

Department of Homeland Security **Office of Inspector General**

The State of Michigan's Management of State
Homeland Security Program and Urban Areas Security
Initiative Grants Awarded During Fiscal Years 2007
Through 2009





OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

AUG 30 2012

MEMORANDUM FOR: Elizabeth M. Harman
Assistant Administrator
Grant Programs Directorate
Federal Emergency Management Agency

FROM: Anne L. Richards *Anne L. Richards*
Assistant Inspector General for Audits

SUBJECT: *The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 Through 2009*

Attached for your action is our final report, *The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 Through 2009*. We incorporated the formal comments from the Office of Policy and Program Analysis and State of Michigan officials in the final report.

The report contains nine recommendations aimed at improving the State's management of State Homeland Security Program and Urban Areas Security Initiative grants. Your office concurred with all nine recommendations. State of Michigan officials also agreed with the recommendations. Based on information provided in your response to the draft report, we consider recommendations 1, 4, 5, 6, and 9 resolved and open. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

Recommendations 2, 3, 7, and 8 remain unresolved and open. As prescribed by the Department of Homeland Security Directive 077-1, Follow-Up and Resolutions for the Office of Inspector General Report Recommendations, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



Table of Contents

Executive Summary	1
Background	2
Results of Audit	2
The State of Michigan’s Grants Management Practices Were Generally Effective, But Improvements Are Needed	2
UASI Regional Funds	3
Recommendations	7
Management Comments and OIG Analysis	8
Oversight and Monitoring	9
Recommendations	11
Management Comments and OIG Analysis	11
Federal Procurement Standards	12
Recommendations	13
Management Comments and OIG Analysis	13
Federal Inventory and Property Standards	14
Recommendation	16
Management Comments and OIG Analysis	16
State Administrative Agency’s Approval Processes	17
Recommendation	19
Management Comments and OIG Analysis	19



Appendixes

Appendix A: Objectives, Scope, and Methodology	20
Appendix B: Management Comments to the Draft Report	22
Appendix C: FEMA Homeland Security Grant Program	33
Appendix D: State Homeland Security Program and Urban Areas Security Initiative Funding	34
Appendix E: Project/Allowable Cost Approval Process	35
Appendix F: Schedule of Monetary Findings	36
Appendix G: Major Contributors to This Report	37
Appendix H: Report Distribution	38

Abbreviations

CFR	Code of Federal Regulations
DHS	Department of Homeland Security
EHP	Environmental and Historical Preservation
EMHSD	Emergency Management and Homeland Security Division
FEMA	Federal Emergency Management Agency
FY	fiscal year
HSGP	Homeland Security Grant Program
OIG	Office of Inspector General
SAA	State Administrative Agency
SHSP	State Homeland Security Program
UASI	Urban Areas Security Initiative



Executive Summary

The Department of Homeland Security (DHS) Office of Inspector General (OIG) has completed an audit of the State of Michigan's management of State Homeland Security Program and Urban Areas Security Initiative grants in accordance with Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*. The audit objectives were to determine whether the State of Michigan spent grant funds effectively and efficiently and complied with applicable Federal laws and regulations; and the extent to which funds awarded enhanced its ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other manmade disasters. The audit included a review of approximately \$98 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded to the State of Michigan during fiscal years 2007 through 2009.

The State of Michigan generally spent grant funds effectively, efficiently, and in compliance with applicable Federal laws and regulations. However, it did not ensure that the Urban Area Board conducted sufficient oversight of Urban Areas Security Initiative grant funds, that funds were allocated proportionate to associated risk, or that State actions regarding the use of regional funds were transparent. In addition, the State of Michigan did not have adequate oversight controls in place to ensure that subgrantees implement only projects aligned with approved investment justifications; follow Federal procurement and property standards; and receive grant funds in a timely manner. The State of Michigan has recently implemented a process to measure its preparedness. However, because of the recent implementation of this change, we did not evaluate the new process.

Our nine recommendations call for the Federal Emergency Management Agency (FEMA) to initiate improvements which, when implemented, should help strengthen program management, performance, and oversight. FEMA concurred with all nine recommendations. State of Michigan officials also agreed with the recommendations. Written comments to the draft report are incorporated as appropriate and included in their entirety in appendix B.



Background

FEMA awarded the State of Michigan (State) approximately \$111.8 million in Homeland Security Grant Program (HSGP) funds during fiscal years (FYs) 2007 through 2009. As part of this program, the State received \$98 million for State Homeland Security Program (SHSP) and Urban Areas Security Initiative (UASI) grants. (See appendix D for total SHSP/UASI grant funds by year.)

In 2003, by Executive order, the Governor of Michigan designated the Michigan State Police Emergency Management Division and the Director of the Department of State Police to administer homeland security response activities. The division was renamed the Emergency Management and Homeland Security Division (EMHSD) in 2006. In 2009, another Executive order reaffirmed the EMHSD as the State Administrative Agency (SAA) for HSGP funds. The EMHSD (grantee) administers all HSGP funds in addition to its other emergency management responsibilities. The Director of the Department of State Police serves as the State Director of Emergency Management and Homeland Security.

In February 2008, DHS OIG issued a report on the State of Michigan's use of grant funds.¹ OIG concluded that the SAA did an adequate job administering program requirements related to identifying statewide needs and strategy, disbursing grant funds, and ensuring that all of the available funds were used. However, the SAA did not have a documented analysis of how effective its efforts had been in preparing first responders for terrorist incidents. All recommendations were resolved and closed in July 2010.

Results of Audit

The State of Michigan's Grants Management Practices Were Generally Effective, But Improvements Are Needed

The State of Michigan generally spent grant funds effectively, efficiently, and in compliance with applicable Federal laws and regulations. Its strategic plans linked funding to all-hazards capabilities and to goals that were established based on risk assessments. It also implemented a process to approve allowable grant-related costs before subgrantees expended funds and requested reimbursements. (See appendix E for a description of the project/allowable cost approval process.)

¹ *The State of Michigan's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 through 2004* (OIG-08-26), dated February 2008.



However, although the SAA had a noteworthy process to approve allowable grant-related costs, it did not ensure that the Urban Area Board conducted sufficient oversight of UASI grant funds, that funds were allocated proportionate to associated risk, or that SAA actions regarding the use of regional funds were transparent. In addition, the SAA did not have adequate oversight controls in place to ensure that subgrantees implemented only projects aligned with approved investment justifications, followed Federal procurement and property standards, and received grant funds in a timely manner.

UASI Regional Funds

The Fiscal Years 2007 through 2009 Homeland Security Grant Program Guidance and Application Kits state that the UASI program is intended to enhance regional preparedness efforts. Urban areas must use these funds to employ regional approaches. However, we identified the need for improved oversight by the UASI Board of funds provided to the UASI regions. In addition, the UASI funding methodology to the counties appears disproportionate to the associated risks, and the SAA is not transparent on how it uses the UASI funds for the region's priorities.

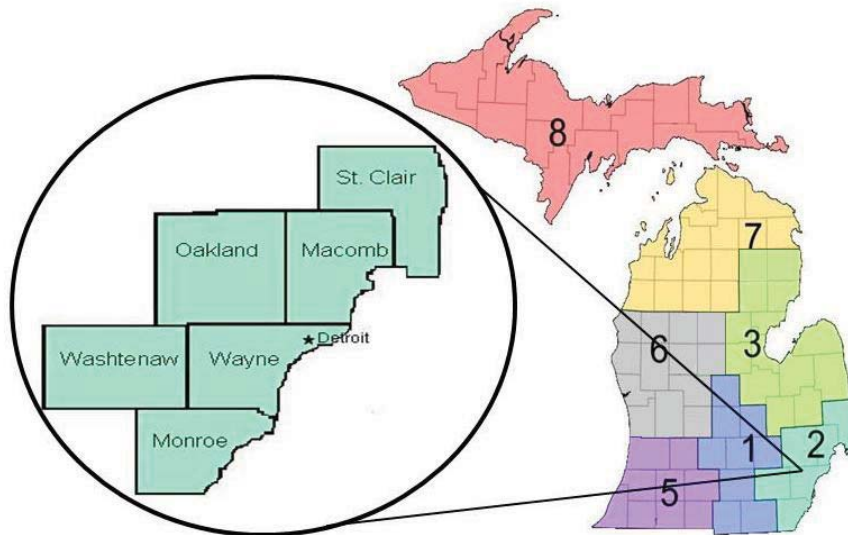
Oversight of UASI Funds

With the creation of the UASI program in 2003, DHS determined that the cities of Detroit, Sterling Heights, Warren, and a 10-mile buffer extending from the border of the combined urban area were at highest risk. With DHS' acceptance, the SAA expanded the urban area in 2006 when it created seven statewide Homeland Security Regions, as shown in figure 1. One of the seven statewide regions (Region 2) was designated as the urban area.² The EMHSD believed that regionalization would help subgrantees coordinate preparedness activities more effectively, spread costs, and share risk, thereby increasing the overall return on investment.

² The current UASI region is made up of the City of Detroit and the counties of Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne. It includes 219 cities, villages, and townships.



Figure 1. Current Homeland Security Regions and Urban Areas Security Initiative Region 2 Composition



Note: There is no Region 4.

Source: State of Michigan – Emergency Management & Homeland Security.

After the expansion of the UASI, the UASI Board was developed and charged with enhancing both inter- and intraregional capabilities to mitigate, protect against, respond to, and recover from large-scale disasters or other catastrophic events. The UASI Board is made up of voting members from the City of Detroit; the counties of Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne; and nonvoting members from disciplines such as health, maritime, and transit.

According to the Southeast Michigan Urban Area Security Initiative Board By-Laws, one of the Board’s objectives is “Determining program priorities and subsequent funding allocations to enhance homeland security capabilities for the region through the established process for the current grant cycle.” The process established by the Board uses committees that are aligned with each of the UASI regional investments. All issues and recommendations for spending grant funds come from the committees and are brought to the UASI Board for approval. This process reflects a unified approach and regional coordination, but it is used only to oversee the “regional” funds. There is no Board oversight of the “local” funds allocated to each of the six counties.

Of the total amount of UASI funding that the State receives from FEMA, the SAA is allowed to use 20 percent for direct support of the urban area. The remaining funds are allocated to the UASI region using two different methods. First, up to 25 percent is used for projects that must benefit the UASI region as a whole; these are considered the “regional” funds that the UASI Board oversees with the



help of the investment committees. The remaining “local” funds, approximately 75 percent, are allocated to the six counties that make up the UASI region through a risk-based methodology. However, there was no evidence of oversight of these funds and there was no process in place in the Board By-laws as to who would ensure that these funds were spent properly or track progress on these projects. Table 1 identifies the dollar amounts for funds allocated during FYs 2007–2009.

Table 1. UASI Funding Allocation

Award Allocation	FY 2007	FY 2008	FY 2009	Total
SAA share	\$ 2,926,000	\$ 2,838,200	\$ 2,696,320	\$8,460,520
“Regional” share	\$ 1,800,817	\$ 2,838,200	\$ 2,696,320	\$7,335,337
“Local” share	\$ 9,903,183	\$ 8,514,600	\$ 8,088,960	\$26,506,743
Total	\$14,630,000	\$14,191,000	\$13,481,600	\$42,302,600

Source: DHS OIG.

During interviews with UASI region personnel, issues concerning the need for oversight by the UASI Board were raised. For example, one county representative said that he has concerns that some regions might be spending local funds on projects that do not necessarily match the objectives and strategy for the region. An official from another county said that there is no formal process in place to tell his county what to do with its money. A third county representative said that counties are supposed to report to the UASI Board on the projects funded with their local share, but only that county has done so. In addition to the need for oversight by the UASI Board, one official said that the counties within the region do not communicate with each other, resulting in possible duplication of efforts, specifically with regard to equipment purchases. UASI Board members acknowledged this issue, as documented in their board meeting minutes.

According to the Fiscal Year 2009 Homeland Security Grant Program Guidance and Application Kit, the Urban Area Working Group (in this case, the Southeast Michigan UASI Board) is responsible for coordinating the development and implementation of all program initiatives. Further, the working group must ensure that its approach to critical issues such as grant management, grant administration, and funding allocation methodologies is formalized in a working group charter or other form of standard operating procedure related to the UASI governance. Although the By-laws are clear on the purpose and objectives of the Board, we saw no evidence of standard operating procedures on spending and project oversight by the Board for the more than \$26 million in “local” UASI funds during FYs 2007–2009.



Risk-based Allocation

The “local” share of the UASI funds is allocated to the six counties comprising the UASI area using a risk-based allocation method with four key criteria: population, population density, critical infrastructure/key assets, and *Superfund Amendments and Reauthorization Act* Title III sites (emergency planning on hazardous and toxic chemical sites). However, before the local share funds are allocated, the SAA gives each of the six counties an equal baseline amount. According to SAA officials, this baseline allotment is approximately 18 percent of the local funds available. According to the Fiscal Years 2007 through 2009 Homeland Security Grant Program Guidance and Application Kits, all the funds that each county receives may be used to fund projects or buy equipment that each county deems necessary, as long as the funds are used to achieve the UASI region’s goals, objectives, and priorities in the UASI strategy.

An SAA official said that the SAA’s reason for giving a baseline amount to each county was to follow a process similar to FEMA’s HSGP funding allocation methodology, whereby each of the 56 States and U.S. Territories receives a baseline amount before allocating based on risk. We note that FEMA included the HSGP baseline allocation because it was mandated by law, and States are not required to provide a baseline amount.

The SAA’s funding allocation method does not appear to maximize financial assistance to meet the needs of the urban areas with the highest threat and population density, as intended by the UASI program. According to SAA officials, all counties in the UASI region receive a baseline amount before risk-based allocations are made. This funding model, which includes regional, baseline, and risk-based allocations, results in areas with the largest populations and potentially highest risk receiving a less-than-proportionate share of UASI funds.

The SAA’s Use of UASI Funds

The SAA says that it places a very high priority on ensuring that all HSGP projects reflect regional coordination and establish specific capability-based outcomes. However, the SAA can be more transparent on how funds are being used to meet the UASI region’s investments detailed in the UASI strategy. According to the Fiscal Years 2007 through 2009 Homeland Security Grant Program Guidance and Application Kits, the SAA must obligate 80 percent of the funds awarded under UASI grant to local units of government, and may use the other 20 percent at its discretion for the betterment of the UASI region. For FYs 2007–2009, the SAA retained almost \$8.5 million (see table 1).



Several UASI regional personnel we interviewed said they were unaware of how the SAA-retained funds are benefiting the region. For example, one official said that they are not sure what the SAA does with its portion of the UASI funds. Another official said that there is a limited amount of transparency over the money the SAA uses, and wishes the SAA could provide them with more information to show how the funds are helping the region. A lack of communication among the SAA, UASI Board, and city and county officials seems to be the main reason for the uncertainty.

The Fiscal Years 2007 through 2009 Homeland Security Grant Program Guidance and Application Kits state that any UASI funds retained by the State must be used in direct support of the urban area. Furthermore, States must provide documentation to the Urban Area Working Group (UASI Board) and FEMA upon request demonstrating how any UASI funds retained by the State would directly support the urban area.

Written procedures that are effectively implemented on the oversight of all UASI funds, along with improved communication between the principal UASI agencies, may enhance both inter- and intraregional capabilities to mitigate, protect against, respond to, and recover from disasters or other catastrophic events. In addition, even though there was no evidence of waste, better oversight and communication may help avoid wasting grant funds on duplicate projects, equipment, and training.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate for the Federal Emergency Management Agency:

Recommendation #1:

Direct the SAA to direct the UASI Board to establish procedures on oversight responsibilities over all UASI funds to ensure that all regional and local projects and investments are coordinated, projects are implemented, and progress is tracked.

Recommendation #2:

Direct the SAA to review the UASI funding allocation methodology to ensure that funds are spent on the highest-risk areas within the UASI region.



Recommendation #3:

Direct the SAA to provide documentation to the UASI Board and region officials showing how funds retained by the SAA have been used to support the urban area.

Management Comments and OIG Analysis

FEMA concurred with recommendations 1, 2, and 3. In early 2011, language was added to the Urban Area Working Group Charter and subgrantee award documents to ensure meaningful local and regional coordination and collaboration of project activity. FEMA stated that in September 2012, it will monitor the UASI on-site and will verify that improvements to UASI oversight and coordination processes are being implemented efficiently and effectively and are consistent with UASI program guidance.

FEMA recommends that recommendations 2 and 3 remain open for 90 days or until the SAA is able to demonstrate to FEMA that (1) UASI funds are being applied proportionate to areas of highest risk within the UASI region, and (2) programs and projects supported with UASI funds retained by the SAA are applied to programs and projects that directly support the urban area and are shared and coordinated with the UASI Board.

The SAA agreed with recommendations 1, 2, and 3. According to the SAA, it has taken steps to improve the efficiency and effectiveness of the UASI program. The SAA directed the UASI Board to establish oversight procedures for all UASI funds to ensure that all investments and regional and local projects are coordinated and implemented, and that progress is tracked. The SAA's directives were included in the grant agreement beginning with the FY 2010 HSGP award.

The SAA stated that it has reviewed the UASI funding allocation methodology and believes that the methodology does ensure that funds are spent on the highest-risk areas within the UASI region and that the methodology is in compliance with grant guidance. In addition, the SAA noted that FEMA does not require a particular funding allocation methodology. According to the SAA, its funding methodology used to award allocations to each UASI jurisdiction was modeled after the risk-based methodology developed by DHS to distribute funds nationwide.

The SAA stated that it makes a quarterly PowerPoint presentation to the Homeland Security Advisory Committee to show the State's progress on each objective in the State Homeland Security Strategy. To improve information flow,



the SAA will make a presentation to the UASI Board annually, with an overview of new State Agency awarded projects supported by UASI funds.

The actions proposed by FEMA and taken by the SAA meet the intent of recommendation 1. If properly implemented, the actions identified in the responses should address the conditions identified during the audit. This recommendation is considered resolved and open, pending final implementation of the proposed corrective actions.

The FEMA and SAA responses include positive steps for implementing recommendations 2 and 3. However, until FEMA provides a firm timetable for implementing the recommendations, these recommendations will remain unresolved and open.

Oversight and Monitoring

The SAA can improve its oversight and monitoring of its subgrantees in four different areas. Specifically, oversight of the project justification process needs to be improved to ensure that subgrantees implement only projects aligned with approved investment justifications. In addition, the SAA must oversee subgrantees to make sure they follow Federal procurement standards, as well as inventory and property standards, so that items are acquired and accounted for properly. Finally, the SAA needs to modify its subgrant agreement and purchasing processes to improve its timeliness in making grant funds available to subgrantees and expediting purchases for planned projects.

Project Justifications

FYs 2007–2009 grant agreements with FEMA require recipients to fund only projects included in the investment justifications³ submitted to DHS and evaluated through the peer review process. Each of the 3 grant years had specific investments under which approved projects were to be aligned. The SAA requires the subgrantees to submit project justifications that align with the investments. The project justifications must be submitted by the subgrantee and approved by the SAA prior to starting any project.

For the subgrantees we selected (see appendix A for details), we tested 150 out of 499 projects (30 percent) approved by the SAA to be funded with FYs 2007–2009 SHSP or UASI grant funds. We reviewed quarterly reports, which included

³ The investment justification is the method by which States and urban areas request HSGP funding. It describes specific projects that will help enhance and sustain capabilities and achieve outcomes aligned with their respective homeland security strategies.



project overviews and objectives, and compared them with baseline purposes and descriptions, funding plans, and accomplishments included in the corresponding investment justifications approved by FEMA. Of the 150 SAA-approved projects, we determined that 14 project justifications were aligned with the wrong investment justification, and another 12 were aligned with multiple investment justifications.

An SAA official said that the misalignments and multiple alignments occurred because the subgrantees responsible for filling out the project justification form were not being adequately trained on aligning projects with investments and documenting them properly on the form. In addition, it appeared that the SAA did not identify and document the discrepancy on the original project and return it to the subgrantee for correction, but rather approved the original document.

According to the SAA's standard operating procedure on DHS subgrantee project monitoring and reporting, the Performance and Reporting Unit is to evaluate project justifications for completeness, focusing on alignment with the investments approved for the award and objectives to be accomplished with the project. If projects are misaligned under the wrong investment justification, budgeting and reporting information could be erroneous, projects and equipment purchases could be duplicated, and the SAA could be submitting unallowable costs to FEMA.

SAA officials acknowledged the misalignments of the project justifications. Although the SAA says that it is making changes to the process, including revised forms and improved training, issues remain with some justifications whose misalignment could result in unallowable costs.

As an example, an SAA-approved project costing \$517,000 purportedly aligned under UASI Investment #3, "Enhance Regional Fusion Capability to gather, analyze, and disseminate information to all sectors." However, the project overview describes enhanced activities for a membership-driven law enforcement management information system used by police and sheriff's departments. The system provides members access to information such as electronic citations, accident reports, fingerprints, and mug shots. The approved investment, which supports the establishment of a fusion center,⁴ and the project description (law enforcement management system) do not appear to

⁴ Fusion centers are analytical and information-sharing entities that bring agencies together to assess local implications of threat information in order to better understand the general threat picture. These centers analyze information and identify trends to share timely intelligence with Federal, State, and local law enforcement, including DHS, which then share this information with other members of the Intelligence Community.



match. This project was approved by the SAA and implemented even though it was not aligned with a FEMA-approved investment justification. This investment justification (UASI Investment #3) is unique to the fusion center and should not have been used as justification for any other projects.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate for the Federal Emergency Management Agency:

Recommendation #4:

Direct the SAA to improve oversight and monitoring of the subgrantees' project justifications to ensure that subgrantees implement only projects included in FEMA-approved investment justifications, and improve subgrantee training on preparation of the project justification form.

Recommendation #5:

Review the SAA's project justifications to determine whether they are correctly aligned with approved investment justifications, and if not, determine whether any projects result in questioned or unallowable costs.

Management Comments and OIG Analysis

FEMA concurred with recommendations 4 and 5. During 2011, FEMA randomly reviewed the SAA's project justifications for multiple regions across the State as well as all project justifications from the UASI for the grant years referenced. Although there was evidence of some misaligned projects having been approved, corrections were made through Investment Justification modifications. FEMA reviewed the SAA's business process for project justifications and approval and found that safeguards are in place to mitigate the potential for unallowable cost. FEMA also stated that the SAA makes available to subgrantees technical assistance and training for project justification preparation through SAA-sponsored conferences, workshops, and on-site visits.

In August 2012, FEMA will monitor the SAA on-site and will again review and verify that subgrantee projects align with FEMA-approved Investment Justifications and that adequate safeguards are in place. In addition, FEMA will review the State's project justifications for the grant years referenced to determine whether they are correctly aligned with approved Investment Justifications and whether corrective actions are necessary to address any questionable or unallowable cost.



The SAA agreed with recommendations 4 and 5. The SAA believes that this is a documentation issue related to implementing a new process. According to the SAA, it developed and implemented the Project Justification/Allowable Cost Justification/Quarterly Reporting process for the FY 2007 Homeland Security grants. As with any new process, there is a learning curve for using and understanding the process. The SAA stated that it has identified the problems and updated the forms to facilitate accurate completion. State agencies now must attend mandatory training to be eligible to submit projects, and additional training is provided for local subgrantees at annual regional grant roll-out presentations and fiduciary training. According to the SAA, additional processes have been implemented to improve documentation of the review and approval of the alignment with investments.

The SAA stated that it has submitted supplemental documentation to FEMA that identifies that the planned projects are correctly aligned with approved investments and all are allowable. It is the SAA's understanding that FEMA has reviewed the supplemental information and has determined that the projects are aligned with an approved investment and are allowable.

The actions proposed by FEMA and taken by the SAA meet the intent of recommendations 4 and 5. If properly implemented, the actions identified in the responses should address the conditions identified during the audit. These recommendations are considered resolved and open, pending final implementation of the proposed corrective actions.

Federal Procurement Standards

Although the SAA refers to procurement regulations in its grant agreements, it can improve its monitoring of subgrantees to ensure that they are in compliance with Federal procurement requirements. Specifically, we noted that several subgrantees did not document their procurement process and maintain adequate records to detail the significant history of a procurement as required in the Code of Federal Regulations (CFR), Title 44 §13.36. The SAA performs only a single onsite monitoring review of subgrantee procurement procedures during closeout of a grant award.

We reviewed 38 procurement actions executed during the scope of our audit and found 14 instances where subgrantees awarded noncompetitive contracts and did not provide supporting documentation to justify their actions. Federal regulation 44 CFR 13.36(a) requires grantees and subgrantees to follow the same policies and procedures they use for procurements from non-Federal funds as long as they conform with applicable Federal law. For example, one subgrantee procured a 3-month rental of a traveling exhibition for \$40,000. The subgrantee



paid for the service before receiving adequate documentation from the vendor regarding the sole source procurement. There was no documentation in the procurement file supporting the subgrantee’s research of other vendors capable of presenting a similar exhibit.

As a result of the inadequate procurement documentation, purchases made could be unallowable, in which case funds used for those purchases should be returned to FEMA. In addition, without adequate documentation and compliance with Federal procurement regulations, there is an increased risk of not receiving full benefit for the funds expended. We identified an estimated \$1 million in unsupported costs for the noncompetitive contracts awarded, as shown in table 2.

Table 2. Number of Noncompetitive Contracts and Estimated Dollar Value

Funding	Fiscal Year	Number of Contracts	Contract Amount
State Homeland Security	2007	8	\$679,426
Urban Areas Security Initiative	2007	6	\$406,228
Totals		14	\$1,085,654

Source: DHS OIG.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate for the Federal Emergency Management Agency:

Recommendation #6:

Direct the SAA to improve oversight to ensure that subgrantees follow Federal procurement requirements.

Recommendation #7:

Review costs associated with noncompetitive contracts and determine whether the costs are allowable and properly supported.

Management Comments and OIG Analysis

FEMA concurred with recommendations 6 and 7. FEMA will undertake on-site programmatic monitoring of Homeland Security Grant funds awarded to Michigan for the referenced grant years. During the visit, FEMA will formally



review the SAA's business process and procedures for ensuring subgrantee compliance with Federal procurement requirements.

Staff of FEMA's Grant Programs Directorate, in concert with FEMA's Region 5 financial analyst, will review costs associated with noncompetitive contracts referenced in the OIG report and determine whether the costs are allowable and properly supported. FEMA recommends that recommendation 7 remain open for 90 days or until the SAA is able to substantiate the status of all unsupported cost findings and noncompetitive contracts referenced in the report.

The SAA agreed with recommendations 6 and 7. According to the SAA, it strictly adheres to all Federal procurement policies and regulations, including Federal grant guidance, regarding procurement actions. The SAA notifies subgrantees of procurement requirements in the grant agreements, trains subgrantees during grant roll-out presentations, and reviews procurement procedures and transactions of subgrantees during on-site monitoring visits. To improve oversight, the SAA stated that it prepared an informational bulletin on procurement issues that was disseminated to all HSGP subgrantees and conducted additional training on procurement requirements for all HSGP fiduciaries.

The SAA believes that the issue related to recommendation 7 is a documentation issue and not one of unallowable or questioned costs. The SAA will submit supplemental information to FEMA to determine that the costs are allowable and properly supported.

The actions proposed by FEMA and taken by the SAA meet the intent of recommendation 6. If properly implemented, the actions identified in the responses should address the conditions identified during the audit. This recommendation is considered resolved and open, pending final implementation of the proposed corrective actions.

The responses of FEMA and the SAA include positive steps for implementing recommendation 7. However, until a firm timetable for implementing the recommendation is provided by FEMA, this recommendation will remain unresolved and open.

Federal Inventory and Property Standards

We identified instances in which subgrantees did not consistently follow Federal inventory and property standards in 44 CFR 13.32. Our review of 15 subgrantees that had acquired equipment showed that 4 of the 15 did not have adequate inventory controls in place. We identified incomplete property records that did



not include critical information such as costs, serial numbers, and location identifiers. We also identified situations in which equipment purchased with grant funds was not properly secured.

For example, in one case a subgrantee purportedly allowed a private citizen to store and use a \$12,000 AM/FM portable radio transmitter to broadcast traffic and travel information to the attendees of a community event (neighborhood holiday light show). According to SAA officials, the holiday light show attracts a large volume of vehicles, causing traffic delays along deputy-controlled routes to and from the neighborhood. Although the county emergency manager placed the transmitter at the site, the private citizen keeps the transmitter in his garage during the holiday season instead of its being adequately secured by the subgrantee. A sticker on the transmitter reads, "This piece of equipment was purchased with DHS grant funds." An official with the subgrantee said that the citizen did not maintain the equipment, but that it was held by the local police department and an agreement exists between the police department and the citizen. However, we did not receive a copy of such an agreement in response to our request.

Also, a grant-funded radio costing more than \$7,500 was housed in a mobile command vehicle for use during emergencies to coordinate actions of police and fire departments. Although the vehicle was held at an airport where adequate controls do exist, the subgrantee assigned responsibility and control of the vehicle to a private citizen who is not employed by FEMA, the State of Michigan, or the subgrantee. The citizen maintains a set of the vehicle's keys and drives the vehicle, and is currently training another private citizen to operate the vehicle.

Grantees and subgrantees receiving SHSP and UASI grant funds are required to comply with all applicable laws, regulations, and program guidance. Also, grantees and subgrantees are to maintain records sufficient to detail significant procurement history. Federal regulation 44 CFR 13.32 establishes procedures for managing equipment, whether acquired in whole or in part with grant funds, and includes the following minimum requirements:

- Property inventory records must be maintained and must include 12 data elements for each item: unit cost, description, source, acquisition date, identification number, location, title holder, use, condition, percentage purchased with Federal funds, ultimate disposition date, and sales price. 44 CFR 13.32(d)(1).



- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. 44 CFR 13.32(d)(3).

Inaccurate, incomplete, and missing records may impede subgrantees' ability to make sound management decisions regarding future equipment needs and to prevent potential duplicate purchases.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate for the Federal Emergency Management Agency:

Recommendation #8:

Direct the SAA to improve oversight to ensure that subgrantees follow Federal inventory and property requirements, and adequately secure property purchased with grant funds.

Management Comments and OIG Analysis

FEMA concurred with recommendation 8. Staff of FEMA's Grant Programs Directorate, in concert with a FEMA Region 5 financial analyst, will review the SAA's business process for monitoring subgrantee compliance with Federal inventory and property requirements, and adequately securing property purchased with grant funds. FEMA recommends that recommendation 8 remain open for 90 days or until the SAA is able to demonstrate that processes and protocols are in place to ensure subgrantee compliance with Federal inventory and property requirements.

The SAA agreed with recommendation 8. The SAA stated that it has included Federal property requirements in all grant agreements between the SAA and the subgrantees. In addition to identifying the requirements, the grant agreement specifically states that the subgrantee's responsibilities include the requirements to annually submit a copy of the inventory to the SAA's Audit Unit. Additional training was provided to subgrantees on the inventory and property requirements at the grant roll-out presentations. Equipment and property are reviewed during on-site monitoring. To improve oversight, the SAA stated that it has redesigned the property inventory control forms to capture each information element in the Federal inventory and property requirements.

The responses of FEMA and the SAA include positive steps for implementing recommendation 8. However, until FEMA provides a firm timetable for



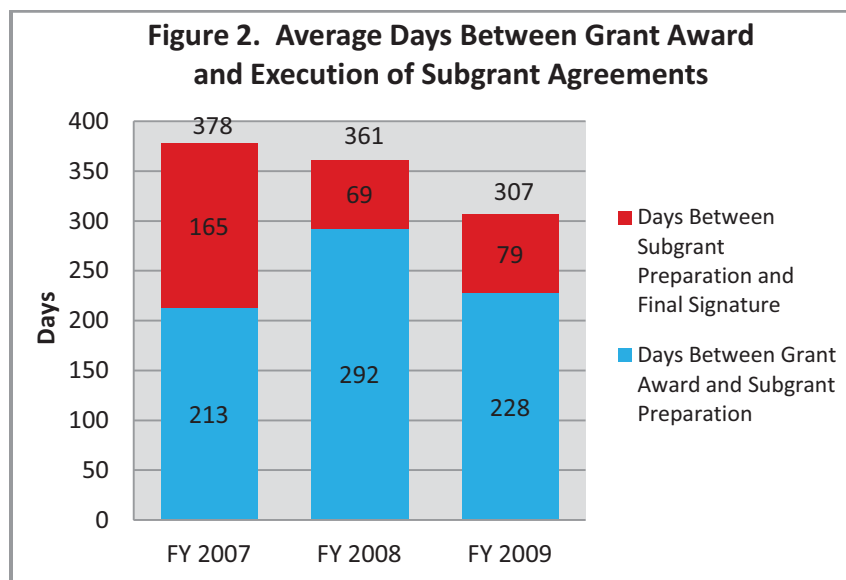
implementing the recommendation, this recommendation will remain unresolved and open.

State Administrative Agency's Approval Processes

HSGP guidance requires each SAA to obligate at least 80 percent of the total grant program amount to local units of government, including identified urban areas, within 45 days of receipt of funds (60 days in FY 2007).

Although the SAA allocated grant funds to subgrantees in accordance with Federal requirements, the funds were not available for expenditure in a timely manner. SAA officials indicated that subgrantees will not be eligible to receive reimbursement of grant funds until the SAA receives a fully executed subgrant agreement.

We reviewed 43 subgrant agreements executed during FYs 2007–2009 and found that the SAA executed subgrant agreements an average of 348 days after FEMA award letters were issued. We calculated two distinct timeframes to come up with the number of days it took to execute the subgrantee agreement: first, the date from when FEMA sent the grant award letter to the SAA, and the SAA signed the grant agreement and sent the agreement to the subgrantees; and second, the time it took for the subgrantee to review the grant agreement, sign the agreement, and send it back to the SAA so the grant agreement could be executed and funds could be obligated. Figure 2 shows the average time each of these phases took and the total amount of time for the entire process during FYs 2007–2009.



Source: DHS OIG.



Although the SAA can realistically control only the time required to prepare, sign, and send the grant agreement to the subgrantees for their signature, we looked at the entire approval process to see where the delays were occurring. For example, for grant years 2007–2009, one county completed its subgrant agreements 518, 439, and 423 days, respectively, after the SAA received the award letter from FEMA. For the 2007 grant agreement, the SAA held the agreement for 368 days, while the county did not return the signed agreement for 150 days. In 2008, the SAA held the grant agreement for 328 days and the county held it for 111 days. In 2009, the SAA held the grant agreement for 220 days and the county held it for 203 days.

It is evident that both the SAA and subgrantee phases have delays, and the entire grant agreement process needs to be expedited. The SAA's lengthy process to execute a subgrant agreement restricts the subgrantees' ability to plan and expend funds to complete projects. As a result, subgrantees could experience delays in acquiring equipment, training, and performing exercises they need to prepare to address catastrophic events.

Additionally, we reviewed 58 purchase approvals and found that the time the SAA took to approve purchases ranged from 1 to 176 days, with an average of 41 days. Officials from two different regions reported SAA delays as a major constraint in the purchase of equipment. Because the SAA does not have a standard or target timeframe for responding to requests for purchase approvals, the purchase of critical equipment could be delayed.

Part of the reason for the delays is that, in some instances, FEMA requires subgrantees to comply with Environmental and Historic Preservation (EHP) requirements and assess projects for environmental impact, with a few exceptions such as training and exercises.⁵ For example, on September 22, 2009, one subgrantee submitted a cost justification for two 911 consoles (workstations used by dispatchers in an emergency operation center), which was not approved until March 17, 2010, 176 days later. The SAA only conditionally accepted the cost justification pending a potential EHP review, as the project equipment included antennas. As a best practice, it would be beneficial for the SAA to remind subgrantees of the timeframes associated with EHP requirements early in the grant process so they can plan equipment purchase and installation.

⁵ According to the FY 2009 *Homeland Security Grant Program Guidance and Application Kit*, a "[r]ecipient shall not undertake any project having the potential to impact EHP resources without the prior approval of FEMA, including but not limited to communications towers, physical security enhancements, new construction, and modifications to buildings, ... that are at least 50 years old Recipient must comply with all conditions placed on the project as the result of the EHP review."



The existing approval processes significantly reduce time available for subgrantees to make expenditures and be reimbursed by the SAA and delay overall expenditure of grant funds.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate for the Federal Emergency Management Agency:

Recommendation #9:

Direct the SAA to assess the current processes for executing subgrant agreements and purchase approvals and work with all involved parties to identify opportunities to expedite the processes.

Management Comments and OIG Analysis

FEMA concurred with recommendation 9. FEMA has reviewed with the SAA the timeliness of subgrantee project approvals and is satisfied that the SAA moves as expeditiously as the various requirements of project approval will allow. During the August 2012 SAA on-site monitoring, FEMA will determine the additional progress for moving subgrant agreements toward the required 45-day obligation.

The SAA agreed with recommendation 9. According to the SAA, it obligates grant funds to subgrantees in compliance with Federal requirements of 45 or 60 days, and notifies all subgrantee by email and conference calls of their award amount. The SAA stated that it has also developed the Regional Investment Project Projection sheet for submission by the subgrantees to begin planning for the expenditure and timeframe of the grant award, and to encourage the regions to plan strategically for upcoming grant years. In addition, the SAA stated that it has reviewed the grant agreement and purchase approval processes to identify efficiencies; implemented a requirement for the regional board to identify its fiduciary at least 60 days prior to receipt of the grant award letter; and significantly reduced the time for sending grant agreements to subgrantees.

The actions proposed by FEMA and taken by the SAA meet the intent of recommendation 9. If properly implemented, the actions identified in the responses should address the conditions identified during the audit. This recommendation is considered resolved and open, pending final implementation of the proposed corrective actions.



Appendix A Objectives, Scope, and Methodology

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

The audit objective was to determine whether the State of Michigan (1) spent grant funds effectively and efficiently, and (2) complied with applicable Federal laws and regulations and DHS guidelines. We also determined the extent to which funds awarded enhanced the ability of each grantee to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other manmade disasters. The scope of the audit included the SHSP and UASI grant awards for FYs 2007–2009, as described in appendix C.

The audit methodology included work at FEMA headquarters, State of Michigan offices, the urban area that received grants, and other subgrantee locations. We analyzed data, reviewed documentation, inspected equipment, and interviewed key State officials directly involved in the management and administration of the State of Michigan’s Homeland Security Grant Programs. The State of Michigan has recently implemented a process to measure its preparedness. However, because of the recent implementation of this change, we did not evaluate the new process.

Our site visit selection was based on a judgmental sample based on combined SHSP and UASI grant awards for FYs 2007–2009. The top four regions and top six State agencies were selected for review, representing 83 percent and 90 percent of awards and 81 percent and 92 percent of expenditures, respectively. One of the selected regions (Region 2) comprised the UASI, and included the City of Detroit and the six individual counties. We conducted site visits at the following 17 organizations:

1. Region 1	10. Washtenaw County
2. Region 2	11. Wayne County
3. Region 3	12. Department of Community Health
4. Region 6	13. Department of Military and Veterans Affairs
5. City of Detroit	14. Department of Transportation
6. Macomb County	15. Emergency Management and Homeland Security
7. Monroe County	16. Michigan Department of State Police
8. Oakland County	17. State Administrative Agency
9. St. Clair County	



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

For our compliance test work, we selected the following samples:

- Project Justifications – judgmentally selected 150 out of 499 projects approved by the SAA and funded with FYs 2007–2009 SHSP or UASI grant funds,
- Inventory and Property Standards – tested 15 out of the 17 subgrantees visited that acquired equipment during the scope of our review,
- Subgrant Agreements – reviewed all 43 grant agreements during the scope of our review for the subgrantee site visits,
- Federal Procurement Standards – reviewed 38 judgmentally selected procurement actions executed during the scope of our review, and
- Purchase Approvals – reviewed 58 purchase approvals.

We conducted this performance audit between October 2010 and January 2012, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.




Appendix B Management Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472



JUL 18 2012

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: David J. Kaufman 
Director
Office of Policy and Program Analysis

SUBJECT: Comments to OIG/GAO Draft Report, *The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009*

Thank you for the opportunity to comment on the draft report, *The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative (UASI) Grants Awarded During Fiscal Years 2007 through 2009* (Project code 10-172-AUD-FEMA). The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. Our responses to the nine recommendations contained in this draft report are as follows:

Recommendation #1: Direct the State to direct the UASI Board to establish procedures on oversight responsibilities over all UASI funds to ensure that all regional and local projects and investments are coordinated, projects are implemented, and progress is tracked.

FEMA Response: FEMA concurs with Recommendation #1.

In early 2011, language was added to the Urban Area Working Group Charter and subgrantee award documents to ensure meaningful local and regional coordination and collaboration of project activity. In September of 2012, FEMA will monitor the UASI on-site and will verify that improvements to UASI oversight and coordination processes are being implemented with efficiency and effectiveness and consistent with UASI program guidance.

FEMA requests that the recommendation be resolved and open pending completion of the scheduled September 2012 on-site verification of improvements to UASI processes.

Recommendation #2: Direct the State to review the UASI funding allocation methodology to ensure that funds are spent on the highest-risk areas within the UASI region.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

FEMA Response: FEMA concurs with Recommendation #2.

FEMA will review the methodology the State Administrative Agency (SAA) utilizes to allocate UASI funding and ensure UASI funds are spent on the highest-risk areas within the UASI region.

FEMA recommends this recommendation remains open for 90 days or until such time that the SAA is able to demonstrate to FEMA that UASI funds are being applied proportionate to areas of highest risk within the UASI region.

Recommendation #3: Direct the State to provide documentation to the UASI Board and region officials showing how funds retained by the State have been used to support the urban area.

FEMA Response: FEMA concurs with Recommendation #3.

In mid-2011, FEMA has received from the SAA general information of how UASI funds retained by the SAA for fiscal years 2007 through 2009 had been spent in support of the UASI. The information provided by the SAA is insufficient with respect to project detail. FEMA is requesting supplemental information from the SAA to ascertain funds retained by the State have been used in direct support of the UASI and are shared and coordinated with the UASI Board.

FEMA recommends this recommendation remains open for 90 days or until such time that the SAA is able to demonstrate that programs and projects supported with UASI funds retained by the SAA are applied to programs and projects that directly support the Urban Area and are shared and coordinated with the UASI Board.

Recommendation #4: Direct the SAA to improve oversight and monitoring of the subgrantees' project justifications to ensure that subgrantees implement only projects included in FEMA-approved investment justifications, and improve subgrantee training on preparation of the project justification form.

FEMA Response: FEMA concurs with Recommendation #4.

During calendar year 2011, FEMA randomly reviewed the SAA's project justifications for multiple Regions from across the state and reviewed every project justification that emanated from the UASI for the grant years referenced. While there was evidence of some projects having been approved that did not align with the FEMA approved Investment Justification, corrections were made through Investment Justification modifications. In addition, FEMA reviewed the SAA's business process for project justification and approval and found safeguards are in place to mitigate the potential for unallowable cost. FEMA is also aware that the SAA makes available technical assistance and training to Michigan's subgrantees project justification preparation through SAA sponsored conferences, workshops and on-site visits.

In August of 2012, FEMA will monitor the SAA on-site and will again review and verify that subgrantee projects align with FEMA approved Investment Justifications and that adequate safeguards are in place to mitigate the potential for unallowable cost in the SAA's project justification and approval process.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

FEMA requests that the recommendation be resolved and open pending completion of the scheduled August 2012 on-site programmatic monitoring of Michigan's Homeland Security Grant funds.

Recommendation #5: Review the State's project justifications to determine whether they are correctly aligned with approved investment justifications, and if not, determine whether any projects result in questioned or unallowable costs.

FEMA Response: FEMA concurs with Recommendation #5.

In August 2012, FEMA will conduct an on-site programmatic monitoring of Michigan's Homeland Security Grant funds. During the on-site monitoring, FEMA will review the State's project justifications for the grant years referenced to determine whether they are correctly aligned with approved Investment Justifications and if any corrective actions are necessary to address any questionable or unallowable cost.

FEMA requests that the recommendation be resolved and open pending completion of the scheduled August 2012 on-site programmatic monitoring of Michigan's Homeland Security Grant funds.

Recommendation #6: Direct the SAA to improve oversight to ensure that subgrantees follow Federal procurement requirements.

FEMA Response: FEMA concurs with Recommendation #6.

In August of 2012, FEMA will undertake on-site a programmatic monitoring of Homeland Security Grant funds awarded to Michigan for the referenced grant years. During the August visit, FEMA will formally review the SAA's business process and procedures for ensuring subgrantee compliance with Federal procurement requirements.

FEMA requests that the recommendation be resolved and open pending completion of the August 2012 on-site verification of the SAA's process and procedures relating to sub-grantee compliance with Federal procurement requirements.

Recommendation #7: Review costs associated with noncompetitive contracts and determine whether the costs are allowable and properly supported.

FEMA Response: FEMA concurs with Recommendation #7.

Staff of FEMA's Grant Programs Directorate in concert with FEMA Region 5 financial analyst will review costs associated with noncompetitive contracts referenced in the OIG Report and determine whether the costs are allowable and properly supported. Unsupported cost and noncompetitive contracts, that are found to be improperly executed, may result in reimbursement of Federal funds to the extent allowable by law.

FEMA recommends this OIG recommendation remain open for 90 days or until such time that the SAA is able to substantiate the status of all unsupported cost findings and noncompetitive contracts referenced in recommendation #7 of the OIG Report.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Recommendation #8: Direct the SAA to improve oversight to ensure that subgrantees follow Federal inventory and property requirements, and adequately secure property purchased with grant funds.

FEMA Response: FEMA concurs with Recommendation #8.

Staff of FEMA's Grant Programs Directorate in concert with the FEMA Region 5 financial analyst will review the SAA's business process for sub-grantee monitoring as it relates to ensuring sub-grantee compliance with Federal inventory and property requirements, and adequately securing property purchased with grant funds.

FEMA recommends this OIG recommendation remain open for 90 days or until such time that the SAA is able to demonstrate that processes and protocols are in place to ensuring sub-grantee compliance with Federal inventory and property requirements.

Recommendation #9: Direct the SAA to assess the current processes for executing subgrantee agreements and purchase approvals and work with all involved parties to identify opportunities to expedite the processes.

FEMA Response: FEMA concurs with Recommendation #9.

In FY 2011 FEMA documented that the SAA executed sub-grantee agreements within 54 days of Michigan's receipt of the HSGP grant award. While this is just short of the 45 days required by program guidance, the SAA continues to make progress. FEMA has also reviewed with the SAA the timeliness of subgrantee project approvals and is satisfied the SAA moves as expeditiously as the various requirements of project approval will allow. During the August 2012 SAA on-site monitoring, FEMA will determine the additional progress for subgrant agreements towards the required 45 day obligation.

FEMA requests that the recommendation be resolved and open pending completion of the scheduled August 2012 SAA monitoring visit, which should verify full compliance.

Again, we thank you for the opportunity to review and comment on the subject draft report. Should you have any questions concerning our response, please feel free to contact our Acting Chief Audit Liaison, Gina Norton, at 202-646-4287.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security



STATE OF MICHIGAN
DEPARTMENT OF STATE POLICE
LANSING

RICK SNYDER
GOVERNOR

COL. KRISTE KIBBEY ETUE
DIRECTOR

July 9, 2012

Mark Bell
Deputy Assistant Inspector General for Audit
Office of Audit
Office of Inspector General
Department of Homeland Security
Washington, DC 20528

Dear Mr. Bell:

Attached to this letter is the official response by the Emergency Management and Homeland Security Division as State Administrative Agency of the Michigan State Police to the draft audit, The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009.

We appreciate the opportunity to respond to this audit. If you have any questions or need additional information, please contact me at (517) 241-0981.

Sincerely,


Jacqueline Reese
Audit Manager

Attachment

cc Ms. Anne Richards, DHS
Ms. Jewel Butler, DHS
Mr. Michael Sivy, DHS
Mr. Patrick Tobo, DHS
Col. Kristie Kibbey Etue
Mr. Shawn Sible
Capt. W. Thomas Sands

H:\EMHSD\OIG HSGP 07-09\Final Response Letter

MICHIGAN STATE POLICE HEADQUARTERS • 333 SOUTH GRAND AVENUE • P.O. BOX 30634 • LANSING, MICHIGAN 48909
www.michigan.gov/msp • (517) 332-2521



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Michigan State Police
Emergency Management and Homeland Security Division (EMHSD)
As State Administrative Agency (SAA)
Response to the Department of Homeland Security
Office of Inspector General
State Homeland Security Program and Urban Areas Security Initiative
Grants Awarded During Fiscal Years
2007 through 2009

Recommendation #1

Direct the SAA to direct the UASI Board to establish procedures on oversight responsibilities over all UASI funds to ensure that all regional and local projects and investments are coordinated, projects are implemented, and progress is tracked.

Agency Response

The SAA agrees with the recommendation. The SAA has taken affirmative and deliberate steps to improve the efficiency and effectiveness of the UASI program. The SAA directed the UASI Board to establish oversight procedures for all UASI funds to ensure that all investments and regional and local projects are coordinated, implemented, and that progress is tracked. The SAA's directives were included in the grant agreement beginning with the FY10 HSGP award. Specific requirements included:

- a. A single point of contact between the SAA and the Subgrantee.
- b. The Regional Board will review and approve all projects to be funded before they are submitted to the Subgrantor for approval.
- c. The Regional Board will ensure all grant projects align to the approved investments.
- d. The Subgrantee will be required to submit: reports to the Subgrantor on the status of all funding; updated project and allocation information; and other reports, as required by the Subgrantor to implement an investment-specific reporting process.

Recommendation #2

Direct the SAA to review the UASI funding allocation methodology to ensure that funds are spent on the highest-risk areas within the UASI region.

Agency Response

The SAA agrees with the recommendation. The SAA has reviewed the UASI funding allocation methodology and believes that the methodology does ensure that funds are spent on the highest-risk areas within the UASI region and that the methodology is in compliance with grant guidance. The Homeland Security Grant Program (HSGP) Guidance and Application Kit does not require a particular funding allocation methodology.

The SAA's funding methodology used to award allocations to each UASI jurisdiction was modeled after the risk-based methodology developed by DHS to distribute funds nationwide. Each jurisdiction was awarded a baseline allocation, consistent with the baseline percent used by DHS in the applicable grant fiscal year, and a risk-based allocation. Risk is calculated as a function of threat, SARA Title III sites, critical



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

infrastructure and key resources, population and population density. The baseline and risk-based allocations, taken together, provide the jurisdictions with funding to ensure sustainment of capabilities throughout the urban area while concentrating the preponderance of available resources to those jurisdictions posed with the greatest risk.

Lastly, it is important to note that FEMA does not require a particular funding allocation methodology. FEMA stated in its response to the 2011 OIG Audit of The State of Texas SHSP program, "FEMA GPD does not mandate that grantees administer a specific allocation method in their subaward process, and it is therefore up to the state to determine the most effective method of allocation, whether to include risk or otherwise, and to advise its sub recipients accordingly."

Recommendation #3

Direct the SAA to provide documentation to the UASI Board and region officials showing how funds retained by the State have been used to support the urban area.

Agency Response

The SAA agrees with the recommendation. The SAA makes a quarterly power point presentation to the Homeland Security Advisory Committee (HSAC), which is comprised of Michigan's homeland security stakeholders and includes the regional board chairs. The presentation is done to show the state's progress on each objective in the State Homeland Security Strategy. Attendance at the HSAC meetings is voluntary. To better improve information flow, an SAA presentation to the UASI Board will be made annually with an overview of new State Agency awarded projects supported by UASI funds.

Recommendation #4

Direct the SAA to improve oversight and monitoring of the subgrantees' project justifications to ensure that subgrantees implement only projects included in FEMA-approved investment justifications, and improve subgrantee training on preparation of the project justification form.

Agency Response

The SAA agrees with the recommendation. The SAA believes that this is a documentation issue related to the implementation of a new process. The SAA has identified the problems and updated the forms to facilitate accurate completion. State agencies now must attend mandatory training to be eligible to submit projects and additional training is provided for local subgrantees at annual regional grant roll-out presentations and fiduciary training. Additional processes to improve documentation of the review and approval of the alignment to investments have been implemented.

The SAA did not state that alignment to multiple investments is not allowed. In fact, due to the nature of many investments, the likelihood that a project may align to multiple investments is very likely. Also, the SAA acknowledged the documentation problem with misalignment of investments, not that the projects did not align to the investments.

The SAA developed and implemented the Project Justification/Allowable Cost Justification/Quarterly Reporting process for the FY07 Homeland Security grants for the purpose of: ensuring alignment with investments awarded; justifying cost allowability; and measuring accomplishments. As with any new process, there is a learning curve for use and understanding the process. Some investments, although specific to priority initiatives, may overlap relative to capabilities and overarching strategic goals being



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

addressed. At times this caused confusion for some subgrantees. Additionally, some projects may align to more than one investment and subgrantees did not always identify the most appropriate investment. In some instances, subgrantees requested advice in identifying the correct investment, but did not make the change on the form. We also discovered that in many instances, the personnel that attended the training were not the same personnel that completed the forms.

This resulted in forms being completed that may not have accurately listed the correct investment or may have listed multiple investments. During the project review process, the project was determined to be allowable and did align to one or more investments and the State Homeland Security Strategy, even though the investment listed on the form may not have been the appropriate selection.

Again, the SAA has updated the forms, provided additional training and added processes to improve the documentation of investment alignment for project justification.

Recommendation #5

Review the SAA's project justifications to determine whether they are correctly aligned with approved investment justifications, and if not, determine whether any projects result in questioned or unallowable costs.

Agency Response

The SAA agrees with the recommendation. The SAA has submitted supplemental documentation to FEMA that identifies that the planned projects are correctly aligned with approved investments and all are allowable. It is the SAA's understanding that FEMA has reviewed the supplemental information and has determined that the projects are aligned to an approved investment and are allowable.

Again, the issue identified is a documentation issue and not unallowable or questioned costs. Of the 150 projects reviewed, 14 were identified as incorrectly aligned to the wrong investment and 12 were identified as aligned to multiple investments. Due to the nature of many investments, the likelihood that a project may align to multiple investments is very likely and does not result in unallowable or questioned costs. With regard to incorrect alignment, during the review process, the SAA determined that the proposed project did align to (at least) one of the approved investments even if not properly listed on the form. The SAA acknowledges that the correct investment was not always appropriately documented, however, this also does not result in unallowable or questioned costs. In the event that a proposed project did not align to any investment, the project was denied. The SAA has already implemented procedures to document on the project justification form the correct investment alignment.

The supplemental documentation that the SAA sent to FEMA included significant information on the \$517,000 project identified as an example in the report. In the report, the project description "a law enforcement management system" was described as not matching the investment "the establishment of a fusion center." However, this demonstrates a lack of understanding of both the project and the investment. The project directly aligns to the investment, "Enhance Regional Fusion Capability to Gather, Analyze and Disseminate Information to all Sectors," including the target capabilities, objectives and investment milestones.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

The supplemental information has been reviewed by FEMA and determined that the projects align to an approved investment and are allowable.

Recommendation #6

Direct the SAA to improve oversight to ensure that subgrantees follow Federal procurement requirements.

Agency Response

The SAA agrees with the recommendation. The SAA strictly adheres to all Federal procurement policies and regulations, inclusive of Federal grant guidance, regarding procurement actions. The SAA notifies subgrantees of procurement requirements in the grant agreements, trains subgrantees during grant roll-out presentations, and reviews procurement procedures and transactions of subgrantees during on-site monitoring visits. In addition to identifying the requirements, the grant agreement specifically states that the subgrantee's responsibility includes the requirement to "Make all purchases in accordance with federal and state grant guidance and local purchasing policies."

To improve oversight, the SAA prepared an informational bulletin on procurement issues that was disseminated to all HSGP subgrantees and the SAA conducted additional training on procurement requirements to all HSGP fiduciaries.

Recommendation #7

Review costs associated with noncompetitive contracts and determine whether the costs are allowable and properly supported.

Agency Response

The SAA agrees with the recommendation. Again, the SAA believes the issue identified is a documentation issue and not unallowable or questioned costs. The SAA will submit supplemental information to FEMA to determine that the costs are allowable and properly supported. During the course of the audit, there was some miscommunication between the auditors and subgrantees. Several subgrantees told the SAA that they were not aware that the documentation provided was not adequate and that they would have provided additional information if requested.

Recommendation #8

Direct the SAA to improve oversight to ensure that subgrantees follow Federal inventory and property requirements, and adequately secure property purchased with grant funds.

Agency Response

The SAA agrees with the recommendation. The SAA has included Federal property requirements in all grant agreements between the SAA and the subgrantees. In addition to identifying the requirements, the grant agreement specifically states that the subgrantee's responsibilities include the requirements to annually submit a copy of the inventory to the SAA's Audit Unit. Additional training was provided to subgrantees on the inventory and property requirements at the grant roll-out presentations. Equipment and property is reviewed during on-site monitoring visits.

To improve oversight, the SAA has redesigned the property inventory control forms to capture each information element in the federal inventory and property requirements.



Recommendation #9

Direct the SAA to assess the current processes for executing subgrant agreements and purchase approvals and work with all involved parties to identify opportunities to expedite the processes.

Agency Response

The SAA agrees with the recommendation. The SAA obligates grant funds to subgrantees in compliance with federal requirements of 45 or 60 days. The SAA notifies all subgrantees by email and conference calls of their award amount. The SAA has also developed the Regional Investment Project Projection (RIPP) sheet for the subgrantees to begin planning for the expenditure and time frame of the grant award which are required to be submitted to the SAA. One of the purposes for this initiative is to encourage the regions to plan strategically for upcoming grant years.

Different circumstances have delayed the time in which the grant agreements have been sent to the subgrantees. These delays include: local changes to regional board representation; regional board approval of fiduciaries; updating of grant agreements; updating of project approval and reporting requirements; updates to requirements in the supplemental guidance; and calculations of regional funding formulas.

However, there are a number of factors that may affect the time for approval:

- An Environmental Historic Preservation (EHP) review by FEMA is required. The SAA has no control over the timeframe.
- The date on the purchase request may be when the request was created but not reflect when the request was submitted to the SAA. The time difference between creation of the request and submittal can be substantial.
- Prioritization of projects funded with grants that are near the closeout date can temporarily delay approval of projects funded with later grant year funding.
- Waiting for resolution of an allowable cost determination from FEMA.
- Waiting for a response from the subgrantee to receive more detail about the request in order to determine allowability.

The SAA included EHP requirements in all grant agreements between the SAA and the subgrantees. Additional training was provided to subgrantees on the EHP requirements at the grant roll-out presentations. In fact, at the last programmatic monitoring visit in 2010, FEMA identified Michigan's EHP process as exemplary.

The SAA has reviewed the grant agreement process and purchase approval process to identify efficiencies. The SAA has implemented a requirement for the regional board to identify their fiduciary at least 60 days prior to receipt of the grant award letter. The SAA has already significantly reduced the timing for sending grant agreements to subgrantees.



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

The average number of days between the grant award and sending the grant agreement to subgrantees has reduced as follows:

<u>Grant Award</u> <u>Year</u>	<u>Number of</u> <u>Days</u>
FY 2007	213
FY 2008	292
FY 2009	228
FY 2010	128
FY 2011	68

The SAA has established a goal of completing the review of purchase requests within 60 days. The SAA has also developed a purchase approval request tracking mechanism to identify the location of the request in the process and to identify any potential problems.



Appendix C

FEMA Homeland Security Grant Program

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

- **State Homeland Security Program** funds support the implementation of State Homeland Security Strategies to address the identified planning, organization, equipment, training, and exercise needs to prevent, protect against, respond to, and recover from acts of terrorism and other catastrophic events.
- **Urban Areas Security Initiative Program** funds address the unique planning, organization, equipment, training, and exercise needs of high-threat, high-density urban areas, and assist the areas in building an enhanced and sustainable capacity to prevent, protect against, respond to, and recover from acts of terrorism.
- **Law Enforcement Terrorism Prevention Program** funds provide resources to law enforcement and public safety communities (working with private partners) to support critical terrorism prevention activities, including establishing and enhancing fusion centers.
- **Citizen Corps Program** funds bring community and government leaders together to coordinate the involvement of community members in emergency preparedness, planning, mitigation, response, and recovery.
- **Metropolitan Medical Response System Program** funds support designated jurisdictions to further enhance and sustain a regionally integrated, systematic mass casualty incident preparedness program that enables a response during the first crucial hours of an incident.



Appendix D

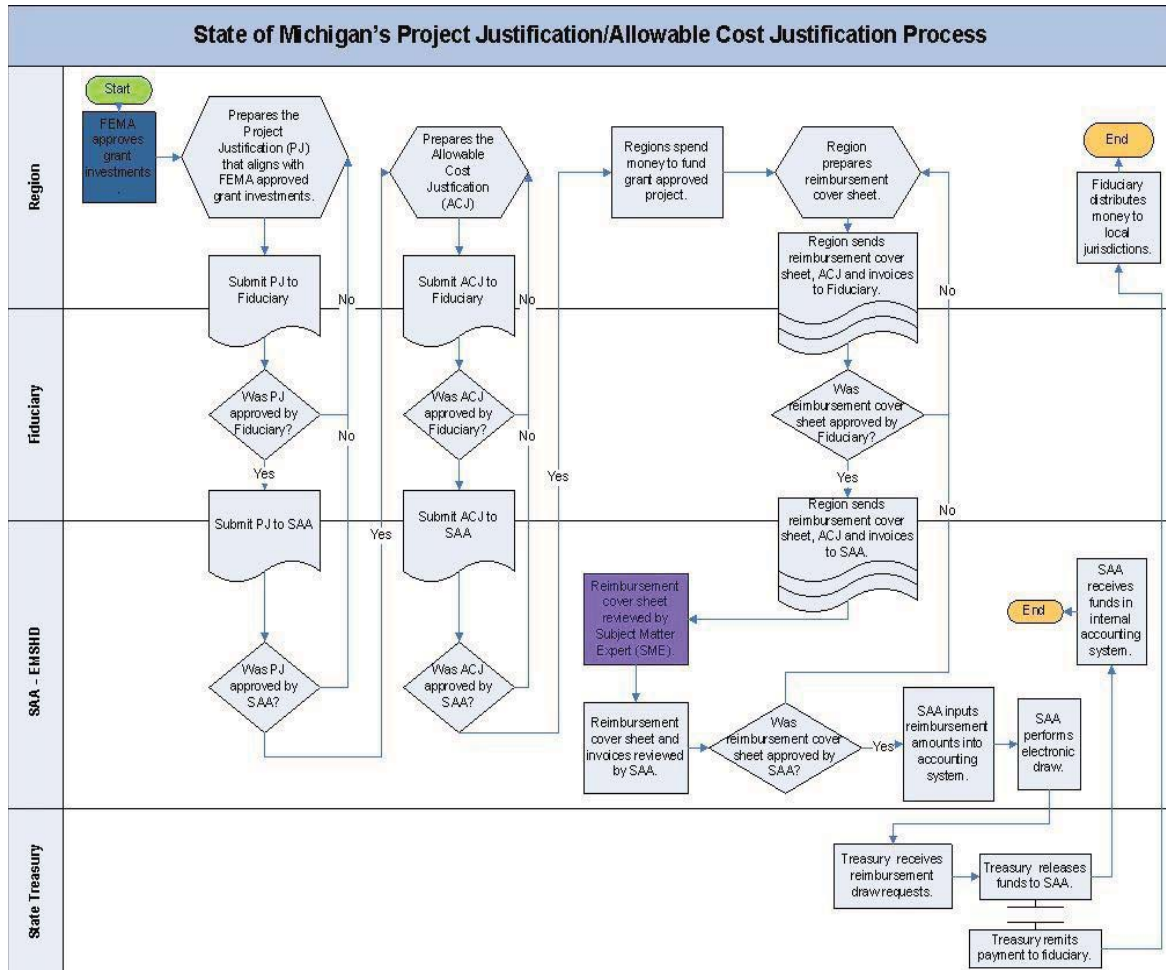
State Homeland Security Program and Urban Areas Security Initiatives Funding

Michigan Homeland Security Grant Program Awards, Fiscal Years 2007–2009				
Funded Activity	FY 2007	FY 2008	FY 2009	Total
State Homeland Security Program	\$13,670,000	\$21,430,000	\$20,718,500	\$55,818,500
State Agencies	\$2,734,000	\$4,286,000	\$4,143,700	\$11,163,700
Region 1	\$2,042,938	\$3,325,750	\$3,214,130	\$8,582,818
Region 2				
Regional Funds	\$0	\$277,375	\$270,998	\$548,373
City of Detroit	\$0	\$189,354	\$185,613	\$374,967
Macomb County	\$454,742	\$105,234	\$102,696	\$662,672
Monroe County	\$196,242	\$50,938	\$49,178	\$296,358
Oakland County	\$643,486	\$151,417	\$148,218	\$943,121
St. Clair County	\$310,898	\$70,909	\$68,862	\$450,669
Washtenaw County	\$302,623	\$64,044	\$62,095	\$428,762
Wayne County	\$0	\$200,229	\$196,332	\$396,561
Region 3	\$2,070,292	\$3,485,750	\$3,376,729	\$8,932,771
Region 5 ⁶	\$1,433,851	\$2,775,750	\$2,685,684	\$6,895,285
Region 6	\$1,884,284	\$3,895,750	\$3,769,675	\$9,549,709
Region 7	\$795,587	\$1,275,750	\$1,222,295	\$3,293,632
Region 8	\$801,057	\$1,275,750	\$1,222,295	\$3,299,102
Urban Areas Security Initiative	\$14,630,000	\$14,191,000	\$13,481,600	\$42,302,600
State Agencies	\$2,926,000	\$2,838,200	\$2,696,320	\$8,460,520
Regional Funds	\$1,800,817	\$2,838,200	\$2,696,320	\$7,335,337
City of Detroit	\$2,823,037	\$1,937,536	\$1,846,770	\$6,607,343
Macomb County	\$972,509	\$1,076,793	\$1,021,786	\$3,071,088
Monroe County	\$522,957	\$521,216	\$489,290	\$1,533,463
Oakland County	\$1,175,037	\$1,549,353	\$1,474,714	\$4,199,104
St. Clair County	\$712,434	\$725,565	\$685,150	\$2,123,149
Washtenaw County	\$700,925	\$655,320	\$617,823	\$1,974,068
Wayne County	\$2,996,284	\$2,048,817	\$1,953,427	\$6,998,528
Total	\$28,300,000	\$35,621,000	\$34,200,100	\$98,121,100

⁶ Michigan does not have a Region 4.



Appendix E Project/Allowable Cost Approval Process



Source: OIG.



Appendix F Schedule of Monetary Findings

Schedule of Monetary Findings

Recommendation Number	Questioned Costs ¹	Unsupported Costs ²	Funds To Be Put to Better Use ³	Total
7		\$1,085,654		\$1,085,654
Totals		\$1,085,654		\$1,085,654

Source: OIG prepared.

¹ Questioned costs are funds expended on projects not included in approved investments identified.

² Unsupported costs are funds expended for goods and/or services acquired using noncompetitive procurements without adequate justification.

³ Funds to be put to better use are unexpended costs for approved projects that were not included in approved investments identified.



Appendix G

Major Contributors to This Report

Jewel Butler, Director
Cheryl Jones, Audit Manager
Patrick Tobo, Audit Manager
Sandra Ward-Greer, Auditor-in-Charge
Jeffrey Balsewicz, Program Analyst
Marisa Coccaro, Program Analyst
Virginia Feliciano, Auditor
Kevin King, Independent Referencer
Katrina Reuben-Bynes, Independent Referencer



Appendix H

Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Assistant Administrator, Grant Programs Directorate
Federal Emergency Management Agency Audit Liaison
Grant Programs Directorate Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this document, please call us at (202) 254-4100, fax your request to (202) 254-4305, or e-mail your request to our Office of Inspector General (OIG) Office of Public Affairs at: DHS-OIG.OfficePublicAffairs@oig.dhs.gov.

For additional information, visit our website at: www.oig.dhs.gov, or follow us on Twitter at: [@dhsoig](https://twitter.com/dhsoig).

OIG HOTLINE

To expedite the reporting of alleged fraud, waste, abuse or mismanagement, or any other kinds of criminal or noncriminal misconduct relative to Department of Homeland Security (DHS) programs and operations, please visit our website at www.oig.dhs.gov and click on the red tab titled "Hotline" to report. You will be directed to complete and submit an automated DHS OIG Investigative Referral Submission Form. Submission through our website ensures that your complaint will be promptly received and reviewed by DHS OIG.

Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

The OIG seeks to protect the identity of each writer and caller.