

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**State of Arizona's Administration of  
the Fire Management Assistance Grant Program  
for the Aspen Fire**



**DS-08-06**

**September 2008**

*Office of Inspector General  
Office of Emergency Management Oversight*

**U.S. Department of Homeland Security**  
300 Frank H. Ogawa Plaza, Ste. 275  
Oakland, California 94612



**Homeland  
Security**


September 22, 2008

Preface

The U.S. 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 audits, inspections, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of Arizona's Administration of the Fire Management Assistance Grant Program for the Aspen Fire. We contracted with the independent public accounting firm of Williams, Adley & Company, LLP to perform the audit. The contract required that Williams, Adley & Company, LLP perform its audit according to generally accepted government auditing standards and guidance from the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Title 44 of the Code of Federal Regulations, and the Office of Management and Budget. Williams, Adley & Company, LLP reported two areas in which the State of Arizona's administration of the Fire Management Assistance Grant Program could be improved. The report contains five recommendations addressed to the Regional Administrator, Federal Emergency Management Agency, Region IX.

Williams, Adley & Company, LLP is responsible for the attached auditor's report dated August 29, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that 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.

  
Robert J. Lastrico  
Western Regional Director



August 29, 2008

Western Regional Director  
Office of Emergency Management Oversight  
Office of Inspector General  
U.S. Department of Homeland Security  
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Williams, Adley & Company, LLP performed an audit of the State of Arizona's management of the Federal Emergency Management Agency's funds awarded under the Fire Management Assistance Grant Program. The audit was performed in accordance with our Task Order TPD-ARC-BPA-07-0014 dated September 27, 2007.

This report presents the results of the audit and includes recommendations to help improve management of the audited Fire Management Assistance Grant Program.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, July 2007 revision. Although the audit report comments on costs claimed by the State of Arizona, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the State of Arizona's financial statements or the funds claimed in the Financial Status Reports submitted to the Federal Emergency Management Agency.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of further assistance, please call me on (202) 371-1397.

Sincerely,

Williams, Adley & Company, LLP

A handwritten signature in black ink that reads 'Charbet M. Duckett'.

Charbet Duckett  
Partner

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## Abbreviations

ASLD	Arizona State Land Department
CFR	Code of Federal Regulations
DHS	U.S. Department of Homeland Security
FEMA	Federal Emergency Management Agency
FMAG	Fire Management Assistance Grant
GAR	Governor's Authorized Representative
OIG	Office of Inspector General
PW	Project Worksheet

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## Executive Summary

Williams, Adley & Company, LLP audited the State of Arizona's (the state) administration of the Fire Management Assistance Grant Program (FMAG) Program for the Aspen Fire (FMAG Declaration 2470). The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with the Federal Emergency Management Agency (FEMA) and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

On July 17, 2003, FEMA Region IX awarded \$2,312,992 under FMAG Declaration 2470 to the Arizona State Land Department (ASLD). FEMA programmatically closed this declaration on February 22, 2007. Although the scope of this engagement included an audit of the costs reimbursed under the grant, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the state's financial statements or the funds claimed in the financial status reports submitted to FEMA.

ASLD administered the FMAG Program effectively and efficiently but did not always comply with federal laws and FEMA guidelines. Specifically, the state: (1) claimed \$26,832 in costs that were not supported; (2) did not complete the grant application correctly; (3) submitted administrative costs after approved time extensions; (4) did not submit financial status reports on at least an annual basis; and (5) did not have written FMAG accounting policies and procedures.

We recommend that the Regional Administrator, FEMA Region IX: (1) disallow \$26,832 in unsupported costs and require the grantee to comply with record retention regulations; (2) provide additional training to the state on the proper completion of the FMAG application; (3) provide additional training to the state regarding FMAG grant submission requirements; (4) require the state to comply with the annual financial reporting requirements; and (5) work with the state to develop complete, written FMAG related accounting procedures.

We held an exit conference with FEMA Region IX and the ASLD, Forestry Division on July 15, 2008. FEMA and the state concurred with our findings and recommendations. A synopsis of the verbal comments we received is included in the Results of Audit section of this report.

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## **Background**

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, (Stafford Act), signed into law November 23, 1988, authorizes the President to provide federal funds to state and local governments under the FMAG Program for mitigation, management, and control of any fire burning on public or private forestland or grassland. The FMAG Program replaced the Fire Suppression Assistance Program on October 30, 2001. Title 44, Code of Federal Regulations (44 CFR), Part 204 provides procedures for the declaration and grants management processes for the FMAG Program and details applicant eligibility and the eligibility of costs to be considered under the program.

### **Declaration Process**

A declaration request must be submitted while a fire is burning uncontrolled and threatens such destruction as would constitute a major disaster. The Governor or the Governor's Authorized Representative (GAR) is authorized to submit requests to the FEMA Regional Administrator or Regional Fire Duty Liaison for fire management declarations. Due to the magnitude and impact of a fire, the Governor or GAR can expedite the process by verbally requesting the declaration but must follow-up promptly after the date of an initial telephone request with all official forms and written information.

Upon declaration approval by FEMA, the Governor or GAR will enter into a standing FEMA/State Agreement (the Agreement) for the declared fire and for future declared fires in that calendar year. The state must have a current and signed Agreement before receiving federal funding under the FMAG Program. The Agreement states the understandings, commitments, and conditions under which FEMA will provide federal assistance, including the 75% federal and 25% non-federal cost share provision and articles of agreement necessary for the administration of the grants. The Agreement must identify the state legislative authority for firefighting, as well as the state's compliance with the laws, regulations, and other provisions applicable to the FMAG Program.

### **Grant Application and Reimbursement Process**

Following a declaration, the state is required to submit a grant application package to the FEMA Regional Administrator within 9 months of the declaration. The Regional Administrator may grant an extension of up to 3 months, upon receipt of a written request from the state that includes the justification for an extension. The grantee must document the total eligible costs for a declared fire on Project Worksheets (PWs), which are submitted with the grant application. The Regional Administrator has 45 days from the receipt of the state's initial grant application, or an amendment to the state's

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grant application, to approve or deny the application package or amendment or to notify the state of a delay.

By submitting PWs, the grantee certifies that all reported costs were incurred for work that was performed in compliance with laws, federal regulations, and FMAG Program policy and guidance, as well as the terms and conditions outlined in the FMAG Program FEMA/State Agreement. Upon approval of the grant application, FEMA obligates funds after determining that: (1) the state's eligible costs meet or exceed the individual or cumulative fire cost thresholds; and (2) the state has up-to-date State Administrative and Hazard Mitigation Plans approved by the Regional Administrator.

Subgrantee requests for FMAG Program funding are submitted on a Request for Fire Management Assistance Subgrant (FEMA Form 90-133) to the grantee according to state procedures and within timelines set by the grantee, but no later than 30 days after the close of the incident period. The grantee will review and forward the request to the Regional Administrator for final review and determination.

## **Results of Audit**

ASLD administered the FMAG Program in an efficient and effective manner. ASLD properly coordinated and communicated with FEMA, and generally accounted for and maintained adequate documentation for the \$2,312,992 in FMAG program expenditures made in all material respects. However, ASLD did not always comply with federal laws and FEMA guidelines based on the following exceptions.

### **Project Worksheets Supporting Documentation**

ASLD did not accurately review or retain supporting documentation resulting in \$26,832 in ineligible costs. The supporting documentation deficiencies include the following:

- No documentation to verify the hourly rates for personnel from vendor fire departments.
- Unsupported U.S. Forest Service personnel cost.
- Commingled regular hours and overtime hours for personnel cost.
- Missing timesheet support for employee billing, per diem lodging, and cell phone bill reimbursement.

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- Hotel room charges in excess of the approved lodging per diem for Phoenix, AZ.
  - Missing shift ticket for equipment cost.
  - Underpayment of an invoice amount to a county emergency management office (this cost is an offset to ineligible costs).
  - Transactions occurring after the incident period.

The following criteria pertain to the unsupported costs listed above:

Title 44, Code of Federal Regulations, Section 13.42(a) [44 CFR 13.42(a)], *Retention and Access Requirements for Records*, provides guidance on records retention of grant documentation applicable to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) otherwise reasonably considered as pertinent to program regulations or the grant agreement. According to 44 CFR 13.42(b) and (c), *Length of retention period* and *Starting date of retention period*, except as otherwise provided, records must be retained for 3 years from the date the grantee submits its final expenditure report; or if any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3 year period, the records must be retained until completion of the action.

Ineligible costs described in 44 CFR 204.43(c) include costs for the straight or regular time salaries and benefits of a subgrantee's permanently employed or reassigned personnel.

According to 44 CFR 13.20(b)(6), grantees and subgrantees are required to support accounting records with source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

The Governor's Wildland Fire Emergency Fund Rules, Rule 1012, *Retention and Audit of Records*, requires the claimant and its subcontractors to keep all records pertaining to the grant claim for 5 years from the date of final settlement and that these records should be available for inspection and audit.

ASLD was not compliant with its own rules and was unable to provide documentation to support that they had received approval from FEMA Region IX for these expenditures, and FEMA Region IX grant files did not contain information to indicate why these unallowable costs were reimbursed.



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## Recommendations

We recommend that the Regional Administrator, FEMA Region IX:

**Recommendation #1.** Disallow unsupported costs totaling \$26,832 and require the grantee to comply with FMAG regulations that pertain to records retention of supporting documentation.

## Management Comments

ASLD and FEMA concurred that some costs did not have adequate documentation. However, extenuating circumstances beyond ASLD's control impacted its ability to fully comply with the requirements. For example, ASLD has limited enforcement tools to require local fire departments to provide detailed payroll information. Also, ASLD has little control over subgrantees' equipment repair costs if equipment damage occurs during the incident but billings occur after the incident.

FEMA said that some costs that were charged after the incident period were for eligible work that occurred during the incident period and suggested that ASLD review the ineligible costs we reported to verify eligibility. FEMA also said that if the ineligible costs were determined to be insignificant after ASLD's review, it may be beneficial to allow these costs rather than to incur additional administrative costs to adjust the approved funding for this closed fire. FEMA agreed that the ASLD should comply with records retention requirements for supporting documentation and that ASLD's review of costs could be used only for instructive purposes on future FMAG program grant applications.

## Compliance with FMAG Program Requirements

ASLD did not fully comply with grant application, financial reporting, and accounting policies and procedures requirements of 44 CFR. These requirements are all established within the regulatory guidance referenced in the FMAG agreement between FEMA and the state. Specific instances of non-compliance are discussed below.

- The performance period ending date on the grant application was left blank. 44 CFR 204.3 defines the performance period as, "the time interval designated in block 13 on the Application for Federal Assistance (Standard Form 424) for the Grantee and all subgrantees to submit eligible costs and have those costs processed, obligated, and closed out by FEMA." According to 44 CFR 204.64, "Within 90-days of the Performance Period expiration date, the state will submit a final Financial Status Report (FEMA Form 20-10), which reports all costs

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incurred within the incident period and all administrative costs incurred within the performance period.”

- A written time extension request for submission of PWs for the administrative costs from the grantee was not submitted to or requested by FEMA. According to 44 CFR 204.51(a)(2), the state should submit its grant application within 9 months of the declaration and upon receipt of a written request and justification for an extension, the Regional Administrator may grant up to an additional 3 months for submission of the PWs.
- PWs documenting total eligible costs for a declared fire were not submitted with the grant application as required by 44 CFR 204.51(b)(4).
- Annual financial status reports required by 44 CFR 13.41(b)(3) were not submitted and no waiver of the financial reporting requirements was provided.
- The state had no written procedures to outline the funds management and financial reporting process for the FMAG. According to 44 CFR 13.20(a), the state must expend and account for grant funds according to state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit the state to: (1) prepare reports required by the CFR and the statutes authorizing the grant, and (2) trace funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Under 44 CFR 13.20(b)(3), effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

These conditions occurred because the grantee was generally not aware of how to complete the application form. Furthermore, according to FEMA, the program was new and the state was not fully aware of the submission requirements. Written procedures were not maintained because the ASLD employees responsible for monitoring and processing FMAG expenditures had been involved in performing these tasks for many years and knew the system and procedures required to properly administer the grant funds.

FEMA Region IX contributed to these instances on non-compliance by not thoroughly reviewing the documentation submitted by the state and by accepting the incomplete application. In addition, the FEMA Emergency Management Program Specialist said that annual reporting was not required because the grant period was normally less than 1 year, and the grantee may

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not have financial information upon which to report until grant close out. However, the regulations require annual financial reporting of grant funded activities as a minimum standard to ensure that fund usage is being monitored and that fund expenditures will be made within the stipulated performance period.

As previously said, the performance period was not established, and therefore, FEMA did not have a date upon which to define the 90-day submission timeframe for submitting a final financial status report (Form 20-10). FEMA did not receive the final PW from the grantee until July 27, 2006, or 3 years after the incident period ended. As a result of the submission deficiencies, FEMA could have denied acceptance of the administrative costs because they were submitted beyond all approved time extension periods. FEMA also could have denied other costs since the PWs were not submitted with the grant application, or amended grant application, as required. Without submitting the annual financial reports, FEMA cannot be reasonably assured that the grantee is properly monitoring or expending grant funds within the performance period. Because written procedures were not available, new employees would not have sufficient knowledge or information to properly process FMAG funds or report on the use of such funds. Also, by not having written procedures, the grantee does not have effective or efficient controls in place to ensure that its accounting and financial reporting processes are in full compliance with the grant requirements.

## **Recommendations**

We recommend that the FEMA Regional Administrator, Region IX:

**Recommendation #2.** Provide additional training to the state on the proper completion of the FMAG application and ensure that the grant application form is completed in its entirety and reviewed for full compliance with the FMAG regulations.

**Recommendation #3.** Provide additional training to the state regarding FMAG grant submission requirements, including time extension requests and PW submissions, and ensure that these requirements have been met via review of the grant application or amended grant application, as applicable.

**Recommendation #4.** Require the state to comply with the annual financial reporting requirements as stipulated in the regulations for federally-issued grants to state and local governments.

**Recommendation #5.** Work with the state to develop written policies and procedures pertaining to funds management and financial reporting as a best practice to ensure effective internal controls.

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## Management Comments

Recommendation #2 – FEMA concurred but believes the current annual training provided by the Regional Office is sufficient and addresses the discrepancies we identified for the Aspen Fire that occurred in 2003. Also, the Standard Form 424 is now being submitted by the grantee with the project worksheets and not as they did for the Aspen Fire with only estimated costs. However, with FEMA's implementation of the Emergency Management Mission Integrated Environment, grantees will now have to submit a Standard Form 424 soon after the FMAG program declaration when only estimates are available and not all costs are compiled on PWs. FEMA agrees that when PWs are ready, incomplete applications submitted to FEMA should be held until complete or corrections are made.

Recommendation #3 - FEMA concurred that continued training in grant submission requirements is appropriate and it will work closely with the ASLD to ensure that its grant application deadlines are met.

Recommendation #4 – FEMA concurs that the reporting requirement included in the 44 CFR 204.64 Final Rule is that a final financial status report be submitted within 90-days of the performance period expiration date. In addition, FEMA recognizes that there is an annual financial reporting requirement for all type grants. However, for those FMAG grants that close within the year opened FEMA will not require more than an annual financial status report for the FMAG program. FEMA will set a date when the financial status report should be submitted. FEMA will allow the use of the Standard Form 269 for the annual financial status report.

Recommendation #5 - FEMA concurs that the state's FMAG program Administrative Plan could include more information about policies and procedures pertaining to funds management and financial reporting. The state could perhaps attach that information as an addendum to their FMAG program Administrative Plan. If these policies and procedures are not written FEMA agrees that they should be. The FEMA Regional FMAG program staff would ask that the Regional Grant Administration staff review these policies and procedures to ensure that there are effective internal controls.

### **Objective**

The objective of the audit was to determine whether the state entity administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with FEMA and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds.

We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to nor expressed an opinion on the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements according to 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.

### **Scope**

We audited the Aspen Fire (FMAG Declaration 2470) that was awarded by FEMA to the state based on a grant application dated July 17, 2003. The grant, totaling \$2,312,992, was closed on February 22, 2007.<sup>1</sup> This FEMA grant award was selected for review because the award was significantly higher than other fire declarations within the same FEMA Region. ASLD administered the FMAG Program.

### **Methodology**

We performed fieldwork at FEMA Region IX and ASLD. The state did not have subgrantees under the grant. To obtain an understanding of the grant procedures, we reviewed FEMA regulations, the Stafford Act as amended, pertinent sections of Title 44 of the CFR, and Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

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<sup>1</sup> FMAG Programs are considered programmatically closed if all work has been completed and final costs submitted to FEMA have been obligated.


To achieve the objectives of this audit, we:

- 1) Interviewed FEMA and state personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their causes;
- 2) Reviewed grant files to determine whether sufficient documentation was present to support proper administration of the grant;
- 3) Reviewed the state's internal controls over accounting for grants to ensure that the state properly recorded and reported grant expenditures;
- 4) Reviewed a statistical sample of project worksheets to determine whether grant monies were spent according to laws and regulations. We used appropriate formulas to develop a variable sampling approach coupled with the risk model promulgated by the American Institute of Certified Public Accountants.
- 5) Reviewed prior audit reports to determine whether deficiencies had been noted in the reports with respect to the state's administration of the FMAG Program or internal controls over grant fund accounting.

We conducted the audit by executing tests, conducting interviews, making observations, and examining documentation in the following areas:

1. Applicant Eligibility
2. Cost Eligibility
3. Procurement
4. Grantee's Accounting System and Internal Controls
5. Project Worksheet Review
6. Grant Reporting

We conducted our audit between January and April 2008 and performed our work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States (July 2007 Revision).



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