



Department of Homeland Security Office of Inspector General

Consolidated Report on DHS' Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding





Homeland
Security

July 8, 2009

Preface

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

This report presents the consolidated results of our reviews of DHS' management of mission assignment funding from the Federal Emergency Management Agency to the U.S. Customs and Border Protection, U.S. Coast Guard, U.S. Immigration and Customs Enforcement, and National Communications System. It addresses these agencies' strengths and weaknesses in the management of mission assignments for the 2005 Gulf Coast Hurricanes disaster relief efforts. The underlying reports of these component agencies, which have resulted in this consolidated report, are based on interviews with employees and officials of relevant agencies and institutions, direct observations, and reviews of applicable documents.

We contracted with the independent public accounting firm of Regis & Associates, PC to perform the reviews. The contract required that Regis & Associates, PC perform its reviews according to guidance from the Office of Management and Budget and the Government Accountability Office. In the underlying reports of the component agencies, Regis & Associates, PC identified areas where each agency's management of the mission assignments and funds could be improved. In addition, they have identified five areas where action at the department level could improve the management of mission assignments by its component agencies. Specifically, DHS needs to: (1) establish procurement and contract monitoring standards; (2) enforce compliance with funds control policy and procedures; (3) establish documentation standards and a retention policy; (4) establish a uniform policy for managing accountable property; and (5) establish standards for reimbursement billing processes. Regis & Associates, PC, is responsible for the attached independent accountants' report and the conclusions expressed therein.

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 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.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General

Independent Accountants' Report on Applying Agreed Upon Procedures

Office of Inspector General
U.S. Department of Homeland Security
Washington, D.C.

We have performed certain agreed-upon procedures (the Procedures), as summarized in the Objectives, Scope, and Methodology section of this report, related to mission assignment funding to the U.S. Customs and Border Protection, U.S. Coast Guard, U.S. Immigration and Customs Enforcement, and the National Communications System. These funds were allocated to the DHS component agencies by the Federal Emergency Management Agency (FEMA) for the 2005 Gulf Coast Hurricanes. This engagement consisted of reviewing selected management activities for mission assignments issued through March 31, 2006 to these agencies for hurricanes Katrina (August 2005), Rita (September 2005), and Wilma (October 2005).

The Procedures, which were agreed to by the Department of Homeland Security Office of Inspector General, Office of Emergency Management Oversight, were performed to examine the expenditures made in executing the mission assignments, and to evaluate the management of the mission assignment process from origination to closeout.

This agreed-upon procedures engagement was performed according to standards established by the American Institute of Certified Public Accountants, and guidance from the Office of Management and Budget and the Government Accountability Office. The sufficiency of the Procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the Procedures, either for the purpose for which this report has been requested, or for any other purpose. Our test procedures revealed department-wide internal control weaknesses in five areas. These findings and the associated recommendations are presented in the Results of Review section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Homeland Security Office of Inspector General, Office of Emergency Management Oversight, and should not be used by those who have not agreed to the Procedures and taken responsibility for the sufficiency of the Procedures for their purposes.

Regis & Associates, PC

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Abbreviations

CBP	U.S. Customs and Border Protection
DHS	U.S. Department of Homeland Security
FEMA	Federal Emergency Management Agency
FPS	Office of Federal Protective Service
GAO	Government Accountability Office
ICE	U.S. Immigration and Customs Enforcement
MRE	Meal Ready-to-Eat
NCS	National Communications System
OIG	Office of Inspector General
OMB	Office of Management and Budget

Executive Summary

Regis & Associates, PC, under contract with the U.S. Department of Homeland Security Office of Inspector General, reviewed the management processes and internal controls of the department's agencies charged with implementing Federal Emergency Management Agency (FEMA)-issued mission assignments related to the 2005 Gulf Coast Hurricanes disaster relief efforts. These agencies include the U.S. Customs and Border Protection, U.S. Coast Guard, U.S. Immigration and Customs Enforcement, and the National Communications System. These four entities received more than 99% of the total funds assigned through mission assignments to DHS as a whole. They were charged with carrying out a total of 167 mission assignments, primarily for safety and protection services in the affected areas at costs authorized up to a total of \$754.6 million. Our objective was to determine whether these component agencies had properly designed and implemented management processes and internal controls over the funds each received for the specific mission assignments.

This report presents findings that are systemic in nature across the component agencies we reviewed, and makes recommendations for improving the management of mission assignments and the related funding. There are five areas of control weaknesses that need to be addressed:

- Procurement and contract monitoring standards;
- Funds control and accounting for transactions;
- Obtaining and retaining appropriate documentation to support expenditures for FEMA reimbursement;
- Accountability for property; and
- Reimbursement billing processes.

In general, the control weaknesses were at least partially related to lack of preparedness to address mission assignments of the magnitude demanded by the 2005 Gulf Coast Hurricanes. Although shortages of personnel resources were often cited, in many cases, the problems emanated primarily from failure to follow what should have been institutional controls over the types of activities called for by the mission assignments. An important aspect of these preparation issues is that weakness in one area often affects performance in others.

The *National Response Plan*, which was revised and renamed the National Response Framework in January 2008, called for all primary and designated supporting agencies to plan for, and be ready to respond to, disasters caused by terrorist actions, weather phenomena, or other factors. Effective planning could have had procurement authorities identified and procurement instruments in place to allow for expedient and economical purchases. Instead, emergency procurements cost more than necessary, delays were encountered in completing contracts, and there were differences in contracting approaches and provisions for the same services.

Two of the four component agencies did not use the funds control features of their financial management systems. They used automated spreadsheets to record obligations and use of funds. This information was subsequently transferred to the financial management systems. In addition to loss of budgetary control, the detailed data needed for FEMA reimbursement was not provided.

All four component agencies had documentation difficulties, and several still have not provided the information required to be reimbursed for costs incurred under the mission assignments. All of the four agencies had documentation and accountability weaknesses in property acquisitions.

We are recommending that the department (1) ensure its component agencies prepare more effectively for participation in future disaster response activities and (2) address the five internal control weaknesses identified in this report.

Background

On November 25, 2002, the President signed the *Homeland Security Act of 2002* (*Homeland Security Act*) establishing the United States Department of Homeland Security (DHS), effective March 1, 2003. The *Homeland Security Act* combined 22 federal agencies and programs into one department, including the following major programs, bureaus, and agencies: Federal Emergency Management Agency (FEMA); Transportation Security Administration and the U.S. Coast Guard from the Department of Transportation; U.S. Customs Service and U.S. Secret Service from the Department of the Treasury; U.S. Immigration and Naturalization Service and Office of Domestic Preparedness from the U.S. Department of Justice; and the National Communications System from the U.S. Department of Defense.

The *Homeland Security Act* and other Presidential directives established a new, unified, all-hazards framework and plan for future responses to terrorism, natural disasters, special events, and emergencies. This plan, referred to as the *National Response Plan*, revised and renamed the National Response Framework in January 2008, establishes a comprehensive all-hazards approach to enhance the ability of the United States to manage domestic incidents. The *National Response Plan* incorporates best practices and procedures from incident management disciplines such as emergency management, law enforcement, firefighting, public works, public health, responder and recovery worker health and safety, and emergency medical assistance, and integrates them into a unified structure. It forms the basis of how the federal government coordinates with state, local, and tribal governments and the private sector during incidents, and establishes lead agencies for many different aspects of possible disaster response.

FEMA is responsible for coordination of efforts under the *National Response Plan*. FEMA works in partnership with other organizations that are part of the Nation's emergency management system, including state and local emergency management agencies, 27 federal agencies, and the American Red Cross. The *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (*Stafford Act*) is the statutory authority for most federal disaster response activities, especially as they pertain to FEMA and FEMA programs. FEMA is authorized to task other federal agencies, including components within Homeland Security, with needed expertise to carry out specific disaster relief activities beyond their usual authorities and resources.

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast states of Florida, Alabama, Mississippi, and Louisiana with Category Three winds and torrential rains. By September 9, 2005, Congress passed legislation that provided over \$63 billion to DHS for disaster relief. In the aftermath of the Gulf Coast Hurricanes, FEMA issued 167 mission assignments amounting to \$754.6 million to U.S. Customs and Border Protection (CBP), U.S. Coast Guard (Coast Guard), U.S. Immigration and Customs Enforcement (ICE), and National Communications System (NCS) to provide search and rescue activities, law enforcement, air support, safety and protection services, and telecommunications activities during hurricane relief efforts. Under the provisions of the *Stafford Act*, agencies and other entities that FEMA tasks for assistance are authorized to seek reimbursement from FEMA for eligible costs incurred during the performance of assigned missions.

Created in March 2003, ICE is the largest investigative branch of DHS. The agency was created by combining the law enforcement arms of the former United States Immigration and Naturalization Service and the former United States Customs Service to help enforce immigration and customs laws and to protect against terrorist attacks. ICE operates with a workforce of nearly 15,000 personnel, including four law enforcement divisions and several support divisions. Most of the funds provided to it for disaster assistance were for providing security services in the disaster area to protect property and preclude looting.

CBP is an entity within DHS that includes the former responsibilities of the United States Customs Service, the United States Border Patrol, and the inspectional functions of the United States Immigration and Naturalization Service and the United States Department of Agriculture's Animal and Plant Health Inspection Service. Under the *National Response Plan*, CBP has a role in situations where state and local government resources are overwhelmed or are inadequate, or in pre-incident or post-incident situations that require protective solutions or capabilities unique to the Federal Government. CPB had a variety of roles in the 2005 Gulf Coast response, including: providing support services for disaster response forces and security services for the early evacuation efforts; providing life support and first aid to Gulf Coast residents affected by the hurricanes; partnering with FEMA to deliver food and medical supplies; using its aircraft to shuttle rescue workers, doctors, and FEMA authorities to the affected areas; providing aerial views of the extensive damage on the ground; and serving as the primary air traffic control agent.

Coast Guard is responsible for performing a variety of homeland and non-homeland security missions, including ensuring security in territorial and international waters, and within U.S. ports; conducting search and rescue; interdicting illegal drug shipments and illegal aliens; enforcing fisheries laws; ensuring the safety and facilitation of commerce; and responding to reports of marine pollution. Coast Guard's authority under federal law to conduct maritime operations, such as search and rescue and port security, is continuously in effect, rather than dependent upon a presidential *Stafford Act* declaration or the implementation of the *National Response Plan*. This ongoing authority uniquely positioned Coast Guard to respond to Hurricane Katrina before the President made emergency or major disaster declarations under the *Stafford Act*. Concurrent with the Coast Guard's historical missions and authorities, the *National Response Plan* identifies the Coast Guard as a primary agency in the oil and hazardous materials response and the support agency in six other emergency support functions, including urban search and rescue and aspects of clearing waterways. Coast Guard had a primary role in arranging for the removal of the extensive debris and sunken craft in the navigable waters in the disaster area.

NCS was established during the 1960s to link, improve, and extend communications facilities and components of various federal agencies. With the inception of DHS in 2003, NCS was transferred from the Department of Defense to DHS' Information Analysis and Infrastructure Protection Directorate, and in 2005, was internally shifted to the Directorate for Preparedness. In 2007, portions of the Directorate for Preparedness were consolidated into the new National Protection and Programs Directorate (National Protection and Programs). NCS plays an important role in assisting the federal executive branch in managing telecommunications functions and responsibilities, and in coordinating the planning and provision for national security and emergency preparedness

communications. In the aftermath of the 2005 Gulf Coast Hurricanes, NCS coordinated restoration and preservation of emergency communication capabilities in the affected areas.

Results of Reviews

We assessed the internal control environment used to administer mission assigned tasks and funding, and reported on the results of our tests to evaluate mission assignment procurements, expenditures, and supporting documentation for reimbursement billings in each of the four DHS component agencies that received 2005 Gulf Coast Hurricanes mission assignments.

We interviewed component agency management staff, reviewed terms and conditions of the mission assignments, conducted extensive testing of transactions to assess initial preparedness to implement the mission assignments; and assessed budgetary control and financial management systems support available and used. We compared conformity of outlays with the mission assignments; and evaluated controls in place over receipt, acceptance and payments for goods and services procured, asset accountability, and assessed validity and support for reimbursement claims to FEMA.

The basis for our test work was a detailed list of all mission assignment obligation, expenditure, and reimbursement billing transaction activity through March 31, 2006. For each aspect of our testing, we selected transactions that would allow us to cover a large percentage of the dollars involved. Because our work was based on a combination of high-dollar and judgmental sampling, the results are not statistically representative. However, due to the high dollar coverage obtained and the types of internal control issues discussed throughout this and the underlying reports, we believe that our test results reflect the management challenges faced by DHS agencies. Appendix A in each of the underlying reports includes additional details on our objectives, scope, and methodology for each of the reviews.

This report presents findings that are systemic in nature across the four DHS component agencies, and makes recommendations to the department for improving the management of mission assignments and the related funding. Our results are presented sequentially, as the component agencies would have progressed in planning and administration of mission assignments, starting with organizing the effort and ending with steps for obtaining reimbursement for costs incurred on FEMA's behalf.

The *National Response Plan*, which heads of all major federal agencies signed during the fall of 2004, called for all primary and designated supporting agencies to plan for and be ready to respond to disasters caused by terrorist actions, weather phenomena, or other factors. While the magnitude of the 2005 Gulf Coast Hurricane disaster was unprecedented, the four agencies were, to varying degrees, not ready to expeditiously implement the basic managerial controls contemplated by the *National Response Plan*. To their credit, several agencies recognized shortfalls in their administration of selected aspects of mission assignment management, and have conducted after-action analyses and proposed improvements that would address some of the financial management weaknesses we identified. These agency efforts were conducted in the same timeframes as our reviews. Accordingly, we did not determine the extent to which these initiatives would, if implemented, resolve the internal control weaknesses we identified and discussed below.

A. Procurement and Contract Monitoring Standards Across Component Agencies

CBP, ICE, and NCS were not initially prepared to acquire goods and services in support of mission assignments. CBP compensated by using emergency procurement provisions and paying for items using purchase cards. ICE's Federal Protective Service did not have contracts in place for emergency guard services and, consequently, used different contracting vehicles with different provisions that resulted in added costs. NCS did not have a defined process for procurement and obligated the government under a verbal contract, which it lacked the authority to initiate.

CBP's management acknowledged that it paid more to meet requirements on an emergency basis during its initial support of deployed officers because it had not completed sufficient planning work including establishing contracts with suppliers. CBP's procurement using the modified acquisition regulations and payment using purchase cards was addressed in detail by a U.S. Government Accountability Office (GAO) report¹ that noted the many advantages of advance planning that avoids the effects of possible spikes in demand and the resulting cost penalties. That report pointed out that through additional planning, including advance contracting initiatives, CBP could have been aware of already established General Services Administration contracts, as well as current inventory levels of other federal agencies that routinely buy items needed for a disaster response initiative, such as Meals Ready-to-Eat (MREs).

Regarding the ready-to-eat meal purchases, GAO pointed out that the Department of Defense's Defense Logistics Agency had sufficient MRE inventory on hand to meet interim CBP needs at that time. Also, CPB may have paid approximately \$100,000 more for the packaged meals it purchased because it did not leverage existing GSA contracts. Further, it noted that MREs could have been purchased in increments—versus all at once—to reduce the risk of excessive buys, which is what occurred in this case. Specifically, the envisioned demand for MREs did not materialize because the CBP employees who were sent to the Gulf Region were withdrawn earlier than anticipated. Advance planning also could have resulted in lowered cost for mobile shower units with hot water capabilities and would have had these items in place sooner.

Similarly, the Office of Federal Protective Service (FPS), a component of ICE, was responsible for quickly hiring and deploying protective services to augment local police forces to preclude violence and looting in disaster areas. Effective preparation for acquiring protective services would have entailed having established key understandings among ICE-FPS Regional procurement staff and the contractual tools in place in order to hire and deploy needed guard forces in a timely manner. When FEMA tasked it with providing protective services in the disaster areas, ICE had existing contracts, but not for the scale of the effort that FEMA envisioned.

In reacting to the immediate need, ICE did not have disciplined processes to ramp up the scale of its efforts or use its prior experience to consistently include key provisions in contracting for similar

¹ GAO-06-957T, "Purchase Cards; Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity;" released July 19, 2006.

services. One region with existing contracts elected to use what were referred to as “Additional Service Requests” that, while based on existing contracts, did not incorporate all provisions. For example, some of these requests, such as those in email format were very informal, and did not include important inherent advantages of more structured approaches. Also, provisional contracts were used and in one case not finalized until March 2006. There was extensive billing for hours outside of contract periods, as well as 30 of 53 Additional Service Requests did not include a performance period.

Differences in contract provisions regarding what were eligible billing hours resulted in added costs. One region allowed billing of time for guards awaiting assignment to posts (pool hours); the other did not. We attempted to discern the cost implications for costs billed in December 2005 for the contractor allowed to bill for such pool hours. We could only review two of the nine expenditure transactions from that contractor for that month because the contractor did not submit Form 139, which documents guard arrival and departure times and locations. For the two with this documentation, 1,600 of the 15,000 hours billed were pool hours. Due to lack of data for the other seven billings, we could not determine the extent of this problem for billings from that contractor for December 2005.

NCS needed specialized communications equipment to restore emergency communications in the disaster area but had not previously arranged for the needed contract support and authority. Ultimately, it merely provided vendors with the oral authorization to provide and install equipment and arranged for contracting services after the fact. While pragmatic under the circumstances, NCS should have realized the possibility of emergency communication outages and, given that it did not itself have procurement authority, collaborated with its support arm within DHS. We identified five contracts for equipment and services to restore emergency communications that were signed in late April 2006, for which vendor activity had been completed as early as September 2005. Without contracts, vendors could not bill for completed work. Accordingly, in response to FEMA’s inquiries in early 2006 about whether these mission assignments could be closed out, the Federal Emergency Communications Coordinator at the Joint Field Office responded that several mission assignments could not be closed because vendors had not yet submitted bills.

Two of the four DHS agencies executed contracts for periods outside the parameters of FEMA’s mission assignment document. Some acquisitions were inconsistent with the mission assignment statements of work; others were ordered after the performance period expired. While these costs may have contributed to accomplishing the mission assignment goals, it is not clear from the available documentation whether and to what extent that was the case. Our tests of CBP transactions identified two mission assignments for which incurred costs appeared to have been either outside the scope of work or after the period for which funds were available.

One mission assignment provided \$7.5 million for CBP to deploy up to 240 officers to the Louisiana Superdome to assist in crowd/riot control during evacuation of the Superdome from August 31, 2005 through September 30, 2005. In support of these officers, the mission assignment allowed CBP to provide such items as water, MREs, temporary support packs, and other equipment. We reviewed ten procurement actions related to this mission assignment. Four of the procurements appeared to be

for automatic data processing and telecommunication goods and services that were not consistent with allowable support expenditures. Another mission assignment to provide law enforcement personnel was charged approximately \$66,000 for a large trailer-mounted air conditioning unit and approximately \$227,000 for rental trailers and miscellaneous supplies, after the expiration of the designated performance period.

RECOMMENDATIONS

We recommend that the Undersecretary for Management:

- **Recommendation #1:** Ensure DHS component agencies develop and have in place, contracts to provide the type and scale of support that may be necessary to support future disaster response activities;
- **Recommendation #2:** Require that all procurement vehicles contain standard clauses and provisions that are relevant for the specific type of procurement;
- **Recommendation #3:** Establish adequate internal control procedures to monitor agency performance and underlying agreements to ensure that payments are made only for services provided within the performance period and allowable timeframes authorized by the mission assignments; and
- **Recommendation #4:** Establish adequate internal control procedures to monitor contractor performance and ensure that they are effectively implemented to preclude submission of unsupported vendor invoices.

B. Compliance with DHS' Funds Control Policy and Procedures

Funds control policies and procedures used by two DHS component agencies for administering mission assignments were not consistent with DHS requirements and federal guidelines concerning control over budgetary resources. DHS requires its component agencies to have an effective funds control system to manage available funds for the intended purposes and to prevent overspending.

Specifically, this system is intended to ensure that:

- ◆ Funds are available prior to obligation;
- ◆ Funds are obligated and expended solely for the purposes for which they were appropriated, except as otherwise provided by law;
- ◆ Only valid obligations are recorded in the accounting records, and all obligations incurred are recorded accurately and promptly; and
- ◆ Obligations and expenditures are not authorized or incurred in excess of available funds or any legal or administrative limitations.

ICE incurred approximately \$33 million of obligations and expenditures from January 2006 through March 2006 that it did not record in its financial management system until after March 31, 2006. ICE-FPS had initiated a 4-month extension of an existing contract to increase the authorized amount for armed guard services in support of Hurricane Katrina efforts in Louisiana. Although the period of performance was from December 1, 2005, through March 31, 2006, the contractor and the ICE-FPS contracting officer did not sign an amendment to the contract until March 21, 2006, 10 days prior to the end of the extension period. Although the contractor was paid for the period during which the contract extension was pending, FPS did not record the related obligations or expenditures.

Charges were not recorded since the system would not accept obligations without a ratified contract. ICE/FPS staff told us that they alternatively used separate automated spreadsheets to track the funding status of mission assignments. After the contract extension was finalized, they transferred data from the spreadsheets to the financial management system. Recording obligations and disbursements for mission assignments after the fact was also the practice of the Coast Guard.

Although ICE/FPS and the Coast Guard staff told us that they used similar practices to provide the greatest level of flexibility for the regional operations staff, they negated the budgetary and financial controls inherently available from a functional and integrated budgetary and financial management system. This practice resulted in a lack of system visibility over amounts provided, obligated, and spent on each mission assignment. Further, the practice also sacrificed a major portion of their controls over whether amounts spent were for valid obligations and whether disbursements were charged to the correct accounts

RECOMMENDATIONS

We recommend that the Undersecretary for Management:

- **Recommendation #5:** Enforce the recording of all mission assignment funding authority and related obligations and expenditures in agency budgetary and financial management systems as transactions occur to minimize the risk of incurring expenditures in excess of funding limits and to preclude the processing of improper payments; and

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- **Recommendation #6:** Ensure that field command location² and financial management personnel are trained in the appropriate use of budget object codes and the processing of transactions.

C. Completeness and Availability of Documentation Supporting Expenditures

Our tests of transactions showed that the four DHS agencies did not have sufficient documentation supporting payment for approximately \$29 million of the \$108 million in payments tested. For each of the four agencies, we identified the universe of transactions related to mission assignment work through specific cut-off dates. Using judgmental sampling, we selected transactions so as to cover the majority of the funding used by each agency. For each test transaction, we requested the underlying contracts, purchase orders, invoices, and acceptance and receipt documentation, and conducted various test procedures to establish the propriety of the expenditures. The criteria for supporting the validity of payments are standard requirements established in GAO and *Treasury Financial Manual* guidelines.

We determined that:

- ICE did not have sufficient supporting documentation for approximately \$5.4 million of the \$82.2 million it had expended on the 76 mission assignments as of March 31, 2006.
- CBP did not have sufficient supporting documentation for about \$2 million of the \$18.2 million it had expended on the 11 mission assignments as of March 31, 2006.
- Coast Guard did not have sufficient supporting documentation for approximately \$20.4 million of the \$100.4 million that it had expended on the 57 mission assignments as of March 31, 2006.
- NCS did not have sufficient supporting documentation for approximately \$965,614 of the \$4.4 million it had expended on the eight mission assignments as of September 30, 2006.

The \$29 million in documentation issues cited above are payments for charges that were inconsistent with contract terms, failure to monitor and confirm accuracy of amounts billed, or failure to document and retain documentation to confirm that agency staff had performed due diligence efforts to confirm receipt of goods or performance of services prior to payment.

Several types of scenarios contributed to the lack of documentation. Coast Guard did not have documentation for more than \$20 million of its mission assignment outlays. Almost all of these amounts stemmed from the Coast Guard tasking the Department of Defense's Naval Sea Systems

² Federal agencies carrying out mission assignment tasks usually establish a field or site office from which to oversee or administer operations and use standard operating procedures and policies already in place for their permanent field or regional locations to provide the control structure at temporary site locations as well.

Command to clean up debris from navigable waters in the aftermath of the hurricanes. For other than mission assignment work, the performing agency will perform or have the work performed, document the propriety of payments, retain supporting documentation, and bill the requesting agency. However, the *National Response Plan*³ requires performing agencies, whether they are the primary agency to which FEMA issued the mission assignment or a subtasked agency performing on behalf of the primary agency, to provide documentation spelled out on FEMA's website⁴ which is referenced in transmittal documents for mission assignments, as a condition of FEMA reimbursement.

The Coast Guard and NCS did not specifically require this additional documentation of costs in the related interagency agreements with their respective subtasked agencies. They reimbursed the participating agencies but had not obtained the type of documentation that they would need to justify reimbursement from FEMA. NCS subsequently requested and obtained the type of information that it would need, but as of the end of our fieldwork, Coast Guard had not obtained such supporting information. As discussed later, missing documentation has slowed or stalled reimbursement from FEMA for the Coast Guard and NCS. At ICE, we were not provided documentation that over \$300,000 of hotel charges were for confirmed use of rooms by authorized personnel. Also, almost \$3.3 million that ICE had billed to FEMA as added overhead costs associated with mission assignment activities could not be validated.

RECOMMENDATIONS:

We recommend that the Undersecretary for Management:

- **Recommendation #7:** Develop and implement a standard for appropriate documentation to support mission assignment expenditures and enforce DHS' record retention policy;
- **Recommendation #8:** Implement effective control processes for ensuring that all goods and services provided in support of mission assignments are validated as received and acceptable prior to approving payment for them; and
- **Recommendation #9:** Ensure that receipt and acceptance of goods and services are documented fully, and the associated supporting documentation is retained.

³ *National Response Plan*, Financial Management Support Annex, page FIN-5.

⁴ Requirements established by FEMA for supporting documentation and reimbursement transactions on their website (<http://www.fema.gov/government/billinst.shtm>) as referred to in the Financial Management Support Annex of the *National Response Plan*, page FIN-5.

D. Management and Accountability of Property

Depending on the nature of mission assignments, DHS component agencies and their subtasked entities were authorized to purchase equipment or other assets to complete mission assignments. Equipment items are to be physically controlled and recorded in asset accounting records to ensure responsibility for use or loss. High cost items are to be included in the amounts reported as assets on owning or controlling federal entities balance sheets.

The DHS component agencies tended to have some common problems in accounting for property, but also unique problems that created risks of excess financial costs for each of the four agencies, and by extension, for FEMA who provided the funding. Given the pervasiveness of this issue, DHS as a whole did not have adequate controls for recording these assets in its financial management records, and for establishing item accountability during and upon completion of the mission assignments. These are the minimum federal expectations for maintaining records to show ownership, condition, location, and other necessary information to assist management in making asset use and acquisition decisions, or for locating items and returning them to FEMA as a condition of reimbursement.

Much of CBP's early procurement used purchase cards. This helped expedite purchases, but breakdowns in a related control increased the risk that assets meeting DHS' capitalization criteria would not be recorded in the financial management or property systems. One required control feature was that the CBP asset management division would provide online approval for capitalized items. Such approved items were automatically recorded in the property management system, rather than recorded from documentation prepared when items are received from vendors. Our tests of 30 purchase card transactions identified 6 that used the budget object code for equipment. Three of these six, with a total cost of approximately \$225,000, met DHS' \$50,000 capitalization criteria and would have, if coded correctly, required the on-line approval. However, they were coded to a consumable equipment code versus the proper capital item budget object code. The wrong code precluded automated recording by the financial management system, which triggers efforts to locate and account for such items if they are not documented as received at field locations.

Also, CBP's lack of disaster field command location property management procedures and the assignment of untrained and inexperienced personnel resulted in weak controls over property acquired and issued for use during the disaster response. Weaknesses included:

- Absence of documentation regarding receipt of property items at field command locations;
- Lack of accountable property tracking systems at field command locations; and
- An informal CBP policy of allowing acquired disaster property to be retained by its own local field command locations.

Our tests of supporting documentation for 65 equipment expenditure selections showed that miscoding of procurements was a widespread issue. In addition to the three equipment purchases identified as meeting DHS' capitalization criteria but recorded as consumable property, 51 other

expenditure transactions were coded incorrectly. Of the 51 miscoded transactions, 46 were telephone and radio property items costing \$1.4 million that were coded as Other Equipment instead of Telecommunications Equipment. CBP said that the procedures developed and implemented by its property management team over control of items received from vendors were verbally communicated to field participants but were not documented due to the nature of the operating environment. Personnel assigned with property management responsibilities had not received prior training.

Coast Guard had a potentially more severe problem. Compared to its overall outlays in support of the 57 mission assignments, expenditure records indicated purchases of only limited amounts of property. However, its practices for contracting for disaster response assistance through its interagency agreement process may mask the extent of property purchases. It contracted with Naval Sea Systems Command for debris removal services by leveraging an existing contract. As discussed previously, the type of interagency agreement used by the Coast Guard required only that the performing agency provide performance data as support for reimbursement. In the absence of detailed billing data, we were not able to confirm whether Naval Sea Systems Command met its contractual requirements through subcontractors, or leased or acquired property to expand its own operations.

While Naval Sea Systems Command had an established relationship with the Coast Guard for debris removal services, Coast Guard procurement officials said that the scope of this effort was beyond Naval Sea Systems Command's internal capacity, and that additional contracting had occurred. In the absence of documentation supporting billed amounts paid by Coast Guard, there is no certainty that they did not pay for certain property augmentation or subcontractor-purchased property. To the extent that this occurred, additional detail would have to be obtained on the Naval Sea Systems Command billings to identify costs associated with property purchased and billed to the Coast Guard, but retained by Naval Sea Systems Command. Responding to our request, the Coast Guard was unable to provide the documentation required to assess whether any accountable property, and its value, had been financed through the subtasking of mission assignments to Naval Sea Systems Command.

ICE could not provide evidence of the receipt of all property acquired for mission assignments. Our analysis of available documentation determined that 8 of the 10 transactions identified as equipment purchases amounting to approximately \$1.3 million could not be verified.

Property acquired with mission assignment funding is subject to the requirements of FEMA Manual 6150.1, "FEMA Personal Property Management Program" and DHS Management Directive 1120, "Capitalization and Inventory of Personal Property." Collectively, this guidance requires accounting for accountable property with an original acquisition cost of \$15,000 or more, that by its nature is

not expendable or consumable,⁵ and the capitalization of property with acquisition costs equal to or exceeding \$50,000. These guidelines require that all accountable and capitalized property acquired with mission assignment funding to be tracked from its acquisition and use during an agency's disaster field response through either its transfer to FEMA or its disposition. FEMA's "Personal Property Management Program" manual⁶ documents the procedures and internal controls needed to successfully ensure accountability for property during disaster responses. As documented, disaster field command location receiving processes should include:

- The receiving location receiving advance notice of ordered goods and their anticipated arrival date;
- The status and quantity of received goods being verified at the time of receipt by individuals with receiving responsibilities;
- Evidence of the received property's status and quantity forwarded to the office responsible for vendor payment; and
- Ensuring received property is recorded in an asset tracking system that enables the field command location to continually track the property location; who, if anyone, the property is currently assigned to; and its serviceability.

The implementation of these processes help ensure that the type and quantity of procured goods received by the field command location is recorded, vendor payment is valid, the organization maintains accountability over property, and that property meeting DHS' capitalization criteria is completely and accurately presented in the organization's financial management system.

Accountability over property can also have a significant impact on the financial condition of mission assigned agencies. FEMA stipulates that it will reimburse mission assignment agencies for accountable property exceeding defined dollar thresholds if returned to FEMA. If the DHS component agencies had planned on full reimbursement but were not able to locate all items to be returned to FEMA, they might experience an annual funding shortfall.

⁵ Accountable property also includes sensitive and serialized property items. DHS defines sensitive property as accountable property (regardless of original acquisition cost), that is highly susceptible to misuse, loss, or theft, such as pagers, cellular telephones, electronic test equipment, personal computers, thumb drives, or any other storage device that may contain proprietary government information and will be individually accounted for and controlled through the agency's property management system. Serialized equipment includes equipment with a manufacturer's serial number such as mechanical tools and miscellaneous data processing hardware that is not classified as sensitive property.

⁶ FEMA Manual 6150.1, "Personal Property Management Program"

RECOMMENDATIONS

We recommend that the Undersecretary for Management:

- **Recommendation #10:** Implement controls to ensure that all DHS component agencies acquiring accountable property with mission assignment funds comply with DHS' accountable property policy and procedures;
- **Recommendation #11:** Determine the extent to which reimbursements from FEMA included costs for acquisition of accountable property items that were not turned over to FEMA, and either forward those property items to FEMA or refund the associated amount; and
- **Recommendation #12:** Require adoption of a property receipt process, such as that included in FEMA's guidance, for the issuance of accountable property from inventory at disaster field command locations.

E. The Reimbursement Billing Process

The four DHS agencies we reviewed had not developed their own internal processes and, in some cases, had not obtained the information required to prepare reimbursement billings in compliance with FEMA's requirements. Agency financial management personnel were not familiar with the required reporting formats and, as a result, the four agencies experienced difficulties in getting reimbursed for their incurred costs. More than two years later, there were continuing problems in the data submitted for reimbursement.

As the steward of the Disaster Relief Fund, FEMA has the authority to specify the supporting documentation requirements for all federal agencies providing support and requesting reimbursement from the Fund.⁷ Typically, when federal agencies provide procurements or services for one another, they arrange for reimbursements of those goods and services using the standard "Intragovernmental Business Rules."⁸ Under this approach, the ordering and performing agencies agree to the form and content of the performing agency's documented evidence of performance to be provided in support of Intra-Governmental Payment and Collection System⁹ transactions. Generally, the agreed-upon form and content includes the information necessary to identify the transaction, its associated interagency agreement, and the charges by budget subobject class. Due to the debilitating

⁷ *National Response Plan*, Financial Management Support Annex, page FIN-5.

⁸ OMB Memorandum M-03-01, "Business Rules for Intragovernmental Transactions," *Treasury Financial Manual*, Volume I, Bulletin No. 2007-03, "Intragovernmental Business Rules," and *Treasury Financial Manual*, Volume 1, Part 6, Chapter 4000, "Intra-Governmental Payment and Collection System."

⁹ The Intra-Governmental Payment and Collection System's primary purpose is to provide a standardized interagency fund transfer mechanism for Federal Program Agencies. It facilitates the intragovernmental transfer of funds, with descriptive data from one agency to another.

impact of disaster response activities on normal agency internal controls, FEMA augmented its supporting documentation requirements to address the increased risk of internal control weaknesses that often occur during the life-saving and life-sustaining rescue and support operations involved with disaster responses. The detailed requirements are on FEMA's website under the label "Mission Assignment Billing and Reimbursement Checklist." In addition to information necessary to identify a transaction and the associated mission assignment, FEMA requires the following:

- Description of the goods received or services provided;
- Breakdown of hours incurred in support of personnel services;
- For indirect costs, the percentage applied and a description of the costs included in the cost pool;
- For contract services, the contract number, vendor name, total contract cost, and a description of its purpose;
- For property acquisitions:
 - A description of item, vendor name, and unit cost for all non-expendable or sensitive items greater than or equal to \$1,000, and
 - The return of all items described above or an agreement to waive this requirement;
- For property leased, a description of the item, vendor name, and unit cost;
- Identification of motor vehicle costs;
- Identification of costs subtasked to another agency; and
- All "Other Costs" defined.

Under this concept, FEMA is not requesting that agencies submit the documentation underlying individual contracts, transactions, or payments. Instead, they are, in essence, asking support agencies to describe, in narrative or other format, the use of mission assignment funds and how they provided the support services requested.

Although this documentation request is not difficult, it is a different approach from requirements agencies use with standard interagency agreements. Some agencies submitted the same type of data in the formats used for their customary interagency work, which did not meet the intent of FEMA's documentation requirement. Satisfying these alternate FEMA requirements requires having the detailed supporting information and then packaging it in the fashion identified by FEMA's "Mission Assignment Billing and Reimbursement Checklist."

ICE's financial management personnel informed us that, initially, they had not developed plans for producing the additional data. ICE had prepared supporting documentation for FEMA in the same manner it would have prepared for reimbursement under any other interagency agreement. It created unique identifying numbers in its financial management system for each mission assignment and segregated its incurred cost accordingly. ICE also used its financial management system's integrated reimbursement bill generation process to extract all previously unbilled transactions, as recorded in its system, consolidate them by mission assignment agreement number, and summarize them by budget object code on a monthly basis. Thus, it had a basis for reporting in the manner that FEMA envisioned in the checklist.

We reviewed 24 of the 127 billings, amounting to \$55.1 million of the \$60.8 million that ICE had submitted to FEMA for reimbursement through March 31, 2006, and noted the following:

- None included evidence of a Certifying Official's approval of the reimbursement bill;
- Three billings were submitted 90 days or more after the mission assignment performance end date;
- Nineteen billings did not state the period of performance;
- Four of the six billings that included personnel cost did not identify overtime labor with the breakdown of hours. Therefore, we were unable to substantiate personnel costs billed to specific transactions with details by hours worked.

In response to FEMA's concerns that this data did not adequately address its requirements, ICE provided additional information from its financial management system. However, in cases where there was more than one billing for a mission assignment, the data was cumulative. This resulted in an inability to determine which expenses the current month's billing covered. In addition, the data was not provided in sufficient detail to convey to FEMA the nature of the goods and services purchased.

CBP, Coast Guard, and NCS did not develop standard operating procedures for preparing mission assignment reimbursement billings and the staff assigned were not familiar with the requirements. The initial reimbursement billings from these component agencies provided the supporting documentation typically required when processing an interagency billing through the Intra-Governmental Payment and Collection System. Because FEMA's requirements are more extensive, the initial supporting documentation packages from these component agencies were not adequate.

Especially problematic has been reimbursements for equipment and other longer-life type items purchased with mission assignment funds. Agencies may keep these items and deduct the amounts paid from the reimbursement bill or they may turn them in to FEMA and be reimbursed. Agencies usually billed for items not returned. While it is difficult for FEMA to know the extent of such purchases, its checklist is designed to identify such items. Also, FEMA's on-site regional staff may be familiar with larger scale purchases and flag them when mission assignment reimbursement billings are routed through the respective FEMA regional offices. However, the risk is greater for any costs reported with budget object codes, which would not typically reflect asset purchases. Lack of budget object coding on Coast Guard outlays for clearing debris from navigable waterways is one such risk area.

RECOMMENDATIONS

We recommend that the Undersecretary for Management:

- **Recommendation #13:** Augment existing instructions found in FEMA's "Mission Assignment Billing and Reimbursement Checklist" by developing and including proforma examples of billing submissions that would meet its criteria for reimbursement of

incurred costs or include examples of previously submitted bills that FEMA has determined to be satisfactory;

- **Recommendation #14:** Develop and provide training to the cognizant management and staff at each DHS component agency on the nature and extent of documentation requirements for FEMA's reimbursement of performing agencies' incurred costs. This training could take the form of on-line videos with audience question and answers, frequently asked questions and answers, or other instruments to promote clarity and understanding; and
- **Recommendation #15:** Require that primary agencies for mission assignments include provisions in their interagency agreements with support agencies for receipt of adequate documentation to support reimbursement from FEMA. Stipulate that primary agencies receive and confirm the acceptability of this documentation prior to approving payments to subtasked or supporting agencies.

Management Response and OIG Analysis

The Under Secretary for Management concurred with all the recommendations we offered to improve DHS' management of mission assignment funding and emphasized establishing and maintaining control over mission assignment funding is a vitally important management responsibility, especially in an emergency response situation. During the audit and after our fieldwork, DHS worked to improve its operations involving mission assignments.

Recommendations 1 and 2 are closed because DHS has executed scalable contracts that support disaster response activities and now requires the inclusion of standard clauses in all procurement vehicles, including future mission assignment procurements. We consider recommendations 3 through 15 resolved because steps are being taken to implement them; however, they will remain open until evidence is provided that each has been fully implemented.

Appendix A

Objectives, Scope, and Methodology

DHS Office of Inspector General (OIG) contracted with Regis and Associates, PC to assess mission assignment management and financial management controls in place at CBP; Coast Guard; ICE; and NCS, and offer recommendations for any needed improvements. This effort is part of the overall objective of the DHS OIG to ensure accountability in the management and expenditure of funds for relief and recovery efforts relative to disasters.

The scope of our reviews included the 167 mission assignments that FEMA issued to the four DHS agencies providing disaster response assistance in the Gulf Coast region resulting from Hurricanes Katrina, Rita, and Wilma (2005 Gulf Coast Hurricanes). We reviewed the management processes and financial management controls applicable to these mission assignments and the related contracts, expenditures, and reimbursement billings for the period August 29, 2005 through March 31, 2006. Our review objectives were to assess whether the management processes and financial management controls were properly designed and implemented, and to determine whether the contracts used, expenditures incurred, and reimbursements requested were authorized, valid, and appropriately supported.

The agreed-upon procedures we used for the underlying reviews were performed in accordance with standards established by the American Institute of Certified Public Accountants and guidance from the Office of Management and Budget and GAO.

We reviewed selected previous DHS OIG and GAO reports concerning these four component agencies' mission assignment management to familiarize ourselves with prior recommendations, regulations, and guidance applicable to their respective processes and controls. The results of these reviews were incorporated into our risk assessment for this engagement and our reported results.

The management processes and financial management controls assessment included information gathering through interviews with appropriate personnel, as well as evaluating management controls and process designs. These evaluations were accomplished through review of current policies and procedures, and those that existed during the 2005 Gulf Coast Hurricanes.

We interviewed component agency management staff, reviewed terms and conditions of the mission assignments, conducted extensive testing of transactions to assess initial preparedness to implement the mission assignments; assessed financial management systems support available and used. We compared conformity of outlays with the mission assignments; and evaluated controls in place over receipt, acceptance and payments for goods and services procured, asset accountability, and validity and support for reimbursement claims to FEMA.

The determination as to whether the contracts used; expenditures incurred; and reimbursements requested were authorized, valid, and appropriately supported included our review of supporting documentation made available by each of the component agencies in each of these areas. We obtained lists of all procurement, expenditure, and reimbursement billing transactions from their respective financial management systems for the period August 29, 2005 through March 31, 2006. On an agency-by-agency basis, we arrayed data for procurements, expenditures, and reimbursement billings as a basis for deciding the extent and nature of testing required, to offer assurance regarding

Appendix A

Objectives, Scope, and Methodology

whether our results were representative of agency activity for the test period.

For our tests of procurements, we used a high-dollar criterion to select between 70% and more than 90% of the procurement amounts for each of the four entities. For our tests of expenditures, we stratified expenditure transactions by budget object code into the following categories with similar processes and controls:

- ◆ Other contractual services and rent, communications, and utilities;
- ◆ Personnel compensation and benefits;
- ◆ Equipment;
- ◆ Supplies and materials;
- ◆ Overhead; and
- ◆ Travel and transportation of persons.

We used a high-dollar criterion within each category above to select expenditures for testing the adequacy of supporting documentation for authorizing payments. When summarized transactions were selected using the high-dollar value criterion, we made additional judgmental selections and performed detailed tests on individual personnel and travel expenditures within the summary transaction total.

For our tests of reimbursement billings, we used a high-dollar criterion to select and test about 80% of the billings each DHS component agency had submitted to FEMA. Additional details on the scope of the work performed on each component agency can be found in the Objectives, Scope, and Methodology sections of the individual reports issued on the four agencies pursuant to our contract with the DHS OIG.

Our fieldwork was conducted from April 25, 2006, through June 1, 2007, and included visits to each agency's headquarters in Washington, D.C. and to representative field locations carrying out and coordinating the disaster assistance work, including offices in Georgia, Indiana, Texas, Vermont, and Virginia.

Appendix B Recommendations

Recommendation #1: Ensure DHS component agencies develop and have in place, contracts to provide the type and scale of support that may be necessary to support future disaster response activities.

Recommendation #2: Require that all procurement vehicles contain standard clauses and provisions that are relevant for the specific type of procurement.

Recommendation #3: Establish adequate internal control procedures to monitor agency performance and underlying agreements to ensure that payments are made only for services provided within the performance period and allowable timeframes authorized by the mission assignments.

Recommendation #4: Establish adequate internal control procedures to monitor contractor performance and ensure that they are effectively implemented to preclude submission of unsupported vendor invoices.

Recommendation #5: Enforce the recording of all mission assignment funding authority and related obligations and expenditures in agency budgetary and financial management systems as transactions occur to minimize the risk of incurring expenditures in excess of funding limits and to preclude the processing of improper payments.

Recommendation #6: Ensure that field command location and financial management personnel are trained in the appropriate use of budget object codes and the processing of transactions.

Recommendation #7: Develop and implement a standard for appropriate documentation to support mission assignment expenditures and enforce DHS' record retention policy.

Recommendation #8: Implement effective control processes for ensuring that all goods and services provided in support of mission assignments are validated as received and acceptable prior to approving payment for them.

Recommendation #9: Ensure that receipt and acceptance of goods and services are documented fully, and the associated supporting documentation is retained.

Recommendation #10: Implement controls to ensure that all DHS component agencies acquiring accountable property with mission assignment funds comply with DHS' accountable property policy and procedures.

Recommendation #11: Determine the extent to which reimbursements from FEMA included costs for acquisition of accountable property items that were not turned over to FEMA, and either forward those property items to FEMA or refund the associated amount.

Recommendation #12: Require adoption of a property receipt process, such as that included in FEMA's guidance, for the issuance of accountable property from inventory at disaster field command locations.

Appendix B Recommendations

Recommendation #13: Augment existing instructions found in FEMA’s “Mission Assignment Billing and Reimbursement Checklist” by developing and including proforma examples of billing submissions that would meet its criteria for reimbursement of incurred costs or include examples of previously submitted bills that FEMA has determined to be satisfactory.

Recommendation #14: Develop and provide training to the cognizant management and staff at each DHS component agency on the nature and extent of documentation requirements for FEMA’s reimbursement of performing agencies’ incurred costs. This training could take the form of on-line videos with audience question and answers, frequently asked questions and answers, or other instruments to promote clarity and understanding.

Recommendation #15: Require that primary agencies for mission assignments include provisions in their interagency agreements with support agencies for receipt of adequate documentation to support reimbursement from FEMA. Stipulate that primary agencies receive and confirm the acceptability of this documentation prior to approving payments to subtasked or supporting agencies.

Appendix C
Associated Audit Reports

- OIG-08-80 *U.S. Customs and Border Protection's Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding*; U.S. Department of Homeland Security Office of Inspector General
- OIG-09-34 *U.S. Coast Guard's Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding*; U.S. Department of Homeland Security Office of Inspector General
- OIG-09-22 *U.S. Immigration and Customs Enforcement's Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding*; U.S. Department of Homeland Security Office of Inspector General
- OIG-09-23 *National Communications System's Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding*; U.S. Department of Homeland Security Office of Inspector General

**Appendix D
Management Comments to Draft Report**


U.S. Department of Homeland Security
Washington, DC 20528

JUN 15 2009



**Homeland
Security**

MEMORANDUM FOR: Matt Jadacki
Deputy Inspector General
Office of Emergency Management Oversight

FROM: Elaine C. Duke 
Under Secretary for Management

SUBJECT: Response to OIG Draft Report: "Consolidated Report on DHS'
Management of 2005 Gulf Coast Hurricanes Mission Assignment
Funding"

Thank you for the opportunity to review and comment on the draft report entitled: "Consolidated Report on DHS' Management of 2005 Gulf Coast Hurricanes Mission Assignment Funding". This report is the compilation of reviews of four entities (U.S. Customs and Border Protection, U. S. Coast Guard, U.S. Immigration and Customs Enforcement, and National Communications System) that received mission assignments from the Federal Emergency Management Agency (FEMA) in response to the 2005 Gulf Coast Hurricanes.

In general terms, we concur with each of the 15 recommendations contained in this report; establishing and maintaining control over the millions of dollars in assess and procurements is a vitally important management responsibility especially in an emergency response situation. The Department has taken many steps since 2005 to improve our management functions. Attached are details of the corrective actions we have taken or plan to take to correct the conditions cited in your report.

If you have any questions regarding this response, please contact Larry Bedker, Director of Office of Financial Management, Office of Chief Financial Officer at (202) 447-5216.

Attachment

Appendix D Management Comments to Draft Report

USM Response Audit Recommendations

Recommendation #1: Ensure DHS component agencies develop and have in place, contracts to provide the type and scale of support that may be necessary to support future disaster response activities.

Concur: Since the 2005 Hurricane season, DHS has undertaken many corrective actions. FEMA has awarded a series of response-ready, prepositioned contracts that include the appropriate scalability needed to respond to a myriad of potential disasters. There are currently seventy-one (71) response-ready contracts in place; able to provide a variety of good and services, including, but not limited to: damage inspection services; crisis counseling; IT hardware and software, satellite airtime, plus infrastructure management; temporary housing and related management services; mail service; tarps and plastic sheeting; food catering services; air and ground ambulance services; railroad transportation services; generators and maintenance; logistic support services; base camp support services; and trucks. Additionally, the Department has access to a variety of GSA Federal supply schedule contracts that can be accessed as needed to provide additional good and services in an expedited fashion. The Department of Homeland Security stands prepared and ready to meet the challenges of future disaster response requirements. Thus, the Department believes that this recommendation has already been fully addressed and no further action is necessary.

Recommendation #2: Require that all procurement vehicles contain standard clauses and provisions that are relevant for the specific type of procurement.

Concur: The Department has taken positive actions to ensure appropriate standard clauses are included all procurements, including those contained in future Mission Assignment procurements. DHS Components are required to conduct their procurement actions in accordance with the Federal Acquisition Regulation (FAR), Chapter 1 of Title 48 of the Code of Federal Regulations. Further, DHS Components procurement actions must comply with the Department-level Homeland Security Acquisition Regulation (HSAR). Additionally, supplemental procurement guidance is provided within the Department-level Homeland Security Acquisition Manual (HSAM). All of these resources collectively provide the requirements to include standard provisions and clauses needed for each specific type of procurement. Further, OCPO continuously reviews and improves the HSAR and HSAM based upon FAR changes; lessons-learned culled from procurement oversight reviews; audit findings; and, input received from the Components. Thus, the Department believes this recommendation has already been fully addressed and no further action is necessary.

Recommendation #3: Establish adequate internal control procedures to monitor agency performance and underlying agreements to ensure that payments are made only for services provided within the performance period and allowable timeframes authorized by the mission assignments.

Recommendation #4: Establish adequate internal control procedures to monitor contractor performance and ensure that they are effectively implemented to preclude submission of unsupported vendor invoices.

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Concur with Recommendations #3 and #4: Since the 2005 Hurricane season, DHS has established, and is continuously improving, a robust Contracting Officer's Technical Representative (COTR) program that is integral to the Department's internal control procedures with respect to adequately monitoring contractor performance. In accordance with the Office of Federal Procurement Policy's guidance, the Department requires that its COTRs be trained to professional business and technical competencies that will best equip them to perform their responsibilities. In accordance with DHS Appropriations law, the Department requires forty hours of initial COTR training before a candidate can begin serving as a COTR: This requirement represents a higher standard than that which is required by other civilian agencies. Further, the Department requires 40 hours of biennial skills maintenance and currency training to ensure that its COTRs stay trained and current in procurement and program issues; consequently, without completing the biennial training requirements, DHS COTRs are not eligible for continued service. Annual procurement ethics training is also mandatory for all DHS COTRs. Of note, DHS has significantly increased the availability of no-cost acquisition-related training for which COTRs may register and complete. DHS currently has 260 acquisition-related classes scheduled for FY2009 including 37 different resident courses; notably, the FY2009 class offerings represent a five-fold increase over FY2008 course offerings, and, COTR-relevant class offerings outside of DHS are also available. DHS continues to invest heavily in its COTR cadre to ensure proper support of the DHS acquisition mission.

DHS has mature processes with appropriate checks and balances to ensure that unsupported invoices are not paid. Authorized officials within DHS Components currently have the authority to reject any unsupported invoices based upon existing internal control procedures; further, towards this end, DHS has recently implemented an automated invoice processing system, "WebView," that streamlines and makes more efficient, timely invoice processing. Moreover, contracting officers, with the support of the technical representatives which they appoint, are assigned the responsibility to monitor the contractors' performance, and to review and either accept or reject contractors' invoices. As such, invoices submitted to DHS financial offices are not paid without review and approval by the responsible contracting officer and/or the duly appointed technical representative. Additionally, invoice processing at DHS is subject to the provisions of the Prompt Payment Act, which prescribes timelines for reviewing and accepting or rejecting contractor invoices, and includes financial incentives to the Department for expedited processing of contractor invoices.

The HSAM also includes language advising contracting officers to utilize the services of the Defense Contract Audit Agency to review vouchers for cost reimbursement contracts where practical. Finally, as part of its oversight function, during FY2009 OCPO is conducting a special review of DHS invoicing policies and procedures to determine if and to what extent any improvements are needed. Additionally, FEMA will provide an added layer of control by identifying bills received outside the performance period and report to DHS those bills.

Recommendation #5: Enforce the recording of all mission assignment funding authority and related obligations and expenditures in agency budgetary and financial management systems as transactions occur to minimize the risk of incurring expenditures in excess of funding limits and to preclude the processing of improper payments

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Concur: While this is primarily a component responsibility, the Office of Financial Management will be requiring components to provide OFM their plans as to how they plan to record all mission assignment funding authority and related obligations and expenditures in agency budgetary and financial management systems as transactions occur, also issuing guidance on this issue, track financial activity during future major response efforts, similar to the 2005 Gulf Coast Hurricanes, and during these events require component CFOs to certify that mission assignment obligations and expenditures are recorded properly.

Recommendation #6: Ensure that field command locations and financial management personnel are trained in the appropriate use of budget object codes and the processing of transactions.

Concur: While this is primarily a component responsibility, the Office of Financial Management will require components to develop training materials and training plans and to provide training to its respective field command locations and financial management personnel. This will ensure that the field personnel are prepared to process financial activity related to mission assignment procurements.

Recommendation #7: “Develop and implement a standard for appropriate documentation to support mission assignment expenditures and enforce DHS’ record retention policy”

Concur: DHS concurs with the recommendation for standardized records management requirements to include enforcement of the DHS’ record retention policy. Predominately the areas of concern dealt with financial transactions, authorizations, and the retention of those documents. The rules and regulations to include retention have been established and standard throughout the Federal government. Purchase card documentation is and has been required by the General Records Schedules (GRS) to be retained for 6 years and 3 months regardless of the agency, mission, or circumstances requiring the purchase transaction. It was not a lack of a DHS standardized records management requirement, but rather a lack of adherence to long established government-wide procedures and processes for purchase card transactions causing the irregularities.

Notwithstanding, a standardized record and document management program must be established within DHS and several steps have been taken to move toward that direction. DHS is a conglomerate made up of legacy and modern programs, compounded by several factors; one includes information technology, disparate systems and its growing data. On December 15, 2005 NARA issued bulletin 2006-02 requiring all Federal agencies to identify and schedule information systems that were in steady state operations and mixed life-cycle stages as of December 17, 2005. These systems were required to have NARA approved schedules by September 30, 2009. DHS is achieving this requirement through assessments, interviews, and scheduling of all information systems and portals beyond the NARA threshold of December 17, 2005 by scheduling all systems. DHS is in the process of releasing a revised Management Directive 0141 “Records Management” as well as 0141-01 “Records Management Handbook” that establishes a department-wide standard for identifying, developing, and scheduling records throughout the department. In addition, DHS Records Management is in the process of developing management controls and reviews to measure and report compliance with the revised Directive and Handbook. Lastly, DHS is in the planning

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stage of developing an Electronic Records Management System that will streamline information systems, records and document management throughout the Department. The combination of these efforts will greatly enhance DHS' ability to accurately capture and retain vital information during normal business, times of crisis, and in COOP situations.”

Additionally, FEMA will assist in developing/defining the policy that prescribes the appropriate documentation to support mission assignment expenditures. We will work with OMB to approve the concept that FEMA should/could rely on the other Federal Agencies/DHS Component internal controls whereby allowing minimum support documentation. FEMA will develop a statistical sampling program to test the bills.

Recommendation #8: Implement effective control processes for ensuring that all goods and services provided in support of mission assignments are validated as received and acceptable prior to approving payment for them.

Recommendation #9: Ensure that receipt and acceptance of goods and services are documented fully, and the associated supporting documentation is retained.

Concur with Recommendations #8 and #9: While this is primarily a component responsibility, the Office of Financial management will be issuing guidance on the issue on the receipt and acceptance for goods and services for all DHS procurements, track financial activity during future major response efforts, similar to the 2005 Gulf Coast Hurricanes, and during these emergencies, have components CFOs certify that receipt and acceptance of goods and services are documented fully, and the associated supporting documentation is retained. .

Recommendation #10: Implement controls to ensure that all DHS component agencies acquiring accountable property with mission assignment funds comply with DHS' accountable property policy and procedures;

Concur. The recommendation to “implement controls” in this area, as well as in others related to asset management of personal property and consumables is, however, a long standing issue. The establishment of an effective management control protocol requires the ability to monitor compliance with those controls, ideally through an automated process, but otherwise through a manual review process, i.e., additional staff.

As is currently configured, only ICE has a personal property asset system visible to offices within USM; the visibility does not extend to the management of ICE-consumables. CBP, USCG and FEMA each use standalone asset systems, with various degrees on integration to their procurement and financial systems. Offices within USM have no visibility into any of these systems, nor to the consumables systems supporting these Components. OCFO is leading the TASC “Shared Baseline” initiative, calling for the integration of asset management systems, financial systems and procurement systems across the department. When complete, the initiative will provide the automated tools for monitoring performance in the majority of actions cited in the review. The “shared baseline” will not be a reality however, for a minimum of 3 years and, more likely, some 7

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to 9 years into the future.

Implementing and monitoring controls will require additional staffing, ideally through a combination of contractor and federal additions to the management controls unit within OCAO/ALM. Envisioned is a fairly significant level of additional staff that would monitor performance in these areas throughout the year and would, during FEMA peak operations seasons, be infused with additional contractor staff to monitor field operations related to emergency response. As “shared baseline” became a reality and the ability to manage controls in an automated manner grew, the roles of the federal employees managing these controls over administrative functions would shift to take advantage of that automation, and reliance on contractors would decline proportionally. Absent that additional staffing, there is no realistic way to monitor controls until the shared baseline project approaches implementation on a scale sufficient to bring each of the involved Components into a single data system. At a minimum, and depending on the size and structure of the Management over Administration Functions group envisioned here, recommendations 3, 4, 8 and 9 would also be addressed.

Recommendation #11: Determine the extent to which reimbursements from FEMA included costs for acquisition of accountable property items that were not turned over to FEMA and either forward those property items to FEMA or refund the associated amount and;

Concur. The need to establish accountability over these high value assets is self-evident. Identifying those assets would however, require a detailed audit of all material purchases conducted with the Mission Assignment Funding program to determine which procurements involved accountable assets of any type, a review of those procurements to determine inventory accuracy, a review of the disposition of assets during and after the program and then an audit to determine which assets were, and were not returned to FEMA and for which FEMA paid a reimbursement. Implementation of this recommendation is contingent on the authority to hiring of additional staffing or the utilization of contractors to conduct this series of audits.

Recommendation #12: Require adoption of a property receipt process, such as that included in FEMA guidance, for the issuance of accountable property from inventory at disaster field command locations.

Concur: The recommendation calls for the establishment of one specific control of the general controls recommended in Recommendation #10. Establishing a control is a relatively easy task. However, doing so falls under the same challenges discussed in responding to Recommendation #10; absent an automated system, a system we know will not be available for at least 3, and more likely, 7 to 9 years, additional staff is required to monitor compliance. In the interim, FEMA can help provide guidance for property.

Recommendation #13: Augment existing instructions found in FEMA’s Mission Assignment Billing and Reimbursement Checklist by developing and including proforma examples of billing submissions that would meet criteria for reimbursement of incurred costs or include examples of previously submitted bills that FEMA has determined satisfactory:

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Concur: In conjunction with FEMA, OCFO will develop billing criteria and provide examples of acceptable bills.

Recommendation #14: Develop and provide training to the cognizant management and staff at each DHS component agency on the nature and extent of documentation requirements for FEMA's reimbursement of performing agencies' incurred costs. This training could take the form of on-line videos with audience question and answers, frequently asked questions and answers, or other instruments to promote clarity and understanding:

Concur: In conjunction with FEMA, OCFO will develop a workshop to discuss Mission Assignment issues and best practices, and will partner with FEMA to train DHS components.

Recommendation #15: Require that primary agencies for mission assignments include provisions in their interagency agreements with support agencies for receipt of adequate documentation to support reimbursement from FEMA. Stipulate that primary agencies receive and confirm the acceptability of this documentation prior to approving payments to subtasked or supporting agencies.

Concur: The Office of Financial Management will be issuing guidance requiring agencies include provisions in their interagency agreements with support agencies for receipt of adequate documentation and develop procedures to review the adequacy of documentation prior to approving payments.

Appendix E

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