

U.S. Department of Homeland Security
Eastern Region
Office of Emergency Management Oversight
10 Tenth Street, Suite 750
Atlanta, Georgia 30309



**Homeland
Security**

February 27, 2009

MEMORANDUM FOR: Jonathan Sarubbi, Regional Administrator
FEMA Region III

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *West Virginia Division of Homeland Security and
Emergency Management
Report No. DA-09-11*

We performed an audit of the West Virginia Division of Homeland Security and Emergency Management's (Division) administration of the Federal Emergency Management Agency's (FEMA) Public Assistance and Hazard Mitigation grant programs. The scope of our audit was limited to internal controls over subgrantee cash advances, cash disbursements, and monitoring. Our objective was to determine whether the Division's controls over such activities were adequate, and consistent with federal regulation requirements.

BACKGROUND

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, governs disasters declared by the President of the United States. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to the State, as the grantee, and to State agencies, local governments, Indian Tribal governments, and certain private non-profit organizations as subgrantees.

Under the Public Assistance (PA) Program, FEMA awards grants to assist state and local governments and certain private non-profit organizations to respond to and recover from disasters. The program provides assistance for debris removal, emergency protective measures, and repair, restoration, reconstruction, or replacement of infrastructure (such as public buildings, utility systems, and roadways). Under the Hazard Mitigation (HM) program, FEMA provides grants to states and local governments to implement long-term hazard mitigation measures after a major disaster declaration. A state's responsibilities for administering the PA and HM programs are established in 44 CFR 206.207 for PA and 44 CFR 206.437 for HM.

During years 2004 through 2006, the Division received FEMA funding from four disaster declarations and one emergency declaration. During this period, the Division expended \$71.3 million under the PA and HM programs, as follows:

Fiscal Year	Public Assistance	Hazard Mitigation	Total
2004	\$21,931,204	\$1,686,907	\$23,618,111
2005	25,462,545	3,919,848	29,382,393
2006	12,017,830	6,282,034	18,299,864
Total	\$59,411,579	\$11,888,789	\$71,300,368

METHODOLOGY

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We interviewed key Division officials and reviewed documents to gain an understanding of the Division's internal controls over subgrantee cash advances and disbursements, and monitoring activities. We also interviewed FEMA Region III staff, reviewed the results of a FEMA program review conducted in June 2007 on the Division's HM program activities, judgmentally selected samples of subgrantee payment and monitoring records, and performed other procedures we considered necessary under the circumstances.

Fieldwork was conducted from September through October 2007 at the Division's principal office in Charleston, West Virginia, and at FEMA's Regional office in Philadelphia, Pennsylvania.

RESULTS OF AUDIT

The Division's internal controls for processing cash advances and disbursements to subgrantees, and monitoring of subgrantee activities need to be strengthened.

1. **Cash Management.** Federal regulation (44 CFR 13.21) requires grantees to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the grantee or subgrantee. The purpose of this requirement is to minimize the cost of the use of money to the U.S. Government. In addition, the regulation requires that any interest earned on cash advances is promptly, but at least quarterly, remitted to FEMA.¹ We noted that the Division had made cash advances to subgrantees, but did not maintain procedures to ensure that the funds were expended timely or that any excess funding was promptly recovered and remitted to FEMA. For example, at the time of our fieldwork, FEMA Region III staff provided us with documentation that indicated \$2.7 million of cash advances to PA and HM subgrantees had not been identified and returned to FEMA in a timely manner.

¹ The subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Moreover, grantees are required to maintain effective internal controls to safeguard assets to ensure they are used solely for authorized purposes (44 CFR 13.20(b)(3)). The Division's payment processing policy for subgrantees was not documented or standardized for the PA and HM programs. According to Division officials, the Director verbally defined the payment processing policy in late 2006, which required three signatures before payments could be made. However, this procedure was not documented in a written policy and was not consistently followed. For example, we reviewed nine payment requests and found that eight of the requests did not include the required three signatures. Furthermore, we noted that the PA payment request form had only one signature line. Additionally, according to 44 CFR 206.207 (b)(iii)(I), the Division's PA administrative plan should include payment-processing procedures. However, we noted that the PA administrative plan did not include any payment-processing procedures. The Division's HM plan included payment-processing procedures, but it only required two signatures rather than the three signatures defined by the Director.

Subsequent to the exit conference, Division officials provided us with documentation that showed written policies and procedures had been implemented to ensure (1) cash reimbursements to subgrantees are fully documented with appropriate expenditure records, and that any advanced funds are expended in a timely manner, and (2) payment procedures have been standardized under the PA and HM programs to require three signatures before payment requests are processed.

We believe the action taken by the Division satisfactorily resolves the control deficiencies identified in this finding. Therefore, this finding contains no recommendation.

2. Subgrantee Monitoring. Federal regulation (44 CFR 13.40) requires grantees to manage the day-to-day operations of subgrant supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Effective procedures and practices for project monitoring are essential for ensuring (1) compliance with applicable federal requirements, (2) funds are used for authorized purposes, and (3) project goals are achieved.

According to the Division's PA and HM administrative plans, site visits will be conducted to monitor and inspect the progress of projects of subgrantees. However, according to Division officials, routine site visits are not performed due to lack of staffing and budget restraints. They said site visits were conducted only when there were indications of problems. We noted, however, the Division did not maintain documentation in applicant project files to indicate when the visit occurred or the status of the work to be completed.

Furthermore, the Division had not established procedures for ensuring that subgrantees take action to resolve audit findings related to FEMA-funded activities identified in A-133 (Single Audit Act) audit reports. According to Division officials, limited staffing prohibited them from ensuring that subgrantees take corrective actions to resolve the findings. Moreover, Division officials said that the subgrantees are solely responsible for ensuring corrective actions are taken on audit findings. However, U.S. Office of Management Budget Circular A-133 requires that grantees ensure subgrantees, expending \$500,000 or more in federal awards during the fiscal year, take corrective actions on audit findings within six months of the report date.

Subsequent to the exit conference, Division officials provided us with documentation that showed a subgrantee monitoring plan/site visit protocol had been implemented to monitor the progress of PA and HM projects. The plan includes requirements for periodic site visits and/or desk reviews, and includes a "subgrantee monitoring report" to assist in the completion of all required tasks. Additionally, the Division has developed procedures for periodically reviewing A-133 subgrant audit reports to ensure that appropriate corrective action is taken to timely resolve any audit findings identified in the reports.

We believe the action taken by the Division satisfactorily resolves the control deficiencies identified in this finding. Therefore, this finding contains no recommendation.

MANAGEMENT DISCUSSION AND AUDIT FOLLOW-UP

We discussed the results of our review with FEMA and Division officials on January 8, 2009. Division officials concurred with our findings. As discussed in the body of this report, subsequent to the exit conference, Division officials submitted evidence that satisfactorily resolved the findings identified in this report. Because this report contains no recommendations, a response is not necessary.

Should you have any questions concerning this report, please contact me at (404) 832-6702. Key contributors to this assignment were Marvin Burr, Mary Stoneham, and Kelli Burkewitz.

cc: Audit Liaison, FEMA Region III
Audit Liaison, FEMA