

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

**Audit of the State of Massachusetts
Administration of Disaster Assistance Funds**



Office of Audits

DA-17-04

February 2004



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office-Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

February 10, 2004

MEMORANDUM

TO: Kenneth L. Horak
Acting Regional Director, FEMA Region I

FROM: Gary Barard
Field Office Director

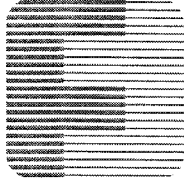
SUBJECT: Audit of the State of Massachusetts
Administration of Disaster Assistance Funds
Audit Report No. DA-17-2004

Attached for your review and follow-up are five copies of the subject audit report that was prepared by an independent accounting firm, Foxx & Company, under contract with the Office of Inspector General. In summary, Foxx & Company determined that the Massachusetts Emergency Management Agency should improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On October 22, 2003 your office responded to the draft report. Based upon your response, Finding B.3 is closed and requires no additional action. Findings A.1, A.2, B.1 and B.2 are resolved, but require an additional response describing actions taken to implement the recommendations.

Please advise the Atlanta Field Office-Audit Division by April 12, 2004, of the action taken. Should you have any questions, please contact George Peoples or me at (770) 220-5242.

Attachments



Foxx & Company
Certified Public Accountants

January 14, 2004

Office of Inspector General
Department of Homeland Security
245 Murray Drive, Bldg 410
Washington, DC 20528

Foxx & Company conducted an audit of the Commonwealth of Massachusetts Emergency Management Agency's administration of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The audit was performed in accordance with our GSA Contract No. GS23F9832H dated September 30, 1999 under the direction of the Department of Homeland Security, Office of Inspector General.

This report presents the results of our audit and includes recommendations to help improve the Commonwealth of Massachusetts's administration of Federal Emergency Management Agency disaster assistance grant programs. As required by the OIG, the findings and recommendations in the report only addressed actions that were needed to improve the state's management of the FEMA grants. However, for some of the findings, we noted that the region shared in the causes of the conditions reported and that opportunities existed for the region to strengthen the performance of its stewardship responsibilities.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 1999 Revision. Although the audit report comments on costs claimed by Massachusetts, we did not perform a financial audit, the purpose of which would be to render an opinion on the financial statements or funds claimed in the Financial Status Reports submitted to FEMA. The scope of the audit consisted of program and financial activities for seven presidential declared disasters and two emergency declarations that were open at September 30, 2001. These nine declarations occurred during the period of August 1991 through March 2001. Included in the scope of the audit were Public Assistance, Hazard Mitigation, and Individual and Family Grant Programs. The two emergencies included in the nine declarations were administered under Public Assistance Program procedures as directed in the Presidential declarations.

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

Sincerely,

FOXX & COMPANY

Martin W. O'Neill
Partner

TABLE OF CONTENTS

I.	Executive Summary	1
II.	Background	4
III.	Objectives, Scope, and Methodology	7
IV.	Findings and Recommendations	9
A.	Financial Management	9
1.	Improvement in Financial Reporting	9
2.	Accounting for Administrative Allowances and Management Grant Costs.....	12
B.	Program Management	15
1.	Closure of IFG Programs	15
2.	Improvements in Administrative and Program Planning.....	17
3.	Compliance with Single Audit Act Requirements.....	18
	Attachments	21
A.	Schedules of Sources and Applications of Funds	22
B.	List of Acronyms	32
	Management Comments	33
	FEMA Regional Office, Region I (October 22, 2003)	34
	Massachusetts Emergency Management Agency.....	35
	FEMA Regional Office, Region I (Supplemental Comments)	40

I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the Massachusetts Emergency Management Agency’s (MEMA) administration of Federal Emergency Management Agency’s (FEMA’s)¹ disaster assistance grant programs. The objective of this audit was to determine the effectiveness of MEMA’s management and administration of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act, which amended the Stafford Act, was not fully implemented by FEMA at the time of the audit.

This report focuses on MEMA’s systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed for nine declarations, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on MEMA’s financial statements or funds claimed in the Financial Status Reports submitted to FEMA. The funds awarded and costs claimed for the nine declarations are presented in Attachment A.

Our audit included the seven major disasters and two emergencies² declared by the President of the United States between August 1991 and March 2001. The disasters and emergencies with the respective grant programs were as follows:

Number	Public Assistance (PA)	Individual and Family (IF)	Hazard Mitigation (HM)
DR 914	X		X
DR 920	X	X	X
DR 975	X		X
DR 1090	X		
DR 1142	X	X	X
DR 1224		X	X
DR 1364		X	X
EM 3153	X		
EM 3165	X		

DR – Disaster EM – Emergency

The Federal share of obligations for the nine declarations at September 30, 2001, was about \$155 million. Federal funds claimed through September 30, 2001 amount to approximately \$130 million.

¹ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Department of Homeland Security.

² In accordance with the provisions of each declaration, the emergencies were managed under the Public Assistance Program procedures.

In accordance with our agreement with the Office of Inspector General (OIG), our audit focused on MEMA's current program and financial management procedures and practices. To the extent possible, we have identified the causes of each reportable condition. We have also made recommendations that, if implemented properly, would improve MEMA's management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The regional office and state provided comments on some of the findings. The comments received are attached to the report, and an analysis of the comments is included, as appropriate, with each finding. The findings summarized below are discussed in more detail in the body of the report.

Financial Management

- **Improvement in Financial Reporting**

MEMA's financial management system needed to be improved to properly account for and report on the status of FEMA disaster assistance programs. We noted that MEMA:

- did not consistently report the non-Federal share of expenditures,
- did not have a viable system for tracking the local share contributions for approved PA and HMG projects, and
- needed to improve internal controls over the reconciliation of state reports with the Federal SMARTLINK accounts.

As a result, there was no assurance that MEMA was adequately accounting for FEMA funds.

- **Accounting for Administrative Allowances and Management Grant Costs**

MEMA's accounting system and related procedures were not adequate to assure that FEMA approved administrative allowances and management grants were used or accounted for in accordance with Federal requirements. We found that MEMA used the FEMA awarded allowances and management grants without distinguishing extraordinary expenses from other expenses as required. In addition, we found that MEMA allocated management grant costs on an arbitrary basis to individual disasters. As a result, there was no assurance that the Federally awarded administrative allowances and management grants were used for allowable purposes or that the management grant costs were properly allocated to the appropriate PA or HMG program.

Program Management

- **Closure of IFG Programs**

MEMA did not request closure of IFG programs in a timely manner. Our audit disclosed that MEMA did not submit closeout packages within the required timeframe. Although MEMA had received grant extensions from FEMA, the programs were not closed for significant periods of time after the extension period.

- **Improvements in Administrative and Program Planning**

Improvements were needed in the preparation and submission of required administrative plans for the Individual and Family and Public Assistance programs, and the program plans for the Hazard Mitigation Grant program. We found that MEMA did not always submit the required plans. As a result, the grantee was not paying sufficient attention to compliance with the Federal planning documentation requirements.

- **Compliance with Single Audit Act Requirements**

MEMA needed to improve its procedures for obtaining Single Audit Act reports from subgrantees. We found that MEMA did not have procedures for inquiring of subgrantees about other Federal funding sources and expenditures. MEMA's notifications to subgrantees incorrectly stated the single audit requirements. As a result, subgrantees were provided erroneous information on the Single Audit Act requirements.

II. Background

Federal assistance is usually needed to supplement the states' response efforts after large disasters and emergencies. When Federal assistance is needed, the Governor can request the President of the United States to declare a major disaster or emergency and thereby make assistance grants available through the Federal Emergency Management Agency (FEMA)³. FEMA, in turn, can make grants to state agencies, local governments, private citizens, nonprofit organizations, and Indian tribes or authorized tribal organizations through a designated agency within the affected state.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters and emergencies declared by the President of the United States. Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The three major programs addressed in this audit were:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor of the state must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the state (25 percent).

Public Assistance (PA) Grants are awarded to state agencies, local governments, qualifying private nonprofit organizations, Indian tribes, or authorized tribal organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. To receive a PA grant, a designated representative of an organization affected by the disaster or the emergency must submit a request for public assistance. After the request is sent to the grantee (MEMA) and to FEMA, FEMA schedules an inspection of the damaged facilities. An inspection team prepares Project Worksheets (PWs)⁴ identifying the eligible scope of work and estimated cost for the projects. FEMA reviews and approves the PWs and obligates the funds. At least 75 percent of the PW cost is paid by FEMA and the remainder of the cost is paid by non-Federal sources, usually state and local governments.

³ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

⁴ Prior to the use of PWs, Damage Survey Reports (DSRs) were used.

In accordance with 44 CFR 206.203, PA projects are classified as either “small” or “large.” The classification is based on a project threshold dollar amount that is adjusted annually to reflect changes in the Consumer Price Index for All Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for declarations in Fiscal Year 2000 was \$48,900. Projects costing less than \$48,900 were classified as “small” and projects costing \$48,900 or more were classified as “large” projects.

To speed up payments to subgrantees for small projects, the Federal share of the cost is to be disbursed as promptly as practicable after approval by FEMA. Subgrantees of large projects submit periodic requests to the state for funds to meet expenses incurred or expected to be incurred in the near future. When a project is completed, the state determines and reports the final cost to FEMA. FEMA then adjusts the amount of the large project to reflect the actual eligible cost.

Hazard Mitigation Grants (HMG) are awarded to states to help reduce the potential for future disaster damages. The state must submit a Letter of Intent to participate in the program and subgrantees must submit an HMG proposal to MEMA. MEMA, as the grantee, is responsible for setting priorities for the selection of specific projects, but each project must be approved by FEMA. FEMA awards subgrants to state agencies, local governments, qualifying private nonprofit agencies, Indian tribes, or authorized tribal organizations.

The costs of the projects are shared with FEMA with the Federal share not exceeding 75 percent of the costs. The amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act.

Under the **PA** and **HMG** programs, FEMA may grant three types of administrative funds for managing the programs:

1. An **administrative cost allowance** is provided to the grantee to cover extraordinary costs directly associated with administering the program. The allowance is determined by a statutorily mandated sliding-scale percentage (ranging from one-half of one percent to three percent) applied to the total Federal disaster assistance awarded under the program. The allowance is for extraordinary costs such as those incurred for preparing damage survey or final inspection reports; processing project applications; conducting final audits and related field inspections; overtime; per diem; and travel expenses. The administrative cost allowance does not include amounts for the regular time of state employees.
2. **State management costs** to cover expenses directly associated with the program that was not covered by the administrative allowance.
3. **Indirect costs** based on a FEMA approved indirect cost allocation plan.

For the **IFG** program, FEMA can grant up to five percent of the Federal share of total program costs for administration costs.

Massachusetts Emergency Management Agency

The Massachusetts Emergency Management Agency (MEMA) was the disaster and emergency management agency for the Commonwealth of Massachusetts. MEMA was responsible for the coordination of Federal, state, local, voluntary and private resources during disasters and emergencies.

Through its Framingham, Massachusetts headquarters and four regional offices, MEMA:

- developed plans for effective response to hazards, disasters, or threats,
- trained emergency personnel to protect the public,
- provided information to the citizenry, and
- assisted individuals and communities to respond to and recover from emergencies.

According to MEMA officials, there were approximately 70 employees, 50 assigned to the headquarters office and 20 assigned to the regional offices. The Public Assistance and Hazard Mitigation Grant programs were administered by MEMA. A full-time MEMA Public Assistance Officer managed the PA program. A Hazard Mitigation Officer managed the HMG program. Other MEMA employees assisted both program officers.

Even though MEMA was the grantee for the IFG program, management of the program was assigned by Massachusetts to the Department of Transitional Assistance (DTA). In addition to the IFG Coordinator, other DTA staff members assisted in the management of the IFG program at the time of a disaster.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine whether the Commonwealth of Massachusetts (the grantee) had:

- Administered FEMA disaster and emergency assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- Complied with the FEMA-approved disaster assistance administrative and program plans,
- Properly accounted for and expended FEMA disaster assistance funds, and
- Operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included the following nine declarations that were open at September 30, 2001. These disasters and emergencies were declared between August 1991 and March 2001.

Declarations			Grant Programs Status at September 30, 2001		
Number	Date	Disaster/Emergency	PA	IFG	HMG
DR 0914	08/26/91	Hurricane Bob and Flooding ⁵	Closed	N/A	Closed
DR 0920	11/04/91	Coastal Storm ⁶	Closed	Closed	Closed
DR 0975	02/21/92	Winter Coastal Storm	Open	N/A	Open
DR 1090	01/24/96	Blizzard of 1996	Open	N/A	N/A
DR 1142	10/25/96	Severe Storms and Flooding	Open	Closed	Open
DR 1224	06/23/98	Severe Flooding	N/A	Open	Open
DR 1364	04/10/01	Severe Storms and Flooding	N/A	Open	Open
EM 3153	12/06/99	Worcester Fire	Open	N/A	N/A
EM 3165	03/28/01	Snow	Open	N/A	N/A

The cut-off date for the audit was September 30, 2001. However, we also reviewed current activities related to conditions found during our audit to determine whether appropriate corrective actions had been taken.

Our audit fieldwork was initiated at the FEMA Region I Office in Boston, Massachusetts. Region I has jurisdiction over FEMA disaster programs in several states, including Massachusetts. Our **methodology** included interviews with FEMA headquarters, regional office, and state officials to obtain an understanding of internal control systems and to identify current issues or concerns relative to MEMA's management of disaster programs. Our audit considered FEMA and state policies and procedures and applicable Federal requirements. We reviewed documentation from MEMA, as well as from FEMA headquarters, the FEMA regional office, and the FEMA Disaster Finance Center in Berryville, Virginia. We selected and tested

⁵ FEMA closed this disaster on May 28, 2002.

⁶ FEMA closed this disaster on January 29, 2002

individual recipient files at the Massachusetts Department of Transitional Assistance (DTA)⁷ and representative projects at MEMA for compliance with applicable regulations. We also reviewed the state's procurement and property management procedures for compliance with Federal regulations.

We reviewed prior audits conducted within the timeframe of the disasters included in our audit scope. This included Single Audit Act audits conducted in compliance with OMB Circular A-133 and project-by-project subgrantee audit reports prepared by the Office of Inspector General (OIG). Our audit scope did not include interviews with or visits to MEMA subgrantees or project sites. Also, we did not evaluate the technical aspects of the work performed relative to the disaster related damage.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). 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 do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified. The report does not extend to any financial statements of the Commonwealth of Massachusetts or its Department of Emergency Management and should not be used for that purpose.

⁷ DTA manages the IFG program for the State of Massachusetts.

IV. Findings and Recommendations

The findings and recommendations focus on MEMA systems and procedures for ensuring that grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned MEMA's financial and program management activities for the PA, IFG and HMG programs and are summarized below.

We believe that proper and timely implementation of our recommendations will help to improve the overall management of FEMA programs and correct the noncompliance situations noted during the audit.

A. Financial Management

1. Improvement in Financial Reporting

MEMA's financial management system needed to be improved to properly account for and report on the status of FEMA disaster assistance programs. We noted that MEMA:

- Did not consistently report the non-Federal share of expenditures,
- Did not have a viable system for tracking the local share contributions for approved PA and IIMG projects, and
- Needed to improve its internal controls over the reconciliation of state reports with the Federal SMARTLINK⁸ accounts.

According to 44 CFR 13.20 and 13.41, grantees are to report grant expenditures to FEMA on a quarterly basis within 30 days after the end of each quarter. The reported expenditures should be based on the grantee's accounting records, and the financial reports should be accurate, current, and complete in their disclosure of all Federally assisted activities.

In addition, FEMA's *Guide to Managing Disaster Grants* states that the quarterly Financial Status Reports (FSRs) are a critical component of grant management because the reports (1) enable FEMA to carry out its financial stewardship duties, (2) serve as a point of verification to determine whether the grantee is expending Federal funds on a timely basis, and (3) are the official source of **cost-shared** information.

We reviewed FSRs for September 30, 2001, for the 17 approved grant programs within the 7 disasters and 2 emergencies included in the scope of audit. The review disclosed that MEMA did not report the non-Federal share of expenditures for 10 of the 17 programs. We did find that

⁸ SMARTLINK is the Federal Department of Health and Human Services payment system. It records and reports obligation and drawdown activities in support of FEMA's disaster assistance programs.

for 4 additional programs of the 17 programs, MEMA reported the state share but not the local amount of the non-Federal share.⁹

The lack of financial reporting of the state share, and sometimes the local share, by MEMA has continued for an extensive period of time. For example, for disasters which were declared as early as August 26, 1991, MEMA did not report the non-Federal share of the cost of the HMG grant programs to FEMA. The failure to report the full non-Federal share continued as demonstrated on the FSRs submitted to FEMA through September 30, 2001.

A MEMA official said that only the Federal and the state shares of expenditures were recorded in the state's accounting system. The local shares were not recorded because payments were not made by FEMA or the state to the subgrantees. MEMA added that the state's grant program managers ensured that the subgrantees contribute the local share when subgrantee reimbursement requests were reviewed for payment approval. Our review of procedures and documentation in support of reimbursement requests verified that the program officials approved payment of only 75 percent of the documented costs claimed in reimbursement requests.

MEMA's program officials notified the state's Accounting Department when payments were approved. However, the Accounting Department did not track local share contributions. As a result, the full amount of non-Federal share of expenditures was not readily available and was not always included on the FSRs submitted by MEMA. However, for some programs, the state reported the state share but not the local share of the total non-Federal contributions. MEMA officials acknowledged that a separate recording system to "track" the local share of expenditures would be helpful and agreed to consider establishing a tracking system.

The MEMA official responsible for preparing the FSRs stated that she was not aware of the requirement to report local shares. Furthermore, the MEMA official pointed out that regional officials had not questioned the non-Federal share not being reported on the FSRs even though the reports had been submitted each quarter as required by Federal regulations. Regional officials acknowledged that their attention had been directed toward the reporting of the Federal fund activity rather than to the reporting of the non-Federal shares.

In addition, as evidenced by the following examples discovered during our audit, MEMA needed to implement stronger internal controls for the reconciliation of the authorizations and expenditures in the state accounts with the SMARTLINK accounts. These examples were discussed with state officials and appropriate adjusting entries were made. However, making adjusting entries to these examples is not sufficient to strengthen the state's internal control system related to the reconciliation process. An effective reconciliation system is important to ensure that the state's financial reports accurately reflect the financial transactions in the state accounting system as well as the respective SMARTLINK accounts.

⁹ In Massachusetts, the grantee and subgrantees split the responsibility for the 25 percent non-Federal share of PA and HMG project costs. Each was responsible for 12.5 percent of the project cost.

- Disaster No. 1224 – A drawdown from SMARTLINK of \$2,179 was incorrectly charged to the HMG program under Disaster No. 1224. The draw should have been charged to Disaster No. 1142. MEMA officials said they would correct this error.
- Disaster No. 1224 – FEMA erroneously established an obligation of \$10,000 in SMARTLINK for a PA program under this disaster even though the Presidential declaration did not include a PA program. After this situation was brought to MEMA's attention, MEMA officials requested FEMA to de-obligate the \$10,000. An effective reconciliation system would have identified this error.
- Disaster No. 1364 – MEMA's FSR for September 30, 2001 reported the Federal authorized amount for the IFG program as \$1.5 million. The amount authorized was \$800,000 according to SMARTLINK. After this situation was brought to MEMA's attention, corrective action was taken.

Conclusions and Recommendations

The FSRs are the basic reporting mechanism by which FEMA can determine the financial status of the awards to state grantees. Quarterly financial reports provide visibility of the state reported financial activities. Without current, accurate, and complete state reports, FEMA's source for information concerning the financial activities of a program is primarily limited to the Federal systems. Consequently, it is important that the grantee have an effective process for assuring that its FSRs are in agreement with the amounts recorded in the state accounting system and SMARTLINK. It is also important that the grantee include accurate and complete amounts on the FSRs for the expenditure of the non-Federal share.

In addition, an effective regional office review and approval process is needed to ensure that the grantee financial reports are properly prepared and are submitted in accordance with Federal requirements.

Accordingly, we recommend that the FEMA Regional Director, Region I:

1. Require MEMA to establish procedures, including a system to track the non-Federal share of project costs, to ensure that accurate and complete FSRs are submitted to FEMA on a quarterly basis as required, and
2. Establish procedures within the regional office to ensure that the FSRs submitted by the grantee are reviewed in a timely manner and that appropriate feedback is provided to the grantee.

Management Response and Auditor's Analysis

The state officials did not comment on this finding. However, the Regional Director, Region I, concurred with the condition cited and committed to follow through on the recommendations. We consider the condition to be resolved, but the finding cannot be closed until the recommended procedures have been established.

2. Accounting for Administrative Allowances and Management Grant Costs

MEMA's accounting system was not adequate to assure that FEMA approved administrative allowances and management grants were used or accounted for in accordance with Federal requirements. We found that MEMA used the FEMA awarded allowances and management grants without distinguishing extraordinary expenses from other expenses as required. In addition, we found that MEMA allocated management grant costs on an availability of funds basis. As a result, there was no assurance that the Federally awarded administrative allowances and management grants were used for allowable purposes.

a. Use of Administrative Allowances and Management Grants

Under the PA and HMG programs, MEMA may receive funds from FEMA for costs associated with the management and administration of disaster assistance programs. Federal regulations (44 CFR 13.20) explicitly require that grantees maintain records and documents to identify and support the source and application of Federally funded expenditures. Federal regulations (44 CFR 206.228 and 206.439) clearly restrict the use of the administrative allowance for extraordinary costs. Extraordinary costs are for the preparation of applications for assistance, the preparation of quarterly reports, final audits, and related field inspections by state employees, including overtime pay, per diem and travel costs. The administrative allowance for extraordinary costs is calculated based on a formula in accordance with Federal regulations and the state receives 100 percent of the amount calculated. FEMA's policy requires that grantee records be retained to support administrative allowance expenditures, and that unexpended administrative allowances be de-obligated with the closeout of the PA and HMG programs.

Federal regulations (44 CFR 206.228 and 206.439) also provide that the state may be reimbursed for costs not covered by the administrative allowances through approved management grants. These costs are shared by FEMA and the state in accordance with the applicable FEMA/State Agreement.

Our review found that although expenses paid by MEMA were supported by appropriate documentation, MEMA did not separately account for expenses that should have been charged to the administrative allowance accounts versus those that should have been charged to a state management grant as required by Federal regulations.

For the PA program, MEMA tracked the expenses on informal worksheets. One worksheet tracked Federal funds received from approved management grants and the other worksheet tracked the administrative allowances received in conjunction with the approval of individual

projects. However, both worksheets contained the same types of expenses without identifying extraordinary expenses. For the HMG program, similar worksheets were not used.

The PA worksheets were used to assure that the expenses charged did not exceed the amount of funds received from FEMA approved management grants or administrative allowances. The expenses were listed on the worksheets based upon the balances remaining at the time an expense was being recorded rather than on the type of expense incurred. Our review showed that nearly all of the expenses incurred were the type that should have been charged as state management grant expenses.

MEMA officials said that distinctions between extraordinary versus other expenses were not made for any of the approved PA and HMG programs. The officials added that the use of informal worksheets started with the PA program for Disaster No. 1142. Similar worksheets have been used for subsequently approved disaster programs.

MEMA officials stated that the regional office had advised that the state's accounting system and procedures for management and administrative expenses were acceptable. However, the state could not provide documentation to support this approval. In addition, regional officials could not recall having provided any type of acceptance to the grantee on this matter.

b. Allocation of Management Grant Costs

According to 44 CFR 13.20 (a) (6), accounting records must be supported by source documentation. Also, Office of Management and Budget (OMB) Circular A-87 states that costs, to be allowable under Federal awards, must be (1) allocable to Federal awards, (2) necessary and reasonable for proper and efficient performance, and (3) adequately documented. A cost is allocable to a cost objective if goods and services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received. OMB Circular A-87 further provides that (1) any cost allocable to a particular Federal award may not be charged to other Federal awards, and (2) salaries and wages allocated to more than one cost objective must be supported by time and effort sheets or some other form of documentation supporting costs charged to each cost objective.

Public Assistance Grants

MEMA received FEMA approval for management cost reimbursement for only one declaration included in the scope of our audit. Although MEMA personnel and contract employees had devoted time and effort to other on-going disaster declarations and/or emergencies, MEMA charged all the PA management costs (\$367,068) to Disaster No. 1142.

Under MEMA's current time and attendance procedures, state employees and contract employees do not maintain documentation to support time charges to a particular disaster or other identifiable cost objective. Accordingly, under MEMA's procedures, there is no assurance that the allocation of management costs will be properly charged based on benefit accruing as required by OMB A-87 to the appropriate cost objective.

Hazard Mitigation Grants

Under the HMG program, FEMA approved management grants of \$189,925 and \$116,936 for Disaster Nos. 1142 and 1224, respectively. However, MEMA initially charged all costs to Disaster No. 1142. The estimates included HMG program employee salaries, fringe benefits, and indirect costs.

MEMA officials told us that MEMA's policy was to charge all costs to one disaster or emergency declaration at a time. According to MEMA officials, when the estimated amount of costs awarded for one disaster was reached, the costs were charged to another disaster. We were told by MEMA officials that, during the period of time when all charges were made to one disaster, MEMA employees and contract employees had been working on several different disasters and/or emergencies.

Because MEMA's employees do not record their time and effort by specific cost-objective(s), this policy is followed. As a result, we were not able to determine the proper amount of management costs that should have been charged to the respective disaster(s) and/or emergency declaration(s).

Conclusions and Recommendations

MEMA did not adequately assure that FEMA approved administrative allowances and management grants were used in accordance with Federal requirements. All types of expenses were charged as administrative or management expenses based upon the availability of funds in the respective accounts rather than the nature of the expense. The Federally imposed restriction that administrative allowances only be used for extraordinary expenses was not followed. As a result, the costs that should have been charged against the administrative allowance for each approved PA and HMG programs could not be readily determined.

In addition, MEMA's allocation of costs for the PA and HMG programs was not in compliance with 44 CFR 13.20 and the cost principles established in OMB Circular A-87. MEMA was charging costs to disasters but expending time on other disasters. The lack of time and effort reporting prevented us from determining what disasters MEMA employees were actually working on.

Accordingly, we recommend that the FEMA Regional Director, Region I, require MEMA to:

1. Review the charges to the administrative allowances and approved management grants for PA and HMG programs to determine the eligibility and type of expenses,
2. Establish accounting procedures to assure that the FEMA approved administrative allowances and management grants are used only for respective types of expenses required by Federal regulations, and
3. Prepare time and effort reports that adequately account for time by disaster and program for all individuals that work on multiple disasters.

Management Response and Auditor's Analysis

The state officials did not comment on this finding. However, the Regional Director, Region I, concurred with the condition cited and committed to follow through on the recommendations. We consider the condition to be resolved, but the finding cannot be closed until the recommended actions are completed.

B. Program Management**1. Closure of IFG Programs**

MEMA did not request closure of IFG programs in a timely manner. Our audit disclosed that MEMA did not submit closeout packages within the required timeframe. Although MEMA had received grant extensions from FEMA, the programs were not closed for significant periods of time after the extended period.

Federal regulations, 44 CFR 206.131, and the FEMA IFG Handbook require that state level grant activity be completed within 180 days following the disaster declaration date. The state is also required to complete all administrative activity within 90 days of the completion of the grant activity. All closeout documents are to be sent to the FEMA Regional Office within this 90-day period. The Regional Director may approve an extension for a period not to exceed 90 days if requested by the state. Therefore, the time allowed from date of declaration to submission of the state's closeout package is 270-days, unless the state requests and is granted an extension by the Regional Director.

For Disasters Nos. 1142, 1224, and 1364, the FEMA Regional Director granted extensions to the state to complete the IFG program and submit its closeout package. The extension date for the Disaster No.1142 program was July 25, 1997. However, the state did not submit its closeout package until March 2001. This was about 53 months after the date of the declaration and about 44 months after the administrative activity extension date of July 25, 1997 had expired.

For the Disaster Nos. 1224 and 1364 programs, the FEMA-approved extension periods had passed at the time of our audit (August 2002) but the state had not submitted the required closeout package. For Disaster No. 1224, FEMA had granted the state an extension to July 14, 2000. For Disaster No. 1364, FEMA had granted an extension to January 7, 2002. These disasters were declared on June 1998 and April 2001, respectively.

We discussed the delays in closing IFG programs with MEMA and Department of Transitional Assistance (DTA) officials who administer the IFG program for Massachusetts. We were advised that FEMA had suggested that the IFG program for Disaster No. 1224 remain open until several IFG applicant cases were resolved. However, in August 2002, we noted at that time no action has been taken either by the state or FEMA to resolve the open IFG cases. With regard to

the IFG program under Disaster No. 1364, state officials could not explain why the approved extension period had passed without the IFG program being closed.

Conclusions and Recommendation

Federal regulations establish time limitations for the closure of IFG programs. These same regulations provide for extensions of the time limits by the Regional Directors when warranted. Therefore, it is essential that the state establish appropriate procedures to ensure that closeout packages are submitted to FEMA within the agreed upon time periods.

Accordingly, we recommend that the Regional Director, Region I, require MEMA to establish procedures to ensure that IFG closeout packages are prepared and submitted within the approved time periods.

Management Response and Auditor's Analysis

The state officials did not comment on this finding. However, the Regional Director, Region I, concurred with the condition cited and committed to follow through on the recommendation. We consider the condition to be resolved, but the finding cannot be closed until the recommended procedures are established.

2. Improvements in Administrative and Program Planning

Improvements were needed in the preparation and submission of required administrative plans for the Individual and Family and Public Assistance programs, and the program plans for the Hazard Mitigation Grant program. We found that MEMA did not always submit the required plans. As a result, the grantee was not paying sufficient attention to compliance with the Federal planning documentation requirements.

a. Public Assistance Administrative Plans

In accordance with the administrative requirements set forth in 44 CFR 206.207, a PA administrative plan is to be submitted each year to the FEMA regional office for review and approval. Grantees are also required to prepare amendments to the plans to meet current policy guidance for each disaster for which PA is included.

MEMA had been inconsistent in the preparation and the submission of the required annual plans. Although a plan was submitted to FEMA for 1991, MEMA did not submit annual plans for 1992 through 1998. During that 7-year period, three disasters and four emergencies were declared in Massachusetts. For 1999, a plan was submitted and approved in August 2000, 23 months after the beginning of FY 1999. A plan was not prepared for the years 2000 and 2001.

In addition to not submitting annual administrative plans, MEMA did not prepare the required disaster specific plans for five of the seven disasters with PA grant programs that were included in the scope of our audit. MEMA said the plans were not prepared because FEMA had not requested the plans.

b. Hazard Mitigation Grant Program Plans

Under the Hazard Mitigation Grant program, within 180 days after a disaster is declared, the state is required to submit a Section 409 plan or plan update to FEMA for approval (44 CFR 206.405). The Section 409 plan is known as the Hazard Mitigation Program plan.

According to Federal regulations, a Section 409 Hazard Mitigation Program plan is supposed to address all natural hazards within the state and is to be used in connection with the review and approval of proposed individual hazard mitigation projects.

We noted that MEMA had not complied with the requirement that Section 409 program plans be submitted within 180 days after a disaster is declared. According to information provided by the state, Section 409 plans were not prepared in response to Disaster No. 1142. Disaster No. 1142 was declared on October 25, 1996.

On July 10, 1998, MEMA submitted a Section 409 plan to FEMA for review and approval. The plan was designated by MEMA as its "1998 update." Following the receipt of the regional office's comments in July 1999, MEMA revised the plan and resubmitted it for regional approval. The plan was approved by the regional office on August 28, 2000. The approved plan was designated as the "1999-2000 update."

According to MEMA officials, the Section 409 plan approved on August 28, 2000 was prepared "pursuant to Disaster Nos. 1142 and 1224." While the August 2000 plan was submitted within the 180-day requirement for Disaster No. 1224, it was not in compliance with this requirement for Disaster No. 1142.

We also noted that a Section 409 plan was not prepared for the HMG program under Disaster No. 1364, which was declared on April 10, 2001.

c. Individual and Family Grant Administrative Plans

According to 44 CFR 206.131, states are required to submit IFG administrative plans each January and immediately after each disaster to the FEMA regional office for approval. When implementing the IFG program the state must adhere to the criteria and procedures specified in these plans as approved by the Regional Director.

Although the state prepared an IFG disaster-specific administrative plan shortly after each disaster, it had not prepared the required annual plans. Accordingly, the state was not in compliance with the Federal IFG planning requirement that an administrative plan be approved in January each year.

Conclusions and Recommendations

The grantee's failure to submit required annual plans and disaster-specific plans in a timely manner demonstrates the need for improvement in the state's overall planning process. Moreover, an effective process within the regional office should have identified when required plans were not submitted in accordance with Federal requirements.

Accordingly, we recommend that the FEMA Regional Director, Region I:

1. Require MEMA to develop and implement appropriate procedures to ensure that required plans are submitted in a timely manner, and
2. Improve the regional office's procedures to ensure that the grantee complies with the Federal requirements for administrative and program plans and that the plans are timely approved.

Management Response and Auditor's Analysis

The Regional Director concurred that procedures were needed to ensure that required PA and IFG administrative plans were submitted in a timely manner. The Director committed to follow through on the recommended actions.

Regarding the HMG Program, the Regional Director stated that the Region had not required MEMA to submit a Program Plan for disaster 1364 due to the enactment of the Disaster Mitigation Act of 2000 that significantly changed the hazard mitigation planning process. FEMA published regulations implementing the Act on October 1, 2002. Those regulations required the grantee to submit a program plan by November 1, 2004 that meets its new requirements. In addition, the regulations stipulated that until that date, existing Hazard Mitigation Program Plan requirements are applicable. This necessitates that procedures be in place to ensure that required plans are submitted in a timely manner.

The Regional Director concurred that procedures were needed within MEMA and the regional office to ensure that the required program plans were submitted in a timely manner under both the old and the new HMG program. Accordingly, the finding is resolved, but cannot be closed until the recommended procedures are established.

3. Compliance with Single Audit Act Requirements

MEMA needed to improve its procedures for obtaining Single Audit Act reports from subgrantees. We found that MEMA did not have procedures for inquiring of subgrantees about other Federal funding sources and expenditures. MEMA's notifications to subgrantees incorrectly stated the threshold for requiring single audit. As a result, subgrantees were provided erroneous information on the Single Audit Act requirements.

For fiscal years beginning after June 30, 1996, states, local governments, and nonprofit organizations that **expend** \$300,000 or more in Federal funds during a fiscal year were required

to have an audit performed in accordance with the Single Audit Act requirements of 1996 and OMB Circular A-133. MEMA as the grantee was required to establish procedures to ensure compliance with the Act, including obtaining and reviewing Single Audit Act reports from subgrantees to identify non-compliance issues and internal control weaknesses that should be corrected.

We noted that MEMA's procedures to help assure compliance with the Single Audit Act involved notifying subgrantees **receiving** \$300,000 or more from MEMA that they were subject to the Single Audit Act and must submit a single audit report to MEMA. However, the Single Audit Act requirement applies only to subgrantees that **expend (not receive)** \$300,000 or more in Federal funds during their fiscal year. Additionally, subgrantees that received or expended less than \$300,000 from MEMA may have expended \$300,000 or more in combined Federal funds. However, MEMA had no procedures to ensure that these subgrantees also complied with the requirements of the Single Audit Act.

MEMA officials informed us that they planned to: (1) correct the follow-up letters sent to subgrantees by stating that the Single Audit Act pertains to subgrantees who **expend** \$300,000 or more in Federal funds during a fiscal year; (2) notify subgrantees, who have received less than \$300,000 from MEMA, that if they have received and expended \$300,000 in Federal funds the entity would be subject to the requirements of the Single Audit Act; and, (3) prepare a certification letter that will be sent to each of the subgrantees asking that the subgrantees certify if they are or are not subject to the Single Audit Act. MEMA stated that the final 10 percent in payments would be withheld until subgrantees complete and return the certification letter to MEMA.

Conclusions and Recommendations

MEMA is to be commended for its special efforts in identifying subgrantees that had been paid \$300,000 or more in MEMA funds. This effort resulted in MEMA receiving copies of Single Audit reports that might not have otherwise been received. However, MEMA's procedures did not include notifying subgrantees who received less than \$300,000 from MEMA but who may have received and expended such funds from other Federal sources. Accordingly, there is a possibility that some subgrantees that were required to have Single Audits performed had not been audited.

We recommend that the FEMA Regional Director, Region I, require MEMA to establish procedures to assure that:

1. Information provided to subgrantees is consistent with the requirements of the 1996 Single Audit Act, and
2. All subgrantees that expend more than \$300,000 of Federal funds in a year comply with the requirement to have a single audit performed.

Management Response and Auditor's Analysis

In response to the draft report, the regional office and MEMA officials concurred with the finding. MEMA provided documentation supporting that revised procedures were implemented to improve the grantee's compliance with the requirements of the Single Audit Act. Our review of these procedures concluded that the actions taken by MEMA are adequate to close the finding.

ATTACHMENTS

**Sources and Applications of Funds
As of September 30, 2001**

Disaster Nos. 914 thru 1364 and Emergency Nos. 3153 and 3165

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$133,285,924	\$5,233,538	\$16,444,796	\$154,964,258
Local Match/State Share	\$43,050,443	\$1,722,254	\$6,574,756	\$51,347,453
Total Award Amounts	\$176,336,367	\$6,955,792	\$23,019,552	\$206,311,711
Sources of Funds				
Federal Share (SMARTLINK)	\$115,248,017	\$4,563,513	\$9,340,884	\$129,152,414
Local Match/State Share	\$37,346,704	\$1,501,146	\$4,230,333	\$ 43,078,183
	\$152,594,721	\$6,064,659	\$13,571,217	\$172,230,597
Total Undrawn Authorizations	\$18,037,907	\$670,025	\$7,103,912	\$25,811,844
Application of Funds (Expenditures)				
Federal Share	\$116,217,652	\$4,585,277	\$9,390,590	\$130,193,519
Local Match/State Share	\$14,269,860	\$1,505,579	\$2,559,132	\$18,334,571
Total Application of Funds	\$130,487,512	\$6,090,856	\$11,949,722	\$148,528,090
Balance of Federal Funds On Hand	(\$969,635)	(\$21,764)	(\$49,706)	(\$1,041,105)

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 914
Declared August 26, 1991**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$28,895,942	\$0	\$698,546	\$29,594,488
Local Match/State Share	9,272,595	0	698,546	9,971,141
Total Award Amounts	\$38,168,537	\$0	\$1,397,092	\$39,565,629
Sources of Funds				
Federal Share (SMARTLINK)	\$28,895,942	\$0	\$698,546	\$29,594,488
Local Match/State Share	9,272,595	0	698,546	9,971,141
Total Sources of Funds	\$38,168,537	\$0	\$1,397,092	\$39,565,629
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$28,895,942	\$0	\$698,546	\$29,594,488
Local Match/State Share	3,924,237	0	0	3,924,237
Total Application of Funds	\$32,820,179	\$0	\$698,546	\$33,518,725
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	N/A	Closed	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 920
Declared November 4, 1991**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$8,609,870	\$1,792,550	\$665,409	\$11,067,829
Local Match/State Share	2,763,434	581,924	665,409	4,010,767
Total Award Amounts	\$11,373,304	\$2,374,474	\$1,330,818	\$15,078,596
Sources of Funds				
Federal Share (SMARTLINK)	\$8,609,870	\$1,792,550	\$665,409	\$11,067,829
Local Match/State Share	2,763,434	581,924	665,409	4,010,767
Total Sources of Funds	\$11,373,304	\$2,374,474	\$1,330,818	\$15,078,596
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$8,609,870	\$1,792,550	\$665,409	\$11,067,829
Local Match/State Share	1,035,268	581,924	0	1,617,192
Total Application of Funds	\$9,645,138	\$2,374,474	\$665,409	\$12,685,021
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	Closed	Closed	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 975
Declared February 21, 1992**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$13,127,105	\$0	\$349,438	\$13,476,543
Local Match/State Share	4,200,493	0	349,438	4,549,931
Total Award Amounts	\$17,327,598	\$0	\$698,876	\$18,026,474
Sources of Funds				
Federal Share (SMARTLINK)	\$13,127,105	\$0	\$349,241	\$13,476,346
Local Match/State Share	4,200,493	0	349,241	4,549,734
Total Sources of Funds	\$17,327,598	\$0	\$698,482	\$18,026,080
Total Undrawn Authorizations	\$0	\$0	\$197	\$197
Application of Funds (Expenditures)				
Federal Share	\$13,127,105	\$0	\$349,241	\$13,476,346
Local Match/State Share	1,639,777	0	0	1,639,777
Total Application of Funds	\$14,766,882	\$0	\$349,241	\$15,116,123
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	N/A	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1090
Declared January 24, 1996**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$24,752,882	\$0	\$0	\$24,752,882
Local Match/State Share	7,985,850	0	0	7,985,850
Total Award Amounts	\$32,738,732	\$0	\$0	\$32,738,732
Sources of Funds				
Federal Share (SMARTLINK)	\$24,752,882	\$0	\$0	\$24,752,882
Local Match/State Share	7,985,850	0	0	7,985,850
Total Sources of Funds	\$32,738,732	\$0	\$0	\$32,738,732
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$24,752,882	\$0	\$0	\$24,752,882
Local Match/State Share	0	0	0	0
Total Application of Funds	\$24,752,882	\$0	\$0	\$24,752,882
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	N/A	N/A	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1142
Declared October 25, 1996**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$35,011,942	\$1,440,988	\$12,877,513	\$49,330,443
Local Match/State Share	\$11,437,235	\$480,330	\$4,249,579	\$16,167,144
Total Award Amounts	\$46,449,177	\$1,921,318	\$17,127,092	\$65,497,587
Sources of Funds				
Federal Share (SMARTLINK)	\$27,252,841	\$1,440,988	\$7,043,214	\$35,737,043
Local Match/State Share	\$8,993,438	\$480,330	\$2,324,261	\$11,798,029
Total Sources of Funds	\$36,246,279	\$1,921,318	\$9,367,475	\$47,535,072
Total Undrawn Authorizations	\$7,759,101	\$0	\$5,834,299	\$13,593,400
Application of Funds (Expenditures)				
Federal Share	\$27,852,841	\$1,440,988	\$7,095,099	\$36,388,928
Local Match/State Share	\$3,424,941	\$480,330 *	\$2,365,033 *	\$6,270,304
Total Application of Funds	\$31,277,782	\$1,921,318	\$9,460,132	\$42,659,232
Balance of Federal Funds On Hand	(\$600,000)	\$0	(\$51,885)	(\$651,885)
Program Status September 30, 2001	Open	Closed	Open	

* Amount reported on FSR was \$0; however, MEMA's accounting department provided these amounts.

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1224
Declared June 23, 1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$10,000	\$1,200,000	\$1,853,890	\$3,063,890
Local Match/State Share	\$0	\$396,000	\$611,784	\$1,007,784
Total Award Amounts	\$10,000	\$1,596,000	\$2,465,674	\$4,071,674
Sources of Funds				
Federal Share (SMARTLINK)	\$0	\$717,800	\$584,474	\$1,302,274
Local Match/State Share	\$0	\$236,874	\$192,876	\$429,750
Total Sources of Funds	\$0	\$954,674	\$777,350	\$1,732,024
Total Undrawn Authorizations	\$10,000	\$482,200	\$1,269,416	\$1,761,616
	(See Note 1)			
Application of Funds (Expenditures)				
Federal Share	\$0	\$717,800	\$582,295	\$1,300,095
Local Match/State Share	\$0	\$239,267 *	\$194,099 *	\$433,366
Total Application of Funds	\$0	\$957,067	\$776,394	\$1,733,461
Balance of Federal Funds On Hand	\$0	\$0	\$2,179	\$2,179
	(See Note 2)			
Program Status September 30, 2001	N/A	Open	Open	

* Amount reported on FSR was \$0; however, MEMA's accounting department provided these amounts.

Note 1 - Disaster No. 1224 did not have a PA program. MEMA has requested the regional office to deobligate the \$10,000

Note 2 - The HMG \$2,179 was incorrectly charged (drawn) to 1224. It should have been charged to 1142. The error was corrected subsequent to the audit cut-off date of 09/30/01. Disaster No. 1142 was appropriately charged as part of the corrective action.

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1364
Declared April 10, 2001**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share		\$800,000	\$0	\$800,000
Local Match/State Share		\$264,000	\$0	\$264,000
Total Award Amounts	\$0	\$1,064,000	\$0	\$1,064,000
Sources of Funds				
Federal Share (SMARTLINK)	\$0	\$612,175	\$0	\$612,175
Local Match/State Share	\$0	\$202,018	\$0	\$202,018
Total Sources of Funds	\$0	\$814,193	\$0	\$814,193
Total Undrawn Authorizations	\$0	\$187,825	\$0	\$187,825
Application of Funds (Expenditures)				
Federal Share		\$633,939		\$633,939
Local Match/State Share		\$204,058 *		\$204,058
Total Application of Funds	\$0	\$837,997	\$0	\$837,997
Balance of Federal Funds On Hand	\$0	(\$21,764)	\$0	(\$21,764)
Program Status September 30, 2001	N/A	Open	Open	

* Amount reported on FSR was \$0; however, MEMA's accounting department provided this amount.

**Sources and Applications of Funds
As of September 30, 2001
Emergency No. 3153
Declared December 6, 1999**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,101,638	\$0	\$0	\$3,101,638
Local Match/State Share	\$996,456	\$0	\$0	\$996,456
Total Award Amounts	\$4,098,094	\$0	\$0	\$4,098,094
Sources of Funds				
Federal Share (SMARTLINK)	\$3,020,032	\$0	\$0	\$3,020,032
Local Match/State Share	\$966,410	\$0	\$0	\$966,410
Total Sources of Funds	\$3,986,442	\$0	\$0	\$3,986,442
Total Undrawn Authorizations	\$81,606	\$0	\$0	\$81,606
Application of Funds (Expenditures)				
Federal Share	\$3,023,791	\$0	\$0	\$3,023,791
Local Match/State Share	\$927,229	\$0	\$0	\$927,229
Total Application of Funds	\$3,951,020	\$0	\$0	\$3,951,020
Balance of Federal Funds On Hand	(\$3,759)	\$0	\$0	(\$3,759)
Program Status September 30, 2001	Open	N/A	N/A	

**Sources and Applications of Funds
As of September 30, 2001
Emergency No. 3165
Declared March 28, 2001**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$19,776,545	\$0	\$0	\$19,776,545
Local Match/State Share	\$6,394,380	\$0	\$0	\$6,394,380
Total Award Amounts	\$26,170,925	\$0	\$0	\$26,170,925
Sources of Funds				
Federal Share (SMARTLINK)	\$9,589,345	\$0	\$0	\$9,589,345
Local Match/State Share	\$3,164,484	\$0	\$0	\$3,164,484
Total Sources of Funds	\$12,753,829	\$0	\$0	\$12,753,829
Total Undrawn Authorizations	\$10,187,200	\$0	\$0	\$10,187,200
Application of Funds (Expenditures)				
Federal Share	\$9,955,221	\$0	\$0	\$9,955,221
Local Match/State Share	\$3,318,407 *	\$0	\$0	\$3,318,407
Total Application of Funds	\$13,273,628	\$0	\$0	\$13,273,628
Balance of Federal Funds On Hand	(\$365,876)	\$0	\$0	(\$365,876)
Program Status September 30, 2001	Open	N/A	N/A	

* Amount reported on FSR was \$0; however, MEMA's accounting department provided this amount.

List of Acronyms

CFR	Code of Federal Regulations
DHS	Department of Homeland Security
DSR	Damage Survey Report
DTA	Department of Transitional Assistance
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
GSA	General Services Administration
HMG	Hazard Mitigation Grant
IAO	Individual Assistance Officer
IFG	Individual and Family Grant
MEMA	Massachusetts Emergency Management Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PW	Project Worksheet

MANAGEMENT COMMENTS



Federal Emergency Management Agency

Region I

J.W. McCormack Post Office &
Courthouse Building, Room 442
Boston, MA 02109

OCT22, 2003

Mr. Gary Berard
Department of Homeland Security Office
of Inspector General
Atlanta Field Office- Audit Division, 3003
Chamblee Tucker Rd
Atlanta, GA 30341

Dear Mr. Berard:

Attached please find the State of Massachusetts response to the draft audit findings to the OJG audit of the state of Massachusetts Disaster Grant program. Region One has reviewed this response and concurs with its recommendations. The Region provides no additional comments. We request that you consider these recommendations when you compile the final report.

If you have any questions or need assistance please feel free to contact me or Chris Lynch, at 617-223-4564.

Daniel A. Craig

Sincerely,

A handwritten signature in black ink, appearing to read "D. Craig", is written over a horizontal line.

Regional Director
Enclosure



THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF PUBLIC SAFETY
MASSACHUSETTS EMERGENCY MANAGEMENT AGENCY

400 Worcester Road
Framingham, MA 01702-5399
Tel: 508-820-2000 Fax: 508-820-2030
Website: www.mass.gov/mema



Mitt Romney
Governor

Stephen J. McGrail
Director

Kerry Healey
Lieutenant Governor

Edward A. Flynn
Secretary

September 25, 2003

Daniel Craig
Region 1 Director
Federal Emergency Management Agency
U.S. Department of Homeland Security
J.W. McCormack POCH Building
Boston, MA 02109

Dear Director Craig,

I am writing to you to respond to the Audit of Disaster Assistance Grant Programs. A report was prepared by Foxx and Company who conducted the audit and said report includes the results of their audit and their recommendations to help improve the Commonwealth of Massachusetts's administration of the Federal Emergency Management Agency Disaster Assistance Grant Programs. At this time we would like to specifically address certain findings and respectfully request that the body of the final audit report reflect the additional information we are providing at this time.

Attached please find our comments. We thank you for your time and attention.

Sincerely,

Kevin Beauregard
Chief of Administration and Finance

Cristine McCombs
Disaster Recovery Manager

Cc: Foxx and Company

The following information rebuts the current Findings in the 2003 FEMA Audit, pages 16 and 17, in regards to the Massachusetts' State Hazard Mitigation Plan and Hazard Mitigation Grant (HMGP) Administrative and Program Plans.

(1) First, the HMGP Administration Plan. Beginning on page 16, the FEMA audit states under the heading, **Hazard Mitigation Grant Administrative and Program Plans:**

Under the Hazard Mitigation Grant Program, states are required to submit a Section 404 administrative Plan to FEMA for approval for each disaster (44 CFR 206.437). In addition, within 180 days after a disaster is declared, the state is required to submit a Section 409 Plan or plan update to FEMA for approval (44 CFR 206.405). The Section 409 plan is known as the Hazard Mitigation program plan.

On page 17, under the section entitled, **Hazard Mitigation Administration Plan**, the FEMA audit states:

Administrative plans were also not prepared by MEMA for individual disasters as required by Federal regulations. In this regard, we noted that only one plan covering two disasters had been prepared during the period covered by the audit even though six disasters have been declared that include HMGP programs. The Section 404 administrative plan prepared by MEMA was included as an addendum to the August 2000 approved Section 409 Hazard Mitigation Program plan. This administrative plan, like the Section 409 plan, was referred to by MEMA as prepared "pursuant to Disasters 1142 and 1224."

MEMA does not agree with these statements due to the incorrect interpretation of the Federal regulations. It should be noted that the current wording in 44 CFR 206.437 (as of Oct. 1, 2002) is:

Following each major disaster, the state shall prepare any updates, amendments or plan revisions required to meet current policy guidance or changes in the administration of the Hazard Mitigation Grant Program. Funds shall not be awarded until the administration plan is approved by the FEMA Regional Director.

The key word here is "any." If a state has no "updates, amendments or plan revisions" to a FEMA approved HMGP administrative plan at the time of a major disaster, *then the* state isn't required to submit a whole new plan.

According to Massachusetts' records, the state developed its first HMGP Administrative Plan in 1990 (see attached FEMA Region I approval letter). This plan was in place at the time of the Hurricane Bob in 1991 and the 1991 and 1992 coastal storms. The 1990 HMGP Administrative Plan was then updated in 1995 based on lessons learned from the previous disasters (see attached

FEMA Region I approval letters). This updated version was in place at the time of the 1996 and 1998 disasters (DR 1142 and 1224).

When the State Hazard Mitigation Plan was updated in 1998 and in 1999, the HMGP Administrative Plan was also updated and included as an appendix to the 409, or State, Hazard Mitigation Plan. In 1998, following the June 1998 floods, Dave Brown, FEMA's Hazard Mitigation Officer on DR 1224, requested an update to both the 409 State Plan and the Administrative Plan. Mr. Brown reviewed both plans and approved them (see attached 404 HMG.P Administrative Plan Review Checklist).

In 2000, FEMA/Region I approved the 409, or State, Hazard Mitigation Plan, including the HMGP Administrative Plan. These approved plans were in place at the time of DR 1364/Mar. 2001 floods (see attached approval letter).

(2) The second issue is the submittal and approval of the 409, or State, Hazard Mitigation Plan following recent disasters. Under *the* Section of the **Hazard Mitigation Program Plan** on page 17, the second, third and fourth paragraphs state:

We noted that MEMA has not complied with the requirement that Section 409 program plans be submitted within 180 days after a disaster is declared According to information provided by the state, Section 409 plans were not prepared in response to Disaster Nos. 1142 and 1224 declared on October 25, and 1996 and June 23, 1998, respectively.

On July 10, 1998, MEMA submitted a Section 409 plan to FEMA for review and approval, The plan was designated by MEMA as its "1998 update. "Following the receipt of the regional office's comments in July, 1999, MEMA revised the plan and submitted it for regional approval, The plan was approved by the regional office on August 28, 2000. The approved plan was designated as the "1999 2000 update."

According to MEMA officials, the Section 409 plan approved on August 28, 2000 was prepared pursuant to Disaster Nos. 1142 and 1224. "While the August 2000 plan was submitted within the 180-day requirement for Disasters No. 1224, it was not in compliance with the requirement for Disaster 1142".

FEMA is correct in stating that MA didn't meet the 180 day timeframe for submitting the 409, or State, Hazard Mitigation Plan following DR 1142/Oct. 1996. The update to this plan was being worked on when the June 1998 floods, or DR 1224, occurred.

The above paragraphs also have contradictory statements in regards to the 180 day timeframe for submitting the 409 Plan update following DR1224. The first paragraph stated that MEMA did not meet this timeline, yet the last line of the last paragraph states that MEMA did meet this timeframe.

FEMA timeframe in the second above paragraph is correct. The state did submit a 409 Plan update to FEMA following DR 1224/June 1998 floods within the 180 day timeframe. As **previously noted, this was the state plan submitted to FEMA** on July 10, 1998 and was approved

by FEMA's Hazard Mitigation Officer, David Brown, for the *June* 1998 Floods. The attached documentation of FEMA's approval includes a statement on the review checklist that the plan was submitted with 180 days of the disaster declaration. In addition, there is attached documentation, of the state's submittal of the 409 Plan to FEMA Region I on July 10, 1998 and further updates submitted on July 23, 1999. It should be noted that once the 409 Plan update was approved by FEMA in 1998 following DR 1224, the state was not under any obligation to submit an additional updated state plan, but the state did so anyway. The state received final approval on this plan from FEMA Region I on Aug. 28, 2000. This plan *was in place* when the DR 1364 was declared in April, 2001.

The last paragraph in the FEMA *audit on the Hazard Mitigation Program Plan* states.

We also noted that a Section 409 plan was not prepared for the HMG program under Disaster No. 1364 which was declared on April 10, 2001.

Massachusetts was under no obligation to *update its State plan* because DR 1364 occurred after the enactment of the Disaster Mitigation Act of 2000 which, under Section 323 c (2), repealed Section 409 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5176). This meant the repeal of the previously mentioned requirement of states updating its 409, or State, Plan, within 180 days following presidential disaster declarations.

In addition, in a meeting with FEMA Region I staff following DR 1364, the state was told (see attached minutes from the 4/18/01 meeting) that *"there is no longer a requirement that the state update its State Hazard Mitigation Plan and that new regulations in regards to mitigation planning and the DMA of 2000 will be released soon from FEMA national headquarters."* The state did prepare (under no obligation to any federal regulation) a short-term and long-term hazard mitigation strategy, in coordination with FEMA Region I and an Interagency Hazard Mitigation Committee, immediately following the 2001 floods.

The following information hopes to clarify the current procedures MEMA has in place for obtaining Single Audit Act reports from our subgrantees, It is important *to note that* our procedures were in place on November 5, 2002 prior to the Audit concluding.

On page 18, under the section entitled, Compliance **with Single Audit Act Requirements**, the FEMA Audit states:

MEMA needed to improve its procedures for obtaining Single Audit Act reports from subgrantees. We found that MEMA did not have procedures for inquiring of subgrantees about other Federal funding sources and expenditures. MEMA's notifications to subgrantees incorrectly stated the threshold for requiring Single Audit. As a result, subgrantees were provided erroneous information on the Single Audit Act requirements.

Attached for your review you will find a copy of a Certification of Compliance that relates to the Single Audit Act. Beginning on November 5, 2002 and continuing, we will be sending subgrantees this written notice. Following the close of *the* state fiscal year end in June, we will send to each and every city and town that received any Federal finding during that fiscal year this memorandum reminding them of the requirements of OMB circular A-133. In addition, at the time that a city and town is entering into the contract with us, they will be required to sign the Certification of Compliance with the Single Audit, Act of 1996. It is important to note that both of these actions were in place prior to the Audit concluding. As soon as the issue was brought to our attention we immediately sought to rectify.

Note: The attachments to the state's comments have been added to the audit workpapers.



FEMA

Mr. Gary Barard,
 Department of Homeland Security
 Office of Inspector General
 Atlanta Field Office- Audit Division
 3003 Chamblee Tucker Rd
 Atlanta, GA 30341

Dear Mr. Barard:

This letter details this Region's response to the draft audit findings of the GIG audit of the state of Massachusetts Disaster Grant program. Region One has reviewed the state of Massachusetts response and concurs with its response to the Single Audit Act Requirement and the Hazard Mitigation Administrative Plan. However, although we did not require a Hazard Mitigation Program Plan for Disaster 1364 due to the new regulations enacting the Disaster Mitigation Act of 2000, we will ensure the OIG recommendation, to have a plan, will be implemented under the new HM program. In addition, the Region concurs with the following findings and will follow through on the recommendations:

Page	Section and Description	Recommendations
11	A: Financial Management 1w, Improvement in Financial Reporting	1,2
14,15	A2. Accounting for Administrative Allowances and Management Grant Costs a. Use of Administrative Allowances and Management Grants b. Allocation of Management Grant Costs	1,2,3
16	B. Program Management I. Closure of IFG Programs	1
18	B2. Improvements in Administrative and Program Planning a. Public Assistance Administrative Plans b. Hazard Mitigation Program Plans c. IFG Administrative Plans	1,2

If you have any questions or need assistance please feel free to contact Chris Lynch, or me at 617-223-4564.

Sincerely,

Kenneth L. Horak
 Acting Regional Director

Note: The above letter provides additional detail to the comments submitted by the regional office on October 22, 2003.

Cc: Acting Deputy RD
 Division Directors