



# DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General  
Dallas Field Office - Audit Division  
3900 Karina Street, Room 224  
Denton, Texas 76208

December 9, 2003

## MEMORANDUM

TO: Edward G. Buikema, Regional Director  
FEMA Region V

*Paige*  
for *Hadley*

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: Grant Management: Michigan's Compliance  
With Disaster Assistance Program's Requirements  
Audit Report Number DD-04-04

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This memorandum transmits the results of the subject audit performed by McBride, Lock & Associates, an independent accounting firm under contract with the Office of Inspector General. In summary, McBride, Lock & Associates determined that the Michigan State Police-Emergency Management Division (MSP-EMD) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On September 5, 2003, you responded to the draft audit report, stating that you agreed with the majority of the 13 recommendations included in the report. The attached report includes your response, in its entirety, as Attachment C. Your comments are also paraphrased and presented after each finding in the report, along with additional comments from the auditors.

The actions described in your response were sufficient to resolve and close three recommendations: A.3, B.1, and B.2. Recommendations B.3, B.5, and B.7 remain unresolved because your response did not adequately address them. The remaining seven recommendations (A.1, A.2.1, A.2.2, A.4, A.5, B.4, and B.6) remain unresolved because your response did not include a target completion date for planned actions.

Please advise this office by January 8, 2004, of actions taken or planned to implement recommendations B.3, B.5, and B.7. Any planned actions should include target completion dates. Also, please provide target completion dates for planned actions related to recommendations A.1, A.2.1, A.2.2, A.4, A.5, B.4, and B.6.

We would like to thank your staff and the MSP-EMD staff for the courtesies extended to the auditors during their fieldwork. Should you have any questions concerning this report, please contact Paige Hamrick or me at (940) 891-8900.

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## MCBRIDE, LOCK & ASSOCIATES

June 23, 2003

Federal Emergency Management Agency  
Office of Inspector General  
Washington, DC 20472

McBride, Lock & Associates conducted an audit of the Michigan State Police Emergency Management Division (MSP-EMD) to assess its compliance with the Robert T. Stafford Disaster Relief Emergency Act (as amended) and applicable Federal regulations. The audit was conducted at the request of the Federal Emergency Management Agency (FEMA), Office of Inspector General.

The objectives were to determine if the MSP-EMD administered the grant programs in accordance with Federal regulations, accounted for, reported and used FEMA funds properly. The audit identified opportunities for improvement in several areas to include: (1) The financial reporting system for Public Assistance and Hazard Mitigation grants, (2) cash management practices, (3) establishing a current indirect cost rate, (4) timeliness of IFG payments to subrecipients, (5) timeliness of closeout efforts, (6) submission and contents of administration and program plans, (7) guidance for subgrantee Single Audit reports, (8) establishing documentation of operating and financial reporting procedures, (9) retaining documentation of project ranking process, and (10) monitoring all critical elements for property management.

The audit was conducted under the authority of the Inspector General Act of 1998, as amended and in accordance with generally accepted government auditing standards, FEMA's Office of Inspector General audit guide and 44 CFR. Although the report comments on certain financial related information, we did not perform a financial audit, the purpose of which would be to express an opinion on the financial statements. The audit scope included financial and program activities for the seven Presidential disaster declarations open as of September 30, 2001. We reviewed all grants for the Public Assistance, Hazard Mitigation, and Individual and Family Grant programs.

An exit conference was held to discuss the findings and recommendations included in the report with officials from FEMA Region V and the MSP-EMD and other Michigan State officials on June 23, 2003.

McBride, Lock & Associates appreciates the cooperation and assistance received, during the audit, from both MSP-EMD and FEMA personnel.

*McBride, Lock & Associates*

McBride, Lock & Associates

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## I. EXECUTIVE SUMMARY

McBride, Lock & Associates has completed an audit of the Michigan State Police – Emergency Management Division’s (MSP-EMD) 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), applicable Federal regulations and FEMA guidelines. The objectives of the audit were to determine whether the MSP-EMD office:

- administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- complied with the FEMA-approved disaster assistance administrative plans,
- properly accounted for and expended FEMA disaster assistance funds, and
- operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

This report focuses the MSP-EMD’s systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the 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 the declared disasters, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the MSP-EMD’s financial statements. The sources and applications of funds for the disasters included in the audit scope are presented in Attachment A of this report.

Our audit covered seven major disasters declared by the President of the United States between July 1996 and January 2001. Two of the disasters involved all three types of grant programs – Public Assistance (PA) Grants, Individual and Family Grants (IFG), and Hazard Mitigation (HM) Grants. Disaster Nos. 1226, 1237, 3137 and 3160 did not include the IFG program. The Federal share of obligations for the seven disasters was about \$124 million. Federal expenditures through September 30, 2001, were approximately \$110 million.

In accordance with our agreement with the FEMA Office of Inspector General (OIG), our audit focused on the MSP-EMD’s current program and financial management procedures and practices. During the audit, we attempted to the extent possible to identify the causes of each reportable condition. We also made recommendations that, if implemented properly, would improve the MSP-EMD’s management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings summarized below are discussed in detail in the body of the report.

### A. Financial Management

#### 1. PA Financial Reporting

The MSP-EMD could not provide documentation of the calculations used to estimate the local cost share of program expenditures as reported under the recipient share of outlays on the quarterly Financial Status Reports (FSR) for Public Assistance Grants. The MSP-EMD revised its September 30, 2001 FSR’s; however, the database could not be

queried to support the revised submission FSR nor was the database fully supported by the official accounting records.

2. HM Financial Reporting

The information used by the Hazard Mitigation officials to estimate the local portion of program expenditures was not based upon information supported by the official accounting records. The MSP-EMD also performed erroneous calculations to estimate the local portion of program expenditures.

3. IFG Cash Management

The MSP-EMD did not adequately manage FEMA funds to meet Federal cash management requirements to minimize the time elapsing between the transfer of funds and disbursement by the State while administering the IFG grant.

4. PA and HM Cash Management

The MSP's system for drawdown of Federal funds for the PA and HM programs allowed for the drawdown of funds from 14 days prior to distribution to 22 days subsequent to distribution. Administrative fund drawdowns were not made until the end of the quarter.

5. Indirect Cost Rate

The MSP's indirect cost rate is outdated and does not accurately reflect current indirect costs associated with administering FEMA disaster assistance programs.

B. Program Management

1. IFG Timeliness of Payments

Lengthy delays occurred in the processing of applications and payments to subrecipients of the IFG program. The average time to process the check to the subrecipient was 149 days.

2. IFG Program Closeout

The MSP-EMD did not closeout IFG disaster 1128 until approximately 450 days subsequent to the completion of award activities.

3. PA and HM Administrative and Program Plans

The MSP-EMD did not submit administrative plans and program plans for the Public Assistance and Hazard Mitigation Grant Programs in accordance with Federal requirements.

4. Single Audit Efforts

The MSP-EMD's review policy of subgrantee Single Audit reports did not ensure that all reports were received or reviewed timely. No reconciliation was performed on the Single Audit reports to ensure that all FEMA funds were accountable.

5. Documentation of Operating and Financial Reporting Procedures

The MSP-EMD has not adequately documented operating and financial reporting procedures.

6. HM Documentation of Project Ranking Process

The MSP-EMD did not maintain adequate documentation of the Hazard Mitigation project ranking and selection process.

7. Property Management

The MSP-EMD's control over accountable property did not provide for critical elements required by State regulations.

## II. BACKGROUND

Federal assistance is usually needed to supplement response efforts after major disasters and emergencies. When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA). 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 Presidentially declared disasters. 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 disaster programs addressed in this audit are:

- 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 a 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 must sign a Notice of Interest. The notice is sent to the grantee (MSP-EMD) and to FEMA, which schedules an inspection of the damaged facilities. Inspection teams prepare Project Worksheets (PWs), previously Damage Survey Reports (DSR's), 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 cost is paid by FEMA. The remainder is paid by non-Federal sources.

Title 44 provides that PA projects be classified as either "small" or "large". The classification is based on a project threshold 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 Disaster No. 3160 was \$50,600.

Projects costing less than \$50,600 were classified as "small" projects and projects costing \$50,600 or more were classified as "large".

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

**Hazard Mitigation (HM) Grants** 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 HM grant proposal to the MSP-EMD. The MSP-EMD, as the grantee, is responsible for setting priorities for the selection of specific projects. Each project selected by the State must be approved by FEMA. FEMA awards subgrants to State agencies, local governments, qualifying private nonprofit agencies, Indian tribes, or authorized tribal organizations. The cost of the projects is shared with FEMA. FEMA is authorized to pay not more than 75 percent of the eligible cost of the project. However, the amount of Federal assistance under the HM grant program is limited pursuant to Section 404 of the Stafford Act.

Under the **PA** and **HM** grant programs, FEMA may provide three types of administrative funds for overseeing the program.

1. An **administrative cost allowance** to the grantee to cover extraordinary costs directly associated with administering the program. The allowance amount 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 intended for extraordinary costs, such as those incurred for preparing Project Worksheets; 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 regular time for employees.
2. **State management costs** to cover ordinary or regular expenses directly associated with the program.
3. **Indirect costs** based on an approved indirect cost allocation plan.

For the IFG program, up to five percent of the Federal share of total program costs may be granted for administration costs.

**Michigan State Police – Emergency Management Division**

The Michigan State Police Emergency Management Division (MSP-EMD) is the disaster and emergency management agency for the State of Michigan. The MSP-EMD’s mission is to manage emergency-related programs for the State of Michigan. This responsibility represents a commitment to the people of Michigan to minimize disaster risk and helps protect lives and property.

The MSP-EMD does not use the service of other State agencies, except the Family Independence Agency, which has assisted with the IFG program. The MSP-EMD must, however, work closely with other departments and agencies to accomplish its goals.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether the MSP-EMD (the grantee) had:

- administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- complied with the FEMA-approved disaster-assistance administrative plans,
- properly accounted for and expended FEMA disaster-assistance funds, and
- operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities satisfactorily.

The scope of our audit consisted of the following seven disasters declared between July 1996 and January 2001:

Disaster Number	Type of Disaster	Date Declared	Assistance Provided
1128	Severe Storms and Flooding	July 23, 1996	IFG, PA, HM
1181	Severe Storms, Tornado and Flooding	July 11, 1997	IFG, PA, HM
1226	Severe Storms and Straight-Line Winds	June 24, 1998	PA, HM
1237	Severe Storms and High Winds	August 5, 1998	PA, HM
3137	Snow Emergency	January 27, 1999	PA
1346	Severe Storms and Flooding	October 17, 2000	IFG, HM
3160	Snow Emergency	January 10, 2001	PA

The audit cut-off date was September 30, 2001. The MSP-EMD made payments through the State of Michigan’s accounting system and had policies and procedures in place for compliance with State accounting guidelines. The MSP-EMD used several accounting databases to track expenditures for each disaster and each program within the disasters, and it also noted the expenditure amount funded with federal or local dollars.

Our audit was conducted in accordance with the FEMA Consolidated Audit Guide for Grant Audits of FEMA Disaster Programs provided by the Office of Inspector General (OIG). Our audit work included a site visit at the FEMA Region V office in Chicago, Illinois, and audit fieldwork at the MSP-EMD's office in Lansing, Michigan. Our methodology included reviewing files at FEMA Region V, discussing the MSP-EMD's administration and grant oversight with Region V personnel, and reviewing region and MSP-EMD contract files, accounting records, and correspondence, including administrative and program plans. We also interviewed knowledgeable FEMA and MSP-EMD personnel.

To assess compliance and performance with grant management provisions, we selected and tested numerous PA and HM projects and IFG subrecipient awards to determine if the project or subrecipient award was administered within program guidelines. We included both open and closed projects and subrecipient awards in our review, but emphasized the evaluation of the MSP-EMD's current internal controls and procedures to identify current internal control system weaknesses or noncompliance issues. When developing findings and recommendations, we considered the views of the FEMA regional office and guidance from FEMA headquarters.

We also evaluated how the MSP-EMD accounted for and used FEMA program funds to ensure that the MSP-EMD had internal controls and procedures in place to account for program funds and safeguard federal assets. Finally, we reviewed the MSP-EMD's financial reporting process to ensure that it submitted accurate financial expenditure reports. These two objectives included a review of overall internal controls of the MSP-EMD, management oversight activities, and the financial management system used by the MSP-EMD. In our sample of PA and HM projects and IFG subrecipients noted above, we tested expenditures incurred for allowability in accordance with applicable cost principles. We also selected several financial reports submitted by the MSP-EMD and reconciled those reports to:

- Supporting accounting system used by the State of Michigan
- The MSP-EMD's Federal Cash Transaction Reports
- FEMA databases (ADAMS, NEMIS)
- FEMA's accounting system (IFMIS)

Our review of financial reports also included reviewing the MSP-EMD's system for allocating costs to disasters and programs, testing the timeliness and accuracy of payments to subgrantees and subrecipients, determining the timeliness of financial reporting, and evaluating the MSP-EMD's overall cash management (both the timing on how funds are drawn down from the SMARTLINK system and how funds are advanced to subgrantees).

The Michigan Office of the Auditor General conducts bi-annual financial audits of the MSP-EMD including the provisions of the Single Audit Act. We reviewed the audits for the two year periods ended September 30, 1997, 1999 and 2001. We also reviewed the performance audit of the MSP-EMD that was completed in July 1999. For each audit, the auditors identified findings and recommendations related to the FEMA grants. We reviewed these reports and their supporting workpapers to assess whether these findings affected the scope of our audit or our specific audit tests. We also reviewed the reports of these audits to determine if findings at the subgrantee level had an effect on our audit scope or procedures.

The audit was conducted in accordance with *Government Auditing Standards*, as revised, as prescribed by the Comptroller General of the United States. 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 costs claimed for 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 and does not extend to any financial statements of the Michigan State Police, Emergency Management Division, or the State of Michigan.

#### **IV. FINDINGS AND RECOMMENDATIONS**

Audit results are summarized in two major sections: Financial Management and Program Management. These sections contain findings and related recommendations.

Based on the number and nature of findings, we concluded that financial management controls and program management controls should be improved to better protect assets and prevent errors and fraud. In view of the nature and significance of the findings, we concluded that the MSP-EMD did not comply, in all material respects, with applicable laws and regulations relative to the findings.

##### **A. FINANCIAL MANAGEMENT**

###### **1. Inaccurate Financial Reporting – Public Assistance (PA) Grants**

The MSP-EMD could not provide documentation of the calculations used to estimate the subgrantee cost share of program expenditures as reported under the recipient share of outlays on its quarterly Financial Status Reports (FSRs). During the audit, MSP-EMD officials reviewed their procedures for estimating the subgrantee cost share of program expenditures and submitted revised September 30, 2001 FSRs. However, neither the initial nor the revised FSR submissions were based upon information that was supported by the official accounting records.

The MSP-EMD does not have a system by which the subgrantees' cost share of program expenditures is tracked. Therefore, the MSP-EMD estimates the subgrantee cost share of program expenditures for reporting the financial status of the disaster programs each quarter. When we inquired how the MSP-EMD officials estimated the subgrantee cost share, they could not provide documentation or a clear explanation of the calculations by which these expenditures were estimated.

During our review, MSP-EMD officials recalculated the recipient share of outlays as of September 30, 2001, and stated that the original calculations were erroneous and likely double-counted the State and subgrantee cost share on projects for which other State of Michigan agencies were subgrantees. On November 8, 2002, MSP-EMD officials resubmitted the September 30, 2001 FSRs to reflect the results of their revised calculations.

The MSP-EMD's revised calculations relied upon a stand-alone database to calculate the estimated subgrantee cost share. The database is used to store other financial data for individual projects that is not posted to the State's official accounting records. Payments of the Federal and State portions of project expenditures are logged into the database as they are posted to the State accounting system. MSP-EMD officials stated that the database could not be queried to reflect

expenditures of the programs as of September 30, 2001. Therefore, MSP-EMD officials used post-September 30, 2001 database activity to adjust the current balances back to September 30, 2001. However, the official accounting records did not support the current or adjusted database balances. MSP-EMD officials confirmed that they do not verify the completeness and accuracy of the database by reconciling it to the State accounting system on a periodic basis because the database was not intended to be an official record.

According to 44 CFR 13.20(b)(1), the financial management systems of grantees (the State) must permit “accurate, current, and complete disclosure of the financial results of financial assisted activities. . . in accordance with the financial reporting requirements of the grant or subgrant.”

Further, 44 CFR 13.20(b)(2) states that “Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.” The regulation continues, “Records must contain information pertaining to. . . outlays or expenditures.”

#### *Conclusions and Recommendations*

Although the MSP-EMD has developed payment controls to mitigate under-match of State and subgrantee expenditures in individual grant disbursements, the MSP-EMD has assumed an unnecessary risk that the State and subgrantee cost share of program expenditures may be under-matched in the aggregate due to the lack of an accurate reporting indicator. The development of a more accurate financial reporting process for these expenditures would provide an additional monitoring tool for FEMA and the MSP-EMD to help mitigate such a risk.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to develop a more accurate financial reporting process that includes reconciling the database to the State accounting system on a periodic basis to ensure that the subgrantee cost share of program expenditures calculations are supported by the official accounting records.

#### *Management’s Response*

FEMA Region V concurred with this finding and recommendation, stating that MSP-EMD officials had assured them that their financial reporting procedures have been amended to include a reconciling of the database to the State accounting system and such reconciliation is currently being performed on a quarterly basis. FEMA Region V also stated that they would verify the State’s reconciliation process in the next fiscal year.

*Auditor's Additional Comment*

The actions described by management adequately address the condition cited. However, to resolve the recommendation, FEMA Region V should provide a target date for completion of the actions. The recommendation can be closed when FEMA Region V verifies the State's reconciliation process.

**2. Inaccurate Financial Reporting – Hazard Mitigation (HM) Grants**

The MSP-EMD's calculation of the recipient share of outlays, as reported on the quarterly Financial Status Reports (FSRs) submitted to FEMA, was not based upon information that was supported by the official accounting records. Further, the MSP-EMD's equation for calculating the estimated subgrantee cost share of program expenditures contained errors.

The MSP-EMD does not have a system by which the subgrantees' cost share of program expenditures is tracked. Therefore, the MSP-EMD estimates the subgrantee cost share of program expenditures for reporting the financial status of the disaster programs each quarter.

The MSP-EMD's estimations of the subgrantee cost share of program expenditures relied upon a stand-alone spreadsheet. MSP-EMD officials use the spreadsheet to store financial data for individual projects that is not posted to the State's official accounting records. Payments of the Federal and State portions of project expenditures are logged into the spreadsheet as they are posted to the State accounting system. MSP-EMD officials then calculate the subgrantee cost share of project expenditures from the information in the spreadsheet. However, the official accounting records did not support the spreadsheet balances. MSP-EMD officials confirmed that they do not verify the completeness and accuracy of the spreadsheet by reconciling it to the State accounting system on a periodic basis because the spreadsheet was not intended to be an official record.

Additionally, the MSP-EMD estimated the subgrantee cost share of program expenditures for uncompleted projects by applying the State and subgrantee cost share rate to the Federal cost share of program expenditures for such projects, rather than the total eligible project expenditures to date.

According to 44 CFR 13.20(b)(1), the financial management systems of grantees (the State) must permit "accurate, current, and complete disclosure of the financial results of the financial assisted activities. . . in accordance with the financial reporting requirements of the grant or subgrant."

Further, 44 CFR 13.20(b)(2) states that "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities." The regulation continues, "Records must contain information pertaining to. . . outlays or expenditures."

*Conclusions and Recommendations*

Although the MSP-EMD has developed payment controls to mitigate under-match of State and subgrantee expenditures in individual grant disbursements, the MSP-EMD has assumed an unnecessary risk that the State and subgrantee cost share of program expenditures may be under-

matched in the aggregate due to the lack of an accurate reporting indicator. The development of a more accurate financial reporting process for these expenditures would provide an additional monitoring tool for FEMA and the MSP-EMD to help mitigate such a risk.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to develop a more accurate financial reporting process for HMG expenditures. This process should include:

1. reconciling the spreadsheet to the State accounting system on a periodic basis to ensure that the recipient share of outlays is supported by the official accounting records, and;
2. revising its method of calculating the State and subgrantee cost share so that the State and subgrantee cost share rate for uncompleted projects is applied to total eligible project expenditures to date rather than total Federal expenditures to date.

#### *Management's Response*

FEMA Region V concurred with this finding and recommendation, stating that MSP-EMD officials have assured them that they have corrected this issue for all disasters that occurred subsequent to DR-1237-MI. MSP-EMD reported that for DR-1346-MI and disasters occurring thereafter: (1) project payments are made on a reimbursement basis, (2) payments are supported by subgrantees' accounting documentation, and (3) the reported subgrantee cost share is currently based upon documented subgrantee match costs. FEMA Region V stated that it would confirm that MSP-EMD completed these actions.

#### *Auditor's Additional Comment*

The actions described by management adequately address the conditions cited. However, to resolve the recommendation, FEMA Region V should provide a target date for when it expects to confirm completion of the actions. The recommendation can be closed when FEMA Region V confirms completion of the actions.

### **3. Cash Management – Individual and Family Grants (IFG)**

The MSP-EMD did not adequately manage FEMA funds to meet Federal match requirements and minimize the time elapsing between the transfer of funds and disbursement by the State while administering the IFG Program for Disaster 1346.

The MSP-EMD administered the IFG Program for Disaster 1346 through an arrangement with the State of Michigan Family Independence Agency (FIA). The FIA determined the timing and amount of the cash drawdown requests from FEMA. However, the FIA could not provide evidence of a consistent basis for the timing and amount by which drawdowns were requested. As a result, the Federal funds on hand at the FIA varied greatly from the amount of funds required for the State's immediate disbursement needs.

The FIA drew Federal funds 5 times during the 20 month period that the MSP-EMD administered the program. The following table was derived from accounting records and

drawdown requests of the MSP-EMD and the FIA to illustrate the discrepancies in the timing between the transfer of funds and disbursement by the State:

Date	Federal & State Expenditures To Date	Federal Allocation of Expenditures	Total Drawdowns To Date	Total Disbursed Over (Under) Drawdowns
3/1/01	\$48,368,299	\$36,276,224	\$30,769,667	\$5,506,557
5/2/01	68,822,951	51,617,213	51,588,669	28,544
8/7/01	69,613,952	52,230,536	52,299,143	(68,607)
10/1/01	70,066,202	52,549,651	52,624,525	(74,874)
11/1/01	70,175,361	52,655,351	52,663,961	(8,610)
6/20/02	69,901,540	52,449,941	52,663,961	(214,020)

This analysis indicates that Federal funds held on hand did not match current cash needs.

According to Federal requirements for cash management practices as outlined in 44 CFR 13.21(b), “Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.”

The FIA did not establish or provide for a consistent policy by which Federal funds were to be drawn down for this disaster. In addition, the MSP-EMD did not adequately oversee the FIA’s cash management practices to ensure that drawdowns did not exceed immediate cash needs.

#### Conclusions and Recommendations

The MSP-EMD did not ensure that cash management policies minimized the time elapsing between the transfer of funds and disbursement to subrecipients. As a result, the MSP-EMD did not effectively administer the amount of Federal funds on hand throughout the administration of the disaster.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to establish a consistent method and procedures to minimize the time elapsing between drawdowns and disbursements of Federal funds.

#### *Management’s Response*

FEMA Region V concurred with this finding and recommendation, stating that “DR-1346-MI was by far the largest IA declaration the State of Michigan has ever experienced. Thus, the number of applicants approved exceeded MSP-EMD and FIA expectations. Both agencies were overwhelmed. As a result of this experience and because of an amendment to the Stafford Act under DMA 2000, the State of Michigan has chosen the “FEMA Option” for Individual and Household Program (IHP) administration of future IA declarations. Under the “FEMA Option,” all payments will be processed directly by FEMA and a bill for collection will be sent to the State for its cost share.”



*Auditor's Additional Comment*

The actions being taken by management adequately address the condition cited and the recommendation is considered resolved and closed.

**4. Cash Management – Public Assistance (PA) and Hazard Mitigation (HM) Grants**

The Michigan State Police (MSP) did not adequately manage its cash management policy to minimize the time elapsing between the drawdown and disbursement of Federal funds. As a result, Federal funds were not drawn down in accordance with Federal requirements and disbursed timely.

The MSP-EMD and the Management Services Division of the Michigan State Police (MSP-MSD) developed a system to draw down funds to meet cash requirements. This system is designed to meet the immediate cash needs of federal programs and provides for appropriate levels of analysis and approvals. The MSP-EMD relied upon this system for the drawdown and disbursement of Federal funds for its PA and HM grant programs. However, the MSP-EMD and the MSP-MSD did not consistently comply with their own system.

We reviewed a sample of 23 drawdowns for disbursements of funds for grant payments under the PA and HM grant programs during the years 1999 through 2001. For 13 of the 23 drawdowns, grant payments of Federal funds ranged from 22 days prior to 14 days subsequent to the drawdown.

The Michigan Office of the Auditor General had also noted a concern in the drawdown of funds for the administrative portion of disaster grants. Their finding noted that drawdowns were not made until the close of the fiscal quarter subsequent to when administrative expenditures were incurred. The MSP-EMD determined this timing to be acceptable.

According to Federal requirements for cash management practices as outlined in 44 CFR 13.21(b), "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee."

*Conclusions and Recommendations*

Although the MSP have established an appropriate system of cash management, consistent compliance with the policy did not occur. The coordination of the State accounting system and the various individuals involved in the process was not consistent in its application.

Accordingly, we recommend that the Regional Director, FEMA Region V, require MSP to ensure that the MSP-EMD and the MSP-MSD implement adequate measures to ensure consistent application of their cash management procedures and to ensure that the time is consistently minimized between the drawdown and disbursement of funds.

*Management's Response*

FEMA Region V concurred with this finding and recommendation, stating that MSP has assured them that it will adhere to its own policy to minimize the time elapsing between the drawdown

and disbursement of federal funds. FEMA Region V also stated that it would follow-up with the MSP and confirm that adequate measures are in place.

*Auditor's Additional Comment*

The actions being taken by management appear to adequately address the condition cited. However, to resolve the recommendation, FEMA Region V should provide a target date for when it expects to confirm completion of the actions. The recommendation can be closed when FEMA Region V confirms completion of the actions.

## **5. Outdated Indirect Cost Rate**

The Michigan State Police (MSP) indirect cost rate is outdated and does not accurately reflect current indirect costs associated with administering FEMA disaster assistance programs.

The MSP has used the same fixed indirect cost rate since 1987. The indirect cost rate was originally negotiated by the National Highway Traffic Safety Administration (NHTSA) of the U.S. Department of Transportation with the MSP for the period of October 1, 1986 through September 30, 1987. Each fiscal year subsequent to the original negotiated period the NHTSA has approved an extension of the fixed indirect cost rate and noted in the approval letter each year that the rate would remain in effect through the end of the approved period or until a formal renegotiation proposal for the indirect cost rate was submitted. However, the MSP has not submitted a formal renegotiation proposal since the fiscal year 1987 proposal.

Federal requirements for the allowability of indirect costs of grantees under the PA and HM Grant Programs are specified in 44 CFR 206.228(b)(1) and 44 CFR 206.439(c)(1), respectively. Both of these sections provide authority for determining the eligibility of indirect costs as follows: "Indirect costs of administering the disaster program[s] are eligible in accordance with the provisions of 44 CFR part 13 and OMB Circular A-87."

According to 44 CFR 13.22(b), "Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs." In addition, the section specifies OMB Circular A-87 as the cost principles applicable to State government.

OMB Circular A-87, Attachment E, Part D outlines Federal requirements for submission and documentation of indirect cost rate proposals. Section 1.d. of this Part specifies that, unless an exception is approved by the cognizant Federal agency, "Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year."

Our review of the signed indirect cost negotiation agreement revealed that the MSP's fixed indirect cost rate is "based on the organizational structure and the accounting system in effect at the time the proposal was submitted." Further, "Changes in the organizational structure or changes in the method of accounting for costs which affect the amount of reimbursement resulting from use of the rates in [the] agreement require the prior approval of the authorized representative of [NHTSA]."

The MSP-EMD fiscal officer stated that the MSP had performed an analysis of actual indirect costs in 2001 and the actual indirect cost rate was substantially higher. The 2001 rate analysis

disclosed that the suggested rate was 15.2 percent, more than twice the indirect cost rate in use since 1987. However, as of the date of our audit the MSP had not implemented the more current rate due to planned personnel changes and organizational restructuring.

The focus of the audit was directed toward the MSP's management and administration of the disaster assistance programs rather than the NHTSA's responsibilities. Therefore, we did not identify the reasons why the indirect cost rate renegotiation proposal had not been required since 1987.

### *Conclusions and Recommendations*

The fixed indirect cost rate used by the MSP does not reflect cost estimates based upon the MSP's current organizational structure and accounting system. Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP to develop an indirect cost rate renegotiation proposal and submit the proposal to their cognizant agency within 6 months after the close of the MSP-EMD's fiscal year annually.

### *Management's Response*

FEMA Region V concurred with this finding and recommendation, stating that MSP-EMD officials have assured them that they are currently updating the indirect cost rate to become effective in fiscal year 2004. FEMA Region V also stated that it would follow-up with MSP-EMD and verify that this task is accomplished.

### *Auditor's Additional Comment*

The actions being taken by management appear to adequately address the condition cited. However, to resolve the recommendation, FEMA Region V should provide a target date for completion of the actions. The recommendation can be closed when FEMA Region V confirms that the indirect cost rate proposal is developed and implemented as approved by the MSP-EMD's cognizant agency.

## **B. Program Management**

### **1. Timeliness of Payments – Individual and Family Grants (IFG)**

IFG subrecipients were not receiving needed assistance in accordance with prescribed time frames. Our sample of 39 IFG subrecipients for Disaster 1346 disclosed that it took an average of 149 days between the dates of application to the date that checks went to applicants. However, because FEMA and the MSP-EMD shared responsibilities for the management of the Disaster 1346 IFG program, the delays were not solely attributable to the State.

The MSP-EMD administered the IFG program for Disaster 1346 through the State of Michigan Family Independence Agency (FIA). The FIA entered into an agreement with FEMA that provided for processing of IFG applications at FEMA's National Processing Service Center (NPSC) in Berryville, VA. Under this agreement, the State's role in the administration of the IFG program consisted primarily of disbursing grant awards to subrecipients in a timely manner.

For the sampled cases, the largest time delay appeared to be from the date an application was received to when it was approved by FEMA for payment. This part of the process was the responsibility of FEMA’s National Processing Service Center (NPSC) in Berryville, Virginia. Because the audit was directed toward the State’s management and administration of the IFG program and not of FEMA’s responsibilities, the causes of the delays within the NPSC were not identified. However, we noted that for the 39 cases included in our sample, it took an average of 124 days for FEMA-NPSC to process the cases.

Checks for 24 (61.5 percent) of the cases sampled were not processed and mailed by the FIA within 10 days after receipt of the approval notice from FEMA, as stated in the FEMA-approved administrative plan. The FIA processed payments for all of the sampled cases an average of 25 days after receiving the approval from FEMA.

No. of days State took to disburse	No. of cases in sample	Percent of Sample	Average days b/w application and payment	Average days FEMA-NPSC to process	Average days State to disburse
1 - 10	15	38.5%	135	128	7
11 +	24	61.5%	158	121	37
Sample Total	39	100.0%	149	124	25

Once the FIA received notice that an application had been approved, the FIA was responsible for processing the payment and mailing the check to the subrecipient. The FIA’s process often took longer than was established in the approved administrative plan because the State legislature did not properly appropriate the necessary funds for the State’s cost share portion of the grant awards. The FIA disbursed the State portion of the grant funds out of an alternate State appropriation for several months following the declaration of Disaster 1346. Approximately 9 months after the disaster had been declared, expenditures from the alternate appropriation began to exceed the cash sources to that appropriation. Soon thereafter, disbursements to subrecipients were halted until the State legislature appropriated funds for the State’s cost share portion of the grant awards. However, application approval notices continued to arrive from NPSC as often as daily, causing the FIA’s portion of the delays in disbursements to climb as high as 73 days for the cases in our sample. Within a few weeks after FIA halted disbursements, the State legislature appropriated funds for the State cost share portion of the grant awards and FIA resumed disbursement of funds.

In accordance with the Stafford Act, the State must disburse IFG grant awards to meet applicants’ needs. The approved State administrative plan for Disaster 1346 states, “all available resources [will be used] to insure that all grants are disbursed within 10 days after grant approval.” Although the new Individual and Households Program (IHP) replaced the IFG program as of October 15, 2002, the application review and approval process considered here would remain critical to the timeliness of payments to eligible applicants.

*Conclusions and Recommendations*

Providing needed assistance to IFG subrecipients, on a timely basis, is one of the most significant aspects of a disaster. The prompt payment of grant awards to eligible IFG applicants is of paramount importance as demonstrated by the criteria set forth in the FEMA-approved administrative plan for Disaster 1346. Such payments generally involve disaster assistance to the

most needy of all disaster-affected subrecipients and include funds for real and personal property losses, such as basic household items, clothing, and transportation needs. Clearly, the time it took from receipt of applications to the payments for approved cases for Disaster 1346 was not consistent with the intent of the Stafford Act or in compliance with the requirements of the approved administrative plan.

Accordingly, we recommend that the Regional Director, Region V, coordinate with the MSP-EMD fiscal officer to develop and implement procedures under the new IHP that ensure disbursements to subrecipients are made in a timely manner according to Federal requirements.

#### *Management's Response*

The position of FEMA Region V and the State of Michigan is that the cause for the untimely processing of payments rests with the FEMA NPSC. There was a lengthy delay between the time the applications were received and when the applications were approved. Therefore, Michigan's state legislature was unable to approve the necessary appropriations in a timeframe consistent with the MSP-EMD's administrative plan for the IFG program.

However, as the result of an amendment to the Stafford Act under DMA 2000, the State of Michigan has chosen the "FEMA Option" for administration of future IA declarations under the IHP. Under the "FEMA Option," all payments will be processed directly by FEMA and a bill for collection will be sent to the State for its cost share.

#### *Auditor's Additional Comment*

The actions being taken by management adequately address the condition cited and the issue is considered resolved and closed.

## **2. Program Closeout – Individual and Family Grants (IFG)**

The MSP-EMD did not timely close the IFG program for Disaster 1128.

The MSP-EMD administered the IFG program for Disaster 1128 through the State of Michigan Family Independence Agency (FIA). The FIA requested a 90-day extension for grant award activities in the program 202 days after Disaster 1128 had been declared. The FEMA Regional Director approved the request, extending the final closeout date to July 18, 1997. However, the MSP-EMD did not submit the final closeout report for the IFG program until approximately 450 days later. MSP-EMD and regional office disaster files did not contain evidence of additional time extensions.

Under 44 CFR 206.131(j)(1)(iii) and (iv), the State is required to complete all grant award activity within 180 days after the disaster declaration date. The State is also required to complete all administrative activities, including submission of final reports and vouchers to the FEMA Regional Director, within 90 days after the completion of all grant award activity. These statutory requirements give states a total of 270 days past the declaration date to submit final closeout reports and vouchers to the FEMA Regional Director.

In addition, 44 CFR 206.131(j)(2) states that the Governor's Authorized Representative may submit an appropriately justified request for the extension of any time limitation and the FEMA

Regional Director may approve the request for a period not to exceed 90 days. Further extensions require the approval of the Associate Director.

MSP-EMD officials stated that staffing changes after this disaster resulted in a new grant coordinating officer closing the IFG program and that is why time extensions were not requested.

#### *Conclusions and Recommendations*

Timely close-out of the IFG program would provide more effective and efficient use of FEMA and MSP-EMD funds by releasing resources for use on other requirements.

Accordingly, we recommend that the FEMA Regional Director, Region V, require the MSP-EMD to implement procedures to ensure that IFG programs are closed within prescribed time frames.

#### *Management's Response*

FEMA Region V concurred with this finding stating that as a result of an amendment to the Stafford Act under DMA 2000, the State of Michigan has chosen the "FEMA Option" for IHP administration; therefore, all future IA declarations will be processed by FEMA directly to ensure that future IA declarations will be closed within the prescribed time frame.

#### *Auditor's Additional Comment*

The actions being taken by management adequately address the condition cited and the issue is considered resolved and closed.

### **3. Administrative and Program Plans – Public Assistance (PA) and Hazard Mitigation (HM) Grants**

The MSP-EMD did not submit administrative plans and program plans for the PA and HM Grant Programs in accordance with Federal requirements.

#### **PA Administrative Plans:**

The MSP-EMD did not timely submit a revised annual administrative plan each year. Although the MSP-EMD submitted at least one administrative plan each year, the MSP-EMD did not submit an annual revision of the State administrative plan for fiscal year 1999 until Disaster 3137 had been declared in January 1999. The MSP-EMD then submitted a revised plan in May 1999 for both the 1999 annual update and Disaster 3137.

In addition, the MSP-EMD did not submit plan updates or amendments for Disasters 1226 and 1237. The MSP-EMD submitted an annual administrative plan revision for fiscal year 1998 in October 1997. However, Disasters 1226 and 1237 occurred 8 and 10 months, respectively, after the fiscal year 1998 annual plan revision had been submitted.

According to 44 CFR 206.207(b)(3), which specifies the Federal requirements for State administrative plans relative to the PA Grant Program, the State is required to submit a revised

administrative plan annually and any amendments to meet current policy guidance upon declaration of each disaster that includes Public Assistance.

The MSP-EMD Public Assistance Officer stated that FEMA approved the October 1997 revision of the administrative plan for Disasters 1226 and 1237. MSP-EMD officials also stated that FEMA did not require updates or amendments upon declaration of those disasters.

### **HM Administrative and Program Plans:**

The MSP-EMD did not submit any updates or amendments to the State administrative plan for Disasters 1226 and 1237, both declared late in fiscal year 1998. The MSP-EMD submitted revised administrative plans in September 1997 and August 1999. No other submissions were prepared.

The MSP-EMD's policy was to submit an updated HM program plan with each administrative plan revision. However, because the MSP-EMD did not submit any administrative plan updates or amendments for 1226 and 1237, the HM program plans for these disasters were not submitted. Additionally, HM program plans submitted for other disasters did not include a method for implementing, monitoring, evaluating and updating the plan.

According to 44 CFR 206.437(d), which specifies the Federal requirements for State administrative plans relative to the HM Grant Program, the State is required to submit an administrative plan to the regional office for approval and, "Following each major disaster declaration, . . . 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 State administrative plan is approved by the FEMA Regional Director."

Additionally, within 180 days after a disaster is declared, the State is required to submit to FEMA a Section 409 HM plan or plan update. The HM plan should address all natural hazards within the State. The elements to be included in the HM plan are presented in 44 CFR 206.405(a)(4), which requires "a method of implementing, monitoring, evaluating and updating the mitigation plan. Such evaluation is to occur on at least an annual basis to ensure that implementation occurs as planned, and to ensure that the plan remains current."

The MSP-EMD HM Officer stated that FEMA approved the September 1997 revision of the administrative plan and HM program plan for disasters 1226 and 1237.

### *Conclusions and Recommendations*

The submission of State administrative plans for the PA and HM programs and Section 409 HM plans are essential activities to ensure that regulatory and policy guidance amendments are recognized and properly implemented.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to implement procedures to ensure that State administrative plans and Section 409 HM plans are prepared and submitted to the Region in accordance with Federal requirements.

### *Management's Response*

FEMA Region V concurred with these findings and recommendations. However, they stated that they did approve updates to MSP-EMD's PA administrative plans for DR-1226-MI and DR-1237-MI even though official approval letters are not in the disaster file. FEMA Region V also stated that it currently requires MSP-EMD to amend PA administrative plans according to 44 CFR regulations and that MSP-EMD has complied with all requirements.

Regarding HM administrative and program plans, FEMA Region V stated, "MSP-EMD does update their administrative plans annually. Region V will work with MSP-EMD to ensure that the Region is notified in writing when the plan is updated. Accordingly, the Region will issue an approval letter once they receive the updated administrative plan. Additionally, after each disaster declaration, FEMA Region V will verify that MSP-EMD has a current administrative plan and file a copy in the FEMA disaster file."

### *Auditor's Additional Comment*

Management's response did not address the recommendation. Although the required plans are currently on file, the audit found that MSP-EMD often did not submit the plans or updates in a timely manner. Therefore, as the recommendation stated, MSP-EMD should implement **procedures to ensure** that State administrative plans and Section 409 HM plans are prepared and submitted to the Region in accordance with Federal requirements. To resolve the recommendation, FEMA Region V should provide a target date for completion of the recommended action. Further, the recommendation cannot be closed until FEMA Region V confirms that the recommended procedures are in place.

## **4. Single Audit Efforts – Public Assistance (PA) and Hazard Mitigation (HM) Grants**

The MSP-EMD did not adequately monitor subgrantees in accordance with the Single Audit Act.

The MSP-EMD develops and maintains schedules of payments made to subgrantees for purposes of identifying subgrantees that are required or may be required to have Single Audits. The MSP-EMD then provides the list of subgrantees and the amounts of their Federal award to the Management Services Division of the Michigan State Police (MSP-MSD). The MSP-MSD receives Single Audit reports from the subgrantees and reviews the Schedule of Expenditures of Federal Awards, the Auditor's Reports on Internal Controls and Compliance, and any findings. The MSP-MSD provides resolution to report findings and reporting errors. However, their review does not provide for reconciliation of funds distributed by the MSP-EMD to the Schedule of Expenditures of Federal Awards included in the Single Audit report.

Our sample of 55 subgrantees receiving FEMA grant funds noted that only 11 audit reports were on hand. There was no indication from the MSP-MSD on the remaining 44 subgrantees as to whether or not the subgrantee required a Single Audit based upon their overall level of funding. Fifteen subgrantees were tested that received in excess of \$300,000 of FEMA funds through the State of Michigan. However, of those 15, only 3 Single Audit reports had been received and analyzed by the MSP-MSD. No indication was evident that any follow-up had been performed to request the Single Audit reports. The review process had not included an assurance throughout the period under audit that all reports were received or reviewed timely.



According to 44 CFR 14.2, the recipient of federal grant funds shall comply with the Single Audit Act. This CFR includes requirements for annual audits for recipients of funds over specified dollar amounts as well as for timely submission of the audit report.

The inadequate follow-up on Single Audit compliance by the MSP-MSD occurred because the MSP-EMD does not have adequate procedures to ensure that all significant subgrantees have submitted Single Audit reports on a timely basis.

#### *Conclusions and Recommendations*

Responsibility rests with the MSP-EMD to ensure that all significant subgrantees have submitted Single Audit reports on a timely basis and those reports are adequately reviewed in a timely manner. Consequently, FEMA and the State have no assurance that subgrantee costs are receiving adequate audit coverage in accordance with the Single Audit Act.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to develop and implement procedures to ensure that all subgrantee Single Audit reports are received and reviewed in a timely manner.

#### *Management's Response*

FEMA Region V concurred with this finding and recommendation, stating that MSP-EMD officials have assured FEMA Region V that they will develop and implement procedures that will ensure that all subgrantee Single Audit reports are received and reviewed in a timely manner. FEMA Region V also stated that it would require a written plan outlining how the MSP-EMD will accomplish this task.

#### *Auditor's Additional Comment*

The actions being taken by management appear to adequately address the condition cited. However, to resolve the recommendation, MSP-EMD should provide a written plan with a target completion date outlining how the task will be accomplished. Further, the recommendation cannot be closed until FEMA Region V confirms that the procedures are in place.

### **5. Documentation of Procedures – Public Assistance (PA) and Hazard Mitigation (HM) Grants**

The MSP-EMD does not have adequate documentation of day-to-day program management and administrative operating procedures for the PA and HM Grants Programs. The MSP-EMD also does not have adequate documentation of financial reporting procedures or allocation procedures for State management grant costs. The MSP-EMD fiscal officer was among many State employees taking an early retirement package and documentation of procedures could have provided a more seamless transition as a replacement fiscal officer took office.

The PA program officer stated that the MSP-EMD PA staff had documented procedures for some of the administrative tasks performed in recent years, but some of their procedures had not yet been documented. The PA staff could not readily provide copies of their documented procedures and procedures they provided were in various formats and levels of specificity. Also,

the documented procedures were in various locations and not readily accessible by other program staff.

The assistant HM program officer confirmed that the MSP-EMD has not documented its procedures for performing day-to-day tasks and added that the HM staff refers to the FEMA Hazard Mitigation Desk Reference and other information from FEMA for guidance while performing day-to-day program management and administrative tasks.

Documented procedures for preparing quarterly financial reports were not available other than a schedule of various financial reports and their due dates required by various Federal agencies. The MSP-EMD also could not provide documented procedures for allocating State management grant costs.

Federal requirements under 44 CFR 13.20(b)(3) state that “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.”

MSP-EMD officials stated that they had not given documentation of procedures a high priority. They also stated that procedures had been developed for various tasks over time as a permanent staff was developed to administer the disaster programs, but added that work remained to be done in this area. Officials remarked that adequate procedures were monitored through close supervision.

### ***Conclusions and Recommendations***

The absence of documented program and financial reporting procedures creates a significant weakness in the MSP-EMD’s control over grants and subgrants. Documented procedures would provide better control over grants and subgrants by improving the consistency and effectiveness of the program staff. Documentation of procedures also provides a more seamless transition during staff turnover and permits staff to step in for one another during critical events in the administration of a disaster, such as staffing of Disaster Field Offices and project inspections.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to document its procedures for performing day-to-day program management and administrative tasks of the FEMA disaster assistance programs. Documentation of the procedures should:

- a. sufficiently detail how to perform each task so that a trainee or another employee could effectively perform the task with minimal supervision,
- b. be centrally located so that procedures are readily available and accessible, and
- c. be prepared in a standardized format to aid understanding and comprehension.

### ***Management’s Response***

In its response, FEMA Region V stated:

“**PA** – The Region concurs with this finding and recommendation. However, MSP-EMD created numerous Standard Operating Procedures (SOPs). These SOPs were presented to the auditors

but not accepted because they were not filed with the Administrative Plan. The MSP-EMD has assured the Region that these SOPs have been completed. FEMA Region V will confirm that these SOPs are completed and reflect the intent of the auditors' recommendation."

"**HM** – Although Region V concurs with these findings and recommendations, the State does submit all their quarterly reports and other necessary documentation on time. Also, MSP-EMD does manage their HM program efficiently and effectively. The Region will work with the State and follow-up on this issue to ensure that the MSP-EMD is on target with these tasks."

*Auditor's Additional Comment*

Management's response did not address the recommendation. The audit found that HM procedures were not documented and that some PA program procedures were not documented and some were documented inconsistently. The benefits of documented procedures are outlined above under *Conclusions and Recommendations*. Therefore, as the recommendation stated, MSP-EMD should document its procedures for performing day-to-day program management and administrative tasks of the FEMA disaster assistance programs. To resolve the recommendation, FEMA Region V should provide a target date for completion of the recommended action. Further, the recommendation cannot be closed until FEMA Region V confirms that the procedures are documented.

**6. Documentation of Project Ranking Process – Hazard Mitigation (HM) Grants**

The MSP-EMD did not maintain adequate documentation of its HM project ranking and selection process for Disasters 1226, 1237 and 1346.

For Disasters 1226 and 1237 the MSP-EMD could not provide information to indicate the State's score for each project or how each project's score was developed. For Disaster 1346, the MSP-EMD provided a summary of the score for each project considered. However, the summary was not supported by individual comments of the State's ranking committee and other information that would substantiate the State's score for each project. As a result, implementation of the MSP-EMD's project ranking criteria, as stated in the State administrative plan, could not be verified to comply with 44 CFR 206.434(b).

Under 44 CFR 13.42, which prescribes the time limits and applicability of Federal records retention requirements, retention and access to "all financial and programmatic records, supporting documents, statistical records and other records of grantees or sub-grantees which are otherwise reasonably considered as pertinent to program regulations or the grant agreement," are required to be maintained for a period of three years from the day the State (grantee) submits its final expenditure report to FEMA.

Disasters 1226 and 1237 were declared in 1998 and Disaster 1346 was declared in 2001. As of the date of our audit, the MSP-EMD had not submitted a final expenditure report for the HM programs of any of these disasters. Therefore, the three-year retention requirement as stated in 44 CFR 13.42 had not lapsed and the records noted above remained subject to audit.

The HM planning officer stated that the records indicated above were not retained due to the design of the MSP-EMD's project ranking process and the number of project applications that must be evaluated and ranked for each disaster. The officer added that the MSP-EMD had

determined that more detailed records from the project ranking process were too voluminous to retain.

### *Conclusions and Recommendations*

Since the MSP-EMD could not provide adequate documentation that the HM projects were ranked and selected in accordance with FEMA program policy, FEMA does not have assurance that the MSP-EMD ranked and selected projects after giving each project complete and fair consideration in accordance with applicable requirements.

Accordingly, we recommend that the Regional Director, FEMA Region V, require the MSP-EMD to develop and implement procedures to adequately document its project selection process for each disaster.

### *Management's Response*

FEMA Region V concurred with this finding and recommendation, stating: "Since the onset of DR-1346-MI, the MSP-EMD created the Michigan Hazard Mitigation Coordinating Council (MHCC). The MHCC was established to review mitigation projects and tally score sheets for projects submitted. Based upon scores from these sheets, projects were selected. However, DR-1346-MI had a plethora of projects to review. It was decided by the council that this process would be suspended and that the MHCC would choose projects after a roundtable discussion of council members. Beginning with DR-1413-MI, MHCC implemented a new scoring system and collects and maintains score sheets in the disaster file. FEMA Region V will follow-up and verify that this new system is enacted."

### *Auditor's Additional Comment*

The actions being taken by management appear to adequately address the condition cited. However, to resolve the recommendation, FEMA Region V should provide a target date for completion of the recommended action. The recommendation can be closed when FEMA Region V confirms that the new procedures are documented and implemented.

## **7. Property Management**

The MSP-EMD does not annually reconcile physical inventories of equipment to the accounting records and the State property records. As a result, equipment purchases per the accounting records could not be traced to the State's property records.

According to 44 CFR 13.20(3), "Effective control and accountability must be maintained for all grant and subgrant. . .real and personal property, and other assets." Additionally, the regulation states that "Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

According to 44 CFR 13.32(b), which prescribes requirements for equipment obtained with federal grant funds, "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures."

The State of Michigan's equipment procedures are outlined in the Office of Financial Management's Financial Reporting and Accounting Manual (FRAM). Chapter 21, section one, of the FRAM details the State's policies and procedures related to capital equipment assets, which apply to all departments, branches, and other organizations of the State. The FRAM requires that "All owned equipment having an acquisition cost of \$5,000 or more and a useful life of more than one year should be capitalized and recorded in the departmental accounting records." Further, "An annual physical inventory of equipment for all locations must be taken to ensure accuracy of capital asset listings used in the development of general capital assets information." The FRAM also requires that "A listing of missing equipment and equipment observed but not recorded should be prepared. Timely reconciliations of the physical inventory help ensure accurate capital asset records."

MSP-EMD officials stated that their property management controls had been overlooked during a restructuring of job responsibilities within the MSP-EMD office a few years prior and the applicable procedures have not been revised to accommodate the restructuring.

#### *Conclusions and Recommendations*

The MSP-EMD has not provided effective control over equipment purchased with Federal funds in accordance with State property management requirements. As a result, FEMA does not have assurance that equipment purchased with FEMA funds is adequately monitored and controlled.

Accordingly, we recommend that the FEMA Regional Director, Region V, require the MSP-EMD to implement procedures to ensure that property management procedures are followed in accordance with the State of Michigan FRAM as required by Federal requirements.

#### *Management's Response*

FEMA Region V did not concur with this finding and recommendation, stating that MSP-EMD does have procedures in place that oversee property management. The Region also stated that if the auditors could cite specific instances in which the MSP-EMD was negligent in its accounting of property, the Region would work with the State to correct the problems.

#### *Auditor's Additional Comment*

Management's response did not address the condition cited. MSP-EMD did not comply with the State's equipment procedures that require annual reconciliation of physical inventories of equipment to the accounting records and State property records. Therefore, MSP-EMD has not maintained effective control and accountability over grant and subgrant property and other assets in accordance with the FRAM and 44 CFR. Although the audit did not identify specific instances of abuse, the lack of effective controls increases the likelihood that abuse or errors will occur. Therefore, procedures should be implemented to ensure compliance and decrease the likelihood that abuse or errors will occur. To resolve the recommendation, FEMA Region V should provide a written plan with a target completion date for planned actions. Further, the recommendation cannot be closed until FEMA Region V confirms that the new procedures are documented and implemented.

## ATTACHMENTS

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Summary of All Disasters in Scope of Audit

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 77,266,501	\$60,056,510	\$15,094,995	\$152,418,006
Local/State Share	<u>29,884,098</u>	<u>19,143,545</u>	<u>5,859,300</u>	<u>54,886,943</u>
Total Award Amount	<u>\$107,150,599</u>	<u>\$79,200,055</u>	<u>\$20,954,295</u>	<u>\$207,304,949</u>
Source of Funds:				
Federal Share	\$ 76,198,415	\$55,330,653	\$ 6,815,161	\$138,344,229
Local/State Share	<u>29,713,313</u>	<u>18,563,250</u>	<u>2,815,815</u>	<u>51,092,378</u>
Total Source of Funds	<u>\$105,911,728</u>	<u>\$73,893,903</u>	<u>\$ 9,630,976</u>	<u>\$189,436,607</u>
Application of Funds:				
Federal Share	\$ 76,705,150	\$55,695,471	\$ 6,862,594	\$139,263,215
Local/State Share	<u>29,713,313</u>	<u>18,564,250</u>	<u>2,815,815</u>	<u>51,093,378</u>
Total Application of Funds	<u>\$106,418,463</u>	<u>\$74,259,721</u>	<u>\$ 9,678,409</u>	<u>\$190,356,593</u>
Balance of Federal Funds on Hand	<u>\$ (506,735)</u>	<u>\$ (364,818)</u>	<u>\$ (47,433)</u>	<u>\$ (918,986)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Grant 1128 Severe Storms and Flooding

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 4,014,698	\$ 895,000	\$ 2,685,442	\$ 7,595,140
Local/State Share	<u>1,289,997</u>	<u>328,200</u>	<u>866,830</u>	<u>2,485,027</u>
Total Award Amount	<u>\$ 5,304,695</u>	<u>\$ 1,223,200</u>	<u>\$ 3,552,272</u>	<u>\$ 10,080,167</u>
Source of Funds:				
Federal Share	\$ 4,014,698	\$ 895,000	\$ 1,932,767	\$ 6,842,465
Local/State Share	<u>1,289,997</u>	<u>328,200</u>	<u>912,555</u>	<u>2,530,752</u>
Total Source of Funds	<u>\$ 5,304,695</u>	<u>\$ 1,223,200</u>	<u>\$ 2,845,322</u>	<u>\$ 9,373,217</u>
Application of Funds:				
Federal Share	\$ 4,014,698	\$ 895,000	\$ 1,798,828	\$ 6,708,526
Local/State Share	<u>1,289,997</u>	<u>328,200</u>	<u>912,555</u>	<u>2,530,752</u>
Total Application of Funds	<u>\$ 5,304,695</u>	<u>\$ 1,223,200</u>	<u>\$ 2,711,383</u>	<u>\$ 9,239,278</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 133,939</u>	<u>\$ 133,939</u>



Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 1181 Severe Storms, Tornadoes and Flooding

	Public Assistance Grants	Individual and Family Grants	Hazard Mitigation Grants	Total Disaster Grants
Award Amounts:				
Federal Share	\$21,181,389	\$ 2,136,510	\$ 5,591,879	\$ 28,909,778
Local/State Share	<u>11,795,600</u>	<u>712,170</u>	<u>2,143,347</u>	<u>14,651,117</u>
Total Award Amount	<u>\$32,976,989</u>	<u>\$ 2,848,680</u>	<u>\$ 7,735,226</u>	<u>\$ 43,560,895</u>
Source of Funds:				
Federal Share	\$21,181,389	\$ 2,136,510	\$ 2,798,421	\$ 26,116,320
Local/State Share	<u>11,795,600</u>	<u>712,170</u>	<u>1,046,938</u>	<u>13,554,708</u>
Total Source of Funds	<u>\$32,976,989</u>	<u>\$ 2,848,680</u>	<u>\$ 3,845,359</u>	<u>\$ 39,671,028</u>
Application of Funds:				
Federal Share	\$21,181,389	\$ 2,136,510	\$ 2,921,839	\$ 26,239,738
Local/State Share	<u>11,795,600</u>	<u>712,170</u>	<u>1,046,938</u>	<u>13,554,708</u>
Total Application of Funds	<u>\$32,976,989</u>	<u>\$ 2,848,680</u>	<u>\$ 3,968,777</u>	<u>\$ 39,794,446</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (123,418)</u>	<u>\$ (123,418)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 1226 Severe Storms and Straight Line Winds

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$28,803,172	\$ 0	\$ 3,694,218	\$ 32,497,390
Local/State Share	<u>9,371,137</u>	<u>0</u>	<u>1,535,787</u>	<u>10,906,924</u>
Total Award Amount	<u>\$38,174,309</u>	<u>\$ 0</u>	<u>\$ 5,230,005</u>	<u>\$ 43,404,314</u>
Source of Funds:				
Federal Share	\$28,616,813	\$ 0	\$ 1,526,041	\$ 30,142,854
Local/State Share	<u>9,273,909</u>	<u>0</u>	<u>624,179</u>	<u>9,898,088</u>
Total Source of Funds	<u>\$37,890,722</u>	<u>\$ 0</u>	<u>\$ 2,150,220</u>	<u>\$ 40,040,942</u>
Application of Funds:				
Federal Share	\$28,636,534	\$ 0	\$ 1,571,624	\$ 30,208,158
Local/State Share	<u>9,273,909</u>	<u>0</u>	<u>624,179</u>	<u>9,898,088</u>
Total Application of Funds	<u>\$37,910,443</u>	<u>\$ 0</u>	<u>\$ 2,195,803</u>	<u>\$ 40,106,246</u>
Balance of Federal Funds on Hand	<u>\$ (19,721)</u>	<u>\$ 0</u>	<u>\$ (45,583)</u>	<u>\$ (65,304)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 1237 Severe Storms and High Winds

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 5,045,720	\$ 0	\$ 997,087	\$ 6,042,807
Local/State Share	<u>1,610,890</u>	<u>0</u>	<u>399,368</u>	<u>2,010,258</u>
Total Award Amount	<u>\$ 6,656,610</u>	<u>\$ 0</u>	<u>\$ 1,396,455</u>	<u>\$ 8,053,065</u>
Source of Funds:				
Federal Share	\$ 4,969,013	\$ 0	\$ 556,500	\$ 5,525,513
Local/State Share	<u>1,605,902</u>	<u>0</u>	<u>211,162</u>	<u>1,817,064</u>
Total Source of Funds	<u>\$ 6,574,915</u>	<u>\$ 0</u>	<u>\$ 767,662</u>	<u>\$ 7,342,577</u>
Application of Funds:				
Federal Share	\$ 5,022,113	\$ 0	\$ 505,794	\$ 5,527,907
Local/State Share	<u>1,605,902</u>	<u>0</u>	<u>211,162</u>	<u>1,817,064</u>
Total Application of Funds	<u>\$ 6,628,015</u>	<u>\$ 0</u>	<u>\$ 716,956</u>	<u>\$ 7,344,971</u>
Balance of Federal Funds on Hand	<u>\$ (53,100)</u>	<u>\$ 0</u>	<u>\$ 50,706</u>	<u>\$ (2,394)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 3137 Snow Emergency

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 9,040,775	\$ 0	\$ 0	\$ 9,040,775
Local/State Share	<u>2,888,587</u>	<u>0</u>	<u>0</u>	<u>2,888,587</u>
Total Award Amount	<u>\$11,929,362</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,929,362</u>
Source of Funds:				
Federal Share	\$ 8,991,305	\$ 0	\$ 0	\$ 8,991,305
Local/State Share	<u>2,874,514</u>	<u>0</u>	<u>0</u>	<u>2,874,514</u>
Total Source of Funds	<u>\$11,865,819</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,865,819</u>
Application of Funds:				
Federal Share	\$ 8,995,605	\$ 0	\$ 0	\$ 8,995,605
Local/State Share	<u>2,874,514</u>	<u>0</u>	<u>0</u>	<u>2,874,514</u>
Total Application of Funds	<u>\$11,870,119</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,870,119</u>
Balance of Federal Funds on Hand	<u>\$ (4,300)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (4,300)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 1346 Severe Storms and Flooding

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 0	\$57,025,000	\$ 2,126,369	\$ 59,151,369
Local/State Share	<u>0</u>	<u>18,103,175</u>	<u>913,968</u>	<u>19,017,143</u>
Total Award Amount	<u>\$ 0</u>	<u>\$75,128,175</u>	<u>\$ 3,040,337</u>	<u>\$ 78,168,512</u>
Source of Funds:				
Federal Share	\$ 0	\$52,299,143	\$ 1,432	\$ 52,300,575
Local/State Share	<u>0</u>	<u>17,522,880</u>	<u>20,981</u>	<u>17,543,861</u>
Total Source of Funds	<u>\$ 0</u>	<u>\$69,822,023</u>	<u>\$ 22,413</u>	<u>\$ 69,844,436</u>
Application of Funds:				
Federal Share	\$ 0	\$52,663,961	\$ 64,509	\$ 52,728,470
Local/State Share	<u>0</u>	<u>17,523,880</u>	<u>20,981</u>	<u>17,544,861</u>
Total Application of Funds	<u>\$ 0</u>	<u>\$70,187,841</u>	<u>\$ 85,490</u>	<u>\$ 70,273,331</u>
Balance of Federal Funds on Hand	<u>\$ 0</u>	<u>\$ (364,818)</u>	<u>\$ (63,077)</u>	<u>\$ (427,895)</u>

Schedule of Source and Application of Funds  
Michigan State Police  
Disaster Assistance Grant Program  
As of September 30, 2001

Disaster Assistance Grant 3160 Snow Emergency

	<u>Public Assistance Grants</u>	<u>Individual and Family Grants</u>	<u>Hazard Mitigation Grants</u>	<u>Total Disaster Grants</u>
Award Amounts:				
Federal Share	\$ 9,180,747	\$ 0	\$ 0	\$ 9,180,747
Local/State Share	<u>2,927,887</u>	<u>0</u>	<u>0</u>	<u>2,927,887</u>
Total Award Amount	<u>\$12,108,634</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,108,634</u>
Source of Funds:				
Federal Share	\$ 8,425,197	\$ 0	\$ 0	\$ 8,425,197
Local/State Share	<u>2,873,391</u>	<u>0</u>	<u>0</u>	<u>2,873,391</u>
Total Source of Funds	<u>\$11,298,588</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,298,588</u>
Application of Funds:				
Federal Share	\$ 8,854,811	\$ 0	\$ 0	\$ 8,854,811
Local/State Share	<u>2,873,391</u>	<u>0</u>	<u>0</u>	<u>2,873,391</u>
Total Application of Funds	<u>\$11,728,202</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,728,202</u>
Balance of Federal Funds on Hand	<u>\$ (429,614)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (429,614)</u>

Comparison of Reported State and Local Share Expenditures  
Michigan State Police  
(as of September 30, 2001)

<u>Disaster</u>	<u>Federal Grant</u>	<u>Financial Status Report Form 20-10</u>	<u>Source and Application of Funds Schedule</u>
1128	Hazard Mitigation	912,555	912,555
1181	Hazard Mitigation	1,037,884	1,046,938
1226	Public Assistance	16,030,609	9,273,909
	Hazard Mitigation	616,114	624,179
1237	Public Assistance	2,249,105	1,605,902
	Hazard Mitigation	207,821	211,162
3137	Public Assistance	3,435,232	2,874,514
1346	Individual and Family	17,522,880	17,522,880
	Hazard Mitigation	20,971	20,971
3160	Public Assistance	2,947,599	2,873,391

NOTE 1: The State could not provide support for its calculations of the recipient share of outlays as reported on the original Form 20-10 as represented here. See Findings A1 and A2.

NOTE 2: The State relied upon information not supported by the official accounting records while preparing the Source and Application of Funds Schedule as represented here. See Findings A1 and A2.



Federal Emergency Management Agency  
Region V  
536 South Clark Street, 6th Floor  
Chicago, IL 60605-1521

September 5, 2003

MEMORANDUM FOR: Tonda L. Hadley, Field Director  
Office of Inspector General, Audits Division  
Department of Homeland Security

FROM:

  
Edward G. Buikema, Regional Director  
FEMA Region V

SUBJECT: Performance Audit of the State of Michigan's Compliance  
with Disaster Assistance Program Requirements

Attached is FEMA Region V's response to the findings and recommendations that were reported in the aforementioned audit dated October 2002. We have taken the State of Michigan's response under advisement and continue to collaborate with the State to resolve any outstanding deficiencies. In addition, the region will meet with the State in the next fiscal year to follow-up on any remaining issues.

If you have any questions or concerns, please call Mike Moline, Director, Administration and Resource Planning Division, at 312-408-5368.

cc: Mr. John Ort, Deputy Director, Michigan State Police



*FEMA Region V's Response to Michigan's Draft Audit Report*

**Findings A.1. "Inaccurate Financial Reporting-Public Assistance Grants"**

**Recommendation A.1:** "...require the MSP-EMD to develop a more accurate financial reporting process that includes reconciling the database to the State accounting by the official accounting records."

**Region V's Response:** The region concurs with this finding and recommendation. Since the audit was performed, MSP-EMD has assured FEMA Region V that they have included in their financial reporting process the reconciling of the database to the State accounting records. The State is currently performing a quarterly reconciliation as proposed by the auditors. FEMA Region V will verify the State's reconciliation process in the next fiscal year.

**Findings A.2. "Inaccurate Financial Reporting-Hazard Mitigation (HM) Grants"**

**Recommendation A.2:** "...require the MSP-EMD to develop a more accurate financial reporting for HMG expenditures. This process should include: 1.) reconciling the spreadsheet to the State accounting system on a periodic basis to ensure that the recipient share of outlays is supported by the official accounting records, and; 2.) revising its method of calculating the State and subgrantee cost share so that the State and subgrantee cost share for uncompleted projects is applied to total eligible project expenditures to date rather than total Federal expenditures to date."

**Region V's Response:** The region concurs with these findings and recommendations. MSP-EMD has assured FEMA Region V that they have corrected this problem for all disasters that have occurred subsequent to DR-1237-MI. Additionally, MSP-EMD has reported that for DR-1346-MI and disasters occurring thereafter, project payments are made on a reimbursement basis. These payments are supported by accounting documentation for total costs- to- date from the subgrantee. Currently, the reported local match is based on documented local match costs. FEMA Region V will confirm that these actions were taken by the MSP-EMD.

**Findings A.3. "Cash-Management-Individual and Family Grants (IFG)"**

**Recommendation A.3:** "...require the MSP-EMD to establish a consistent method and procedures to minimize the time elapsing between drawdowns and disbursements of Federal funds."

**Region V's Response:** The region concurs with this finding and recommendation. DR-1346-MI was by far the largest IA declaration the State of Michigan has ever experienced. Thus, the number of applicants approved exceeded MSP-EMD and FIA expectations. Both agencies were overwhelmed. As a result of this experience and because of an amendment to the Stafford Act under DMA 2000, the State of Michigan has chosen the "FEMA Option" for Individual and Household Program (IHP) administration of future IA declarations. Under the "FEMA Option," all payments will be processed directly by FEMA and a bill for collection will be sent to the State for its cost share.

**Findings A.4.** “Cash Management-Public Assistance (PA) and Hazard Mitigation (HM) Grants”

**Recommendation A.4:** “...require MSP to ensure that the MSP-EMD and the MSP-MSD implement adequate measures to ensure consistent application of their cash management procedures and to ensure that the time is consistently minimized between the drawdown and disbursement of funds.”

**Region V’s Response:** The region concurs with this finding and recommendation. MSP has assured FEMA Region V that it will adhere to its own policy to minimize the time elapsing between the drawdown and disbursement of federal funds. The region will follow-up with MSP and confirm that adequate measures are in place.

**Findings A.5.** “Outdated Indirect Cost Rate”

**Recommendation A.5:** “...require the MSP to develop an indirect cost rate renegotiation proposal and submit the proposal to their cognizant agency within 6 months after the close of the MSP-EMD’s fiscal year annually.”

**Region V’s Response:** The region concurs with this finding and recommendation. The MSP-EMD assures FEMA Region V that they are currently updating its indirect cost rate which will become effective in fiscal year 2004. The region will follow-up with MSP-EMD and verify that this task is accomplished.

**Findings B.1.** “Timeliness of Payments-Individual and Family Grants (IFG)”

**Recommendation B.1:** “...Region V (should) coordinate with the MSP-EMD fiscal officer to develop and implement procedures under the new IHP that ensure disbursements to subrecipients are made in a timely manner according to federal requirements.”

**Region V’s Response:** Region V disagrees with this finding. As stated during the Exit Conference, it is the region and the State’s position that the cause for the untimely processing of payments rests with FEMA’s NPSC. There was a lengthy delay between the time the applications were received and when the applications were approved. Therefore, Michigan’s state legislature was unable to approve the necessary appropriations in a timeframe consistent with MSP-EMD administrative plan for the Individual Assistance (IA) program. However, as stated previously, all payments are now processed by FEMA because the State chose this as an option under the DMA 2000 amendment to the Stafford Act.

**Findings B.2.** “Program Closeout-Individual and Family Grants (IFG)”

**Recommendation B.2:** “...require the MSP-EMD to implement procedures to ensure that IFG program are closed within prescribed time frames.”

**Region V’s Response:** The region concurs with these findings. As a result of an amendment to the Stafford Act under DMA 2000, the State of Michigan has chosen the “FEMA Option” for IHP administration. Therefore, all future IA declarations will be processed by FEMA directly. This should ensure that future IA declarations will be closed within the prescribed time frame.

**Findings B.3.** “Administrative and Program Plans-Public Assistance (PA) and Hazard

### **Mitigation (HM) Grants”**

**Recommendation B.3:** “...require the MSP-EMD to implement procedures to ensure that State administrative plans and Section 409 HM plans are prepared and submitted to the Region in accordance with Federal requirements.”

**Region V’s Response:** PA-The region concurs with this finding and recommendation. However, the region did approve updates to MSP-EMD administrative plans for DR-1226-MI and DR-1237-MI even though official approval letters are not in the disaster file FEMA Region V currently requires MSP-EMD to amend their administrative plans according the 44 CFR regulations. The MSP-EMD has complied with all requirements.

HM-The region concurs with this finding and recommendation. However, MSP-EMD does update their administrative plan annually. Region V will work with MSP-EMD to ensure that the region is notified in writing when the plan is updated. Accordingly, the region will issue an approval letter once they receive the updated administrative plan. Additionally, after each disaster declaration, FEMA Region V will verify that MSP-EMD has a current administrative plan and file a copy in the FEMA disaster file.

**Findings B.4.** “**Single Audit Efforts-Public Assistance (PA) and Hazard Mitigation (HM) Grants”**

**Recommendation B.4:** “...require the MSP-EMD to develop and implement procedures to ensure that all subgrantee Single Audit reports are received and reviewed in a timely manner.”

**Region V’s Response:** The region concurs with this finding and recommendation. MSP-EMD has assured FEMA Region V that they will develop and implement procedures that will ensure that all subgrantee single audit reports are received and reviewed in timely manner. The regional office will follow-up and require a written plan outlining how MSP-EMD will accomplish this task.

**Findings B.5.** “**Documentation of Procedures-Public Assistance (PA) and Hazard Mitigation (HM)”**

**Recommendation B.5:** “...require the MSP-EMD to document its procedures for performing day-to-day program management and administrative tasks of the FEMA disaster assistance programs. Documentation of the procedures should:

- a. sufficiently detail how to perform each task so that a trainee or another employee could effectively perform the task with minimal supervision,
- b. be centrally located so that procedures are readily available and accessible, and
- c. be prepared in a standardized format to aid understanding and comprehension.

**Region V’s Response:** PA-The region concurs with this finding and recommendation. However, MSP-EMD created numerous Standard Operating Procedures (SOP). These SOPs were presented to the auditors but not accepted because they were not filed with the Administrative Plan. The MSP-EMD has assured the region that these SOPs have been completed. FEMA Region V will confirm that these SOPs are completed and reflect the intent of the auditors’ recommendation.

**HM-**Although Region V concurs with these findings and recommendations, the State does submit all their quarterly reports and other necessary documentation on time. Also, MSP-EMD does manage their HM program efficiently and effectively. The region will work with the State and follow-up on this issue to ensure that MSP-EMD is on target with these tasks.

**Findings B.6. “Documentation of Project Ranking Process-Hazard Mitigation (HM) Grants”**

**Recommendations:** “...require the MSP-EMD to develop and implement procedures to adequately document its project selection process for each disaster.”

**Region V’s Response:** The region concurs with this finding and recommendation. Since the onset of DR-1346-MI, the MSP-EMD created the Michigan Hazard Mitigation Coordinating Council (MHCC). The MHCC was established to review mitigation projects and tally score sheets for projects submitted. Based upon scores from these sheets, projects were selected. However, DR-1346-MI had a plethora of projects to review. It was decided by the council that this process would be suspended and that the MHCC would choose projects after a roundtable discussion of council members. Beginning with DR-1413-MI, MHMCC implemented a new scoring system and collects and maintains score sheets in the disaster file. FEMA Region V will follow-up and verify that this new system is enacted.

**Findings B.7. “Property Management”**

**Recommendations:** “...require the MSP-EMD to implement procedures to ensure that property management procedures are followed in accordance with the State of Michigan FRAM as required by Federal requirements.

**Region V’s Response:** Currently, Region V adequately responds to this finding. MSP-EMD does have procedures in place that oversee property management. During the Exit Conference, the State wanted the auditors to cite instances in which MSP-EMD was negligent in their accounting of property. The auditors did not respond to their request. The region respectfully requests documented evidence how the State might be negligent in their accounting of property. If more specific information is documented and forwarded to the region, FEMA Region V will work with the State to correct.