State and federal regulations pertaining to competitive procurement.

FEMA Response: FEMA concurs with this recommendation. On December 7 and 8, 2010 the Grant Programs Directorate, via the Homeland Security Preparedness Technical

Appendix B

FEMA Management Comments on the Draft Report

Assistance Program, will provide a Direct Technical Assistance (TA) Delivery to the California State Administrative Agency (SAA) and California Urban Areas including Bay Area (Super UASI), Los Angeles/Long Beach, San Diego, Sacramento, Bakersfield, Anaheim/Santa Ana, Ventura, and Riverside. This intensive workshop will provide rigorous, customized solutions and successful grants management principles tailored to the needs of the California SAA and Urban Area subrecipients, with emphasis on procurement standards and competition. We will encourage the SAA to develop and provide Urban Areas a comprehensive training program on State and federal regulations pertaining to competitive procurement. FEMA will follow up and request additional information on the State's progress towards providing comprehensive training within six months of the final report.

OIG Recommendation #13: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, California Emergency Management Agency to prepare, publish, and disseminate a guide detailing procurement regulations for FEMA awards to all California municipal and county purchasing departments that are acquiring equipment or services with Homeland Security grant funds.

FEMA Response: FEMA concurs with this recommendation. FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds within the current fiscal year.

OIG Recommendation #14: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, California Emergency Management Agency to complete a review of all grant funded purchases exceeding \$100,000 to identify those made as sole source procurements and:

- Verify that State approval was obtained, sole source procurement was justified, and the price was documented as fair and reasonable,
- Disallow all procurements that fail to meet these requirements, and
- Freeze all procurements for the Urban Area that has granted a waiver from using advertised procurements until it agrees to adhere to federal grant procurement requirements.

FEMA Response: FEMA concurs with the recommendation and will encourage the State to initiate this review within six months of the final report. As stated in FEMA's response to recommendation #13, FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds.

OIG Recommendation #15: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, California Emergency Management Agency

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FEMA Management Comments on the Draft Report

to for future grant years, disallow any procurement actions that are not in compliance with federal procurement regulations.

FEMA Response: FEMA concurs with this recommendation. Within the current fiscal year, FEMA will request the State to provide documentation of disallowed procurement actions that are not in compliance with federal procurement regulations.

OIG Recommendation #16: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to strengthen internal controls over Urban Areas Security Initiative grant expenditure reimbursements, for example, through reviews of purchase orders, invoices, and delivery receipts.

FEMA Response: FEMA concurs with this recommendation and will encourage the State to provide an update on its progress in strengthening internal controls within six months of the final report. As stated in FEMA's response to recommendation #13, FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds.

OIG Recommendation #17: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to establish policies and procedures to ensure that cash advances to sub grantees are only provided based on immediate disbursement requirements and that procedures are in place to minimize the time needed to expend these funds.

FEMA Response: FEMA concurs with this recommendation. As stated in FEMA's response to recommendation #13, FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes

OIG Recommendation #18: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency to require sub grantees to return funds advanced if not expended within 120 days of the advance being provided.

FEMA Response: FEMA concurs with this recommendation. As stated in FEMA's response to recommendation #13, FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the

Appendix B

FEMA Management Comments on the Draft Report

California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes.

OIG Recommendation #19: We recommend that the Assistant Administrator, Grant Programs Directorate, require the California Emergency Management Agency require subgrantees to track accrued interest on cash advances, remit the interest earned in accordance with requirements to FEMA, and report the interest earned on the Financial Status Reports.

FEMA Response: FEMA concurs with this recommendation. As stated in FEMA's response to recommendation #13, FEMA agrees with the findings in that grant funds must be expended in accordance with 44 CFR Part 13, OMB cost principles, and program guidance is critical to the success of our programs. Therefore, we recommend that the California EMA implement guidance, policies and processes to ensure the integrity of Federal assistance funds. FEMA will follow-up with the State within six months of the final report and request additional information on its progress updating guidance, policies and processes.

Additionally, GPD requested that OIG remove the example on page 33 of the draft report as the grantee was in compliance. At the time, language in FEMA's letter to the grantee indicated that interest payments should be made to the HHS instead of FEMA, as is now required.

Appendix C

State of California Management Comments on the Draft Report

ARNOLD SCHWARZENEGGER
GOVERNOR



Cal EMA
CALIFORNIA EMERGENCY
MANAGEMENT AGENCY

MATTHEW R. BETTENHAUSEN
SECRETARY

December 1, 2010

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

Dear Mr. O'Neill:

The California Emergency Management Agency (Cal EMA) has received and reviewed the draft audit report concerning Cal EMA's administration of the Urban Areas Security Initiative (UASI) grants awarded during fiscal years 2006 through 2008.

At Cal EMA, we strive for excellence in all that we do and appreciate your independent review of the administration of the UASI funds awarded by the Federal Emergency Management Agency to the State of California. Your review is of the utmost importance to us, our grant recipients, and other agencies tasked with enhancing the state and local agencies capabilities to prevent, deter, respond to, and recover from terrorist attacks, major disasters and other emergencies. We appreciate the opportunity to provide the status of our corrective action plan to the specific areas identified in the report and do so as follows:

Improved Program Results Reporting

Recommendation #1

Develop meaningful metrics for measuring program results, collect results measurement data from subrecipients, and include these metrics in Investment Justifications and program funding approval deliberations.

Cal EMA Response

We concur with this recommendation. We will work with the U.S. DHS/FEMA as needed to develop additional guidelines and/or performance measures regarding the UASI Investment Justification review process.

The FY 2006 Homeland Security Grant Program Guidance and Application Kit, does not state the State Administrative Agency (SAA) is responsible for scoring the Urban Areas Security Initiative Investment Justifications (IJs) during the funding approval deliberations. According to page 60 of the above referenced guidance, "An Investment Justification template will be provided to the States to facilitate the application submission process. States and Urban Areas

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Appendix C

State of California Management Comments on the Draft Report

Martin W. O'Neill
December 1, 2010
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will develop their own investments, the Urban Area investments must be included as part of the overall State application.” These materials were provided to the State by U.S. DHS/FEMA.

To ensure that performance goals are met and achieved for each project identified in the Financial Management Forms Workbook, we have updated our Site Visit Form to include a section for documenting progress made in achieving goals and objectives for each project. The Site Visit Form is referenced in our response to Recommendation #11 and provided as Attachment F. Additionally, the Homeland Security Grants Section (HSGS) is in the process of developing a plan to ensure regular programmatic site visits will occur in the future. The plan shall allow Branch and Section Chiefs to manage visits and track completion of all reports.

Increased Investment Oversight

Recommendation #2

Establish and apply a meaningful review process designed to disclose the value and utility of proposed equipment and systems during the Investment Justification review and the expenditure plan approval processes.

Cal EMA Response

We concur with this recommendation. As indicated in response #1, we will move forward with any meaningful review process of the Investment Justifications as directed by U.S. DHS/FEMA.

Based on the outcome of a working group convened by the former Governor's Office of Homeland Security (OHS) and comprised of a representative cross section of our subgrantees, wherein the resulting product was the Financial Management Forms Workbook (FMFW) currently in use today, we believe the FMFW is the appropriate means of authorizing and approving our subgrantee expenditures. This workbook is the basis of our subgrantee application, request for grant modification, equipment inventory, subgrantee budget, governing body approval, and the authorized agent verifications. We will consider incorporating into the FMFW, the kind of performance measures outlined in the Government Performance and Results Act as discussed on page 8 of the audit report.

Recommendation #3

Develop and disseminate guidance to California Urban Areas Security Initiatives specifying the importance of efficient and cost effective use of grant funds to improve first responder preparedness.

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Cal EMA Response

We concur with this recommendation. We will develop and disseminate guidance to the California UASIs and all subgrantees specifying the importance of efficient and cost effective use of grant funds to improve first responder preparedness.

We also conduct miscellaneous grant training workshops throughout the year, including grant application and fiscal management, and we will continue to instruct our subgrantees on the importance of the above. By the end of 2010, we will have conducted approximately 73 training workshops. (Attachment A) We will also place the training materials on our website where it will be easily accessible to our subgrantees and will distribute the materials during the December 2010 training workshops. Finally, we will utilize the UASI Quarterly Meetings as an additional resource for disseminating this information.

Delays in Awarding Grant Funding

Recommendation #4

In consultation with the Urban Areas Security Initiative managers, identify process changes to accelerate the grant award approval process to the Urban Areas Security Initiative subrecipients.

Cal EMA Response

We concur with this recommendation. We are in agreement with FEMA's Program Guidance for the FY 2008 Homeland Security Grant Program (HSGP), wherein FEMA strongly encourages the timely obligation of funds from local units of government to other subgrantees. It should be noted that Cal EMA consistently meets its 45-day (previously 60-day) timeline of passing through Homeland Security funds to the locals; however, we shall continue to work closely with our stakeholders to accelerate the award process as needed. We will also continue to emphasize the importance of expending funds in a timely fashion during our application workshops and fiscal management training sessions.

A majority of the UASIs are currently obligating funds from local governments to other subgrantees in a timely fashion. Unfortunately, the State of California's largest Urban Area, which also receives the largest UASI allocation, has regular difficulty in meeting this criteria. There is often a 12 – 16 month delay in receiving Board of Supervisors and Mayor's Office approval to move forward.

In an attempt to expedite this process, the Los Angeles/Long Beach (LA/LB) UASI has developed a monthly "Grant Stat" meeting wherein decision makers meet on a regular basis to ensure all funds are awarded and expended in a timely fashion. While this new focus of the LA/LB UASI is geared towards allocating the funds to local projects in a reasonable amount of time, the LA/LB UASI is still requesting grant extensions on a regular basis which prolongs the federal performance period for all the state's subgrantees.

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Recommendation #5

Establish a timeframe for the Urban Area to make grant funds available to subrecipients for future Urban Areas Security Initiative grants, consistent with the experience of other California Urban Areas Security Initiatives.

Cal EMA Response

We concur with this recommendation. As noted above, a majority of the California UASIs obligate funds from local governments to other subgrantees in a timely fashion. In coordination with Cal EMA, the UASIs shall work together to develop a reasonable timeframe and to share "best practices" during the UASI Quarterly Meetings in an attempt to streamline the allocation approval process from the local government entity.

Recommendation #6

Improve the oversight process for assuring Urban Areas Security Initiative compliance with the timeframes.

Cal EMA Response

We concur with this recommendation. Our program staff shall continue to improve the oversight process and will work with the UASI managers to ensure all timelines and deadlines are met by the UASI jurisdictions. Program staff is in daily contact with their respective subgrantees, and this constant communication between UASI managers and Cal EMA program staff can ensure that timelines are met or if an extension of the timeline is needed.

Sustaining Capabilities Without Federal Funding

Recommendation #7

Identify options for future funding plan for the State's Fusion Centers that would provide for the continuance of the Centers without long-term dependency on federal grant funding.

Cal EMA Response

We concur with this recommendation. We will identify options available for sustainment funding for Fusion Centers. The State of California, like many states across the nation, is in dire financial circumstances. Unfortunately, unless general or other funds are appropriated by the State Legislature, there is no active contingency plan in place to continue the Fusion Centers should homeland security funding be eliminated. We fully understand that the Homeland Security grants are not "entitlement" funding; however, we also acknowledge that the state will most likely be unable to sustain the Fusion Centers in the event funding be eliminated during annual federal appropriations. The sharing and dissemination of information is a state and

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national priority and the establishment of the Fusion Centers was a priority of U.S. DHS/FEMA as well.

Presently, sustainment costs are not allowed for Fusion Centers. This issue needs to be addressed at the national level, as the U.S. DHS/FEMA needs to gauge the importance of the Fusion Centers and the Homeland Security program as a whole. The state's limited resources are currently stretched to the breaking point, so any assistance from the federal level would be greatly appreciated.

Recommendation #8

Develop options identifying the long-term funding requirements for the interoperable public safety communications systems being initiated to include:

- Realistic assessments of state and local government resources available to complete and sustain these programs.
- Identification of federal financial support that may be necessary to complete and operate these systems, and
- Making the completion of this plan a condition of future grant funds approval for the programs.

Cal EMA Response

We concur with this recommendation. We will work with the UASIs to identify other options available for sustainment funding. We have also discussed with Urban Areas, who have adopted comprehensive plans to replace or significantly upgrade existing public service communication systems the importance of identifying the long-term funding requirements for the interoperable communication projects within their respective jurisdiction. At a minimum, these plans should include state and local commitments to sustain such costly and important investments if federal funds were to diminish or not be available.

Our program staff will continue to maintain day-to-day contact with the UASI managers to stay informed on such large-scale projects. We have requested milestone dates be established and met (as part of the original grant award letter), and the UASI is required to submit a milestone extension request should any of their goals not be met.

We will require the identification of long-term funding requirements be met before future grants are awarded; however, for those systems not expected to be operational until 2016 this may result in delayed funding to certain jurisdictions.

Recommendation #9

Require the subgrantee to address long-term sustainability in their proposals and applications for grant funding.

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Cal EMA Response

We concur with this recommendation. We will require subgrantees submit, along with their Financial Management Forms Workbook (FMFW), a narrative description outlining their long-term sustainability requirements for project(s) anticipated to extend past the federal performance period of that particular grant year. We will also review these plans and ensure they are reasonable long-term options for the proposed project.

Monitoring of UASI Recipients

Recommendation #10

Commit sufficient resources to establish and implement policies and procedures for annual on-site monitoring of Urban Areas Security Initiative grant recipients.

Cal EMA Response

We concur with this recommendation. Despite limited resources, and the fact that five percent (5%) management and administrative portion of the homeland security funding does not allow us to efficiently administer the federal grant programs, we have developed and implemented a subrecipient risk assessment program that allows for the fiscal and administrative monitoring of all grants during the grant award period through either limited or extended-scope field and/or desk reviews. All extended scope reviews are predicated upon a reimbursement made to the subrecipient. In addition, throughout the year the agency supplements its annual monitoring plan with a random selection of subrecipients to receive limited-scope payment reviews. This program ensures that we meet subrecipient monitoring requirements for all federal awards.

We have attached our agency's FY2010/11 Monitoring Plan (Attachment B), our Grants Monitoring Guide (Attachment C), and Chapter 7 of our Grants Manual on Assessing, Monitoring, and Mitigating Subrecipient Risk. (Attachment D)

Recommendation #11

Require that the on-site monitoring visits include evaluations of the recipients' overall management of the grants, including the progress made toward achievement of program goals.

Cal EMA Response

We concur with this recommendation. As noted above, the five percent (5%) management and administration allotment makes it difficult for us to efficiently administer the Homeland Security grants awarded to the State of California. Per the Office of Management and Budget (OMB) Circular A-133, Part 3-M, states that grantees are responsible for monitoring subgrantee use of federal awards through reporting, site visits, regular contact or other means. As mentioned above, the agency's on-site monitoring requirements are one way to meet this requirement.

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Although the state's limited resources make on-site visits difficult for program staff, we will continue to meet the OMB Circular requirement as indicated above by successfully submitting the Biannual Strategy Implementation Report (BSIR) in the Grants Reporting Tool (GRT), as well as regular contact with our subgrantees. Our Homeland Security Grant Section staff also submits a weekly status update to their supervisor describing the weekly activities of the subgrantees. (Attachment E)

Our Homeland Security Grants Section is in the process of developing a plan to ensure regular programmatic site visits occur. Program staff will conduct site visits with our subgrantees to meet, discuss, and document progress made towards achieving program objectives and goals. We have also updated the Site Visit Form to include the following: "For each project identified in the Financial Management Forms Workbook, how is your agency achieving the goals and objectives for this project." (Attachment F) We are implementing an Excel Spreadsheet Site Visit Schedule, which, as mentioned above, shall allow agency Branch Chiefs and Section Chiefs to manage visits and track completion of all reports.

The Grants Reporting Tool (GRT), FEMA's on-line reporting system for homeland security funding, previously tracked subgrantee progress by asking what percentage the subgrantee is completing projects. For example, had a project reached a twenty percent (20%) completion of project goals, forty percent (40%) completion of project goals, etc. The possibility of having FEMA reinstate this Module within the GRT may assist SAA's in determining whether subgrantees have achieved specified program goals.

Unreported and Unjustified Sole Source Procurements

Recommendation #12

Develop and provide to all Urban Areas Security Initiatives grant subgrantee managers, within 6 months of this report date, a comprehensive training program on State and federal regulations pertaining to competitive procurements.

Cal EMA Response

We concur with this recommendation. We will issue a Grant Management Memorandum (GMM) by December 31, 2010, outlining state, and federal regulations regarding competitive procurements. The GMM also offers another excellent opportunity to specify the importance of efficient and cost effective use of grant funds to improve first responder preparedness. Additionally, we will offer this training program during the Biannual Strategy Implementation Report (BSIR)/Financial Management Workshops scheduled for December 2010. Finally, we will include this information on our agency's website for future reference.

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Recommendation #13

Prepare, publish and disseminate a guide detailing procurement regulations for FEMA awards to all California municipal and county purchasing departments that are acquiring equipment or services with Homeland Security grant funds.

Cal EMA Response

We concur with this recommendation. The Code of Federal Regulations (CFR) Title 44 §13.36, provides uniform administrative requirements for grants and cooperative agreements awarded to state and local governments. These regulations direct the state and local governments to use their own procurement procedures, which reflect applicable state and local laws and regulations, provided the procedures conform at a minimum to applicable federal procurement regulations. We will provide to the UASI managers, as part of the Grants Management Memorandum mentioned in Recommendation #12 above, a guide detailing procurement regulations for FEMA awards for distribution to their respective municipal or county purchasing department.

We will address the subgrantee procurement requirements by requiring subgrantees to complete and submit a cost benefit analysis with the sole source request form. We have also developed procedures to ensure the HSGS program representatives review all sole source request forms for content and completeness. We will also follow-up with subgrantees for additional clarification when needed to ensure adequate justification is provided.

Additionally, we will continue to require the subgrantee to self-certify that all grant related purchases were competitive. The Monitoring Division, during desk reviews and on-site visits, will review the subrecipient procurement procedures to ensure they meet the minimum requirements as set forth in CFR 44.

Recommendation #14

Complete a review of all grant funded purchases exceeding \$100,000 to identify those made as sole source procurements and:

- Verify that State approval was obtained, sole source procurement was justified, and the price was documented as fair and reasonable,
- Disallow all procurements that fail to meet these requirements, and
- Freeze all procurements for Urban Area that has granted a waiver from using advertised procurements until it agrees to adhere to federal grant procurement requirements.

Cal EMA Response

We partially concur with this recommendation. Due to the level of time commitment and staff hours needed to handle this recommendation, we are unable to complete a review of all grant-funded purchases exceeding \$100,000 to identify those made as sole source procurements. Cal

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EMA divisions and branches are currently understaffed, and the present statewide "hiring freeze" prevents our agency from adding personnel to our agency. We will address the issue by revising our Request for Sole Source Procurement Authorization Form (Attachment G) to require a cost/benefit analysis be attached to the form.

Recommendation #15

For future grant years, disallow any procurement actions that are not in compliance with federal regulations.

Cal EMA Response

We concur with this recommendation. We will revise our Financial Management Forms Workbook (FMFW) reimbursement request to include the following, "Did this purchase exceed \$100,000 and did it involve a sole source procurement?" Additionally, we will develop a policy that enables program staff to disallow sole source requests not pre-approved by Cal EMA. It should be noted that the discussion of Sole Source Requests is included in "Section V: Procurement" of the Site Visit Form.

The Monitoring Division will also perform a random sampling of these reported purchases to ensure federal procurement guidelines were followed and the costs reimbursed were properly supported. Any costs identified by the Monitoring Division and/or program staff to be ineligible will be disallowed.

Internal Controls over Reimbursements

Recommendation #16

Strengthen internal controls over Urban Areas Security Initiative grant expenditure reimbursements for example, through reviews of purchase orders, invoices, and delivery receipts.

Cal EMA Response

We concur with this recommendation. To strengthen internal controls over grant expenditures, we are considering a sampling of source documentation prior to reimbursing subgrantees. A review and verification of a sampling of source documentation would provide adequate assurance that grant expenditures are allowable, allocable, authorized and consistent with federal, State and grant requirements.

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Management of Cash Advances

Recommendation #17

Establish policies and procedures to ensure that cash advances to subgrantees are only provided based on immediate disbursement requirements and that procedures are in place to minimize the time needed to expend these funds.

Cal EMA Response

Please see response to Recommendation #19 below.

Recommendation #18

Require subgrantees to return funds advanced if not expended within 120 days of the advance being provided.

Cal EMA Response

Please see response to Recommendation #19 below.

Recommendation #19

Require subgrantees to track accrued interest on cash advances, remit the interest earned in accordance with requirements to FEMA, and report the interest earned on the Financial Status Reports.

Cal EMA Response to Recommendation #17, #18 and #19

We concur with these recommendations. In April 2010, the Cal EMA Homeland Security Grants Processing (HSGP) Branch established the following procedures to ensure that all cash advances follow federal regulations:

- All subgrantees are notified via email when Cal EMA approves their cash advance request.
- Subgrantees are instructed to deposit cash advances into an interest bearing account.
- Cash advances must be expended within 120 days of receipt or the advance must be returned to Cal EMA.
- Subgrantees must track the interest earned on the cash advance.
- Any interest in excess of \$100 per year must be remitted at least quarterly to Cal EMA.
- Cal EMA will report the interest earned on the quarterly Financial Status Reports and remit to FEMA.

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When a subgrantee requests a cash advance, the amount and date of the cash advance is recorded in a log. A calendar reminder is set for 90 days from that date. At the 90-day reminder date, an e-mail is forwarded to the program specialist to contact the subgrantee to confirm that the cash advance was deposited into an interest bearing account and that the interest is being tracked. The program specialist also confirms that the cash advance will be expended prior to the 120-day time limit or be returned to Cal EMA. The subgrantee is responsible for remitting to Cal EMA any interest earned over \$100 per year. This procedure is verified during the site and/or monitoring process.

On behalf of Cal EMA, and our dedicated team, we thank you and the Department of Homeland Security, Office of Inspector General, for the review of the Urban Areas Security Initiative grant funds. We look forward to reviewing your final report and continuing our efforts to strive for the most effective, efficient and economical operations. If you have any questions, please feel free to contact my Chief of Staff, Helen Lopez at (916) 323-7615.

Sincerely,

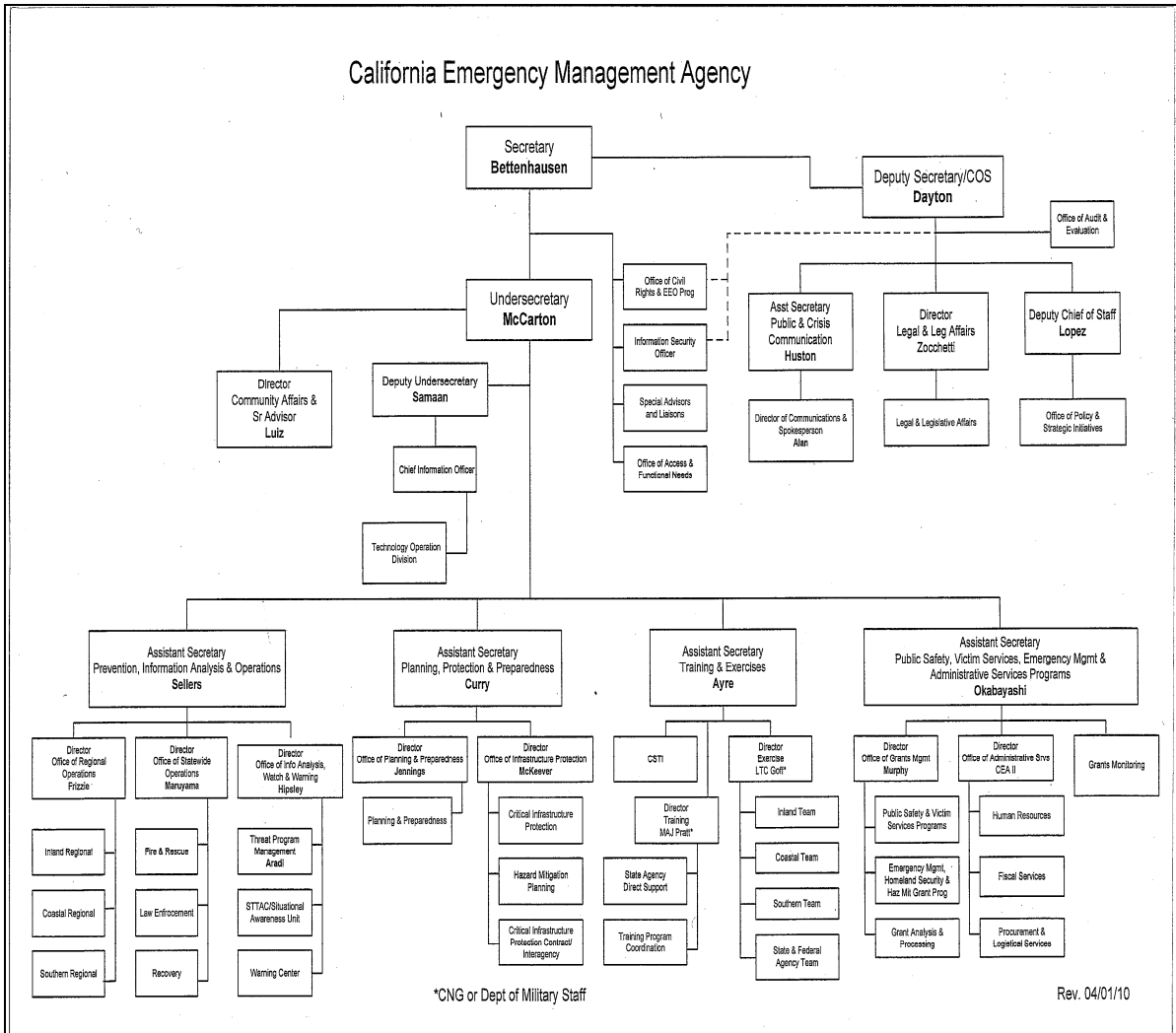


MATTHEW R. BETTENHAUSEN
Secretary

Enclosures

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Appendix D Organization Chart



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