

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

**The State of North Carolina's  
Management of State Homeland  
Security Grants Awarded During  
Fiscal Years 2002 and 2003**



**Office of Audits**

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**Homeland  
Security**

October 18, 2006

### Preface

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

This report presents the results of the audit of the State of North Carolina's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003. We contracted with the independent public accounting firm McBride, Lock, and Associates to perform the audit. McBride, Lock, and Associates is responsible for the attached auditor's report dated January 6, 2006, and the conclusions expressed in the report.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

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

Richard L. Skinner  
Inspector General

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McBRIDE, LOCK & ASSOCIATES

August 21, 2006

Ms. Belinda Finn  
Deputy Assistant Inspector General for Audits  
Office of Inspector General  
Department of Homeland Security  
245 Murray Drive, S.W. Bldg. 410  
Washington, D.C. 20528

Dear Ms. Finn:

McBride, Lock & Associates performed an audit of the State of North Carolina's management of the Department of Homeland Security, Office of Grants and Training, State Homeland Security Grants for Fiscal Years 2002 and 2003. The audit was performed in accordance with our Task Order dated August 27, 2004.

This report presents the results of the audit and includes recommendations to help improve the State's management of the FY 2002, FY 2003 Part I, and FY 2003 Part II grant programs. These grant programs are commonly referred to as first responder grant programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2003 revision. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the audit report comments on costs claimed by the State, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the agency's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (816) 221-4559.

Sincerely,



Robert J. Lock

**Audit of**

**DEPARTMENT OF HOMELAND SECURITY  
OFFICE OF GRANTS AND TRAINING**

**STATE HOMELAND SECURITY GRANTS**

**State of North Carolina  
State Department of Crime Control  
Division of Emergency Management**

**July 31, 2006**

**Contract Number GS-23F-8188H**

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### Acronyms

2003-I	FY 2003 State Homeland Security Grant Program – Part I (also SHSGP-I)
2003-II	FY 2003 State Homeland Security Grant Program - Part II (also SHSGP-II)
CAPR	Categorical Assistance Program Report
CBRNE	Chemical, Biological, Radiological, Nuclear, or Explosive
CC&PS	Department of Crime Control and Public Safety
DHS	Department of Homeland Security
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
FY	Fiscal Year
HazMat	Hazardous Material
MOA	Memorandum of Agreement
NCEM	North Carolina Emergency Management
ODP	Office for Domestic Preparedness
OIG	Office of Inspector General
OJP	Office of Justice Programs
OMB	Office of Management and Budget
PPE	Personal Protective Equipment
RRT	Regional Response Teams
SAA	State Administrative Agency
SDPP	State Domestic Preparedness Program
SERC	State Emergency Response Commission
SHSG	State Homeland Security Grants
SHSGP	State Homeland Security Grant Program
SMAT	State Medical Assistance Teams
USAR	Urban Search and Rescue
WMD	Weapons of Mass Destruction

## I. EXECUTIVE SUMMARY

McBride, Lock & Associates completed an audit of the State of North Carolina's management of the Department of Homeland Security (DHS), Office for Domestic Preparedness<sup>1</sup> (ODP) (DHS/ODP) State Homeland Security Grant Program (SHSGP) to determine whether the State (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of North Carolina prepare for and respond to terrorist attacks. (See Appendix A for additional details on the objectives, scope, and methodology of this audit.)

DHS/ODP awarded about \$58 million to the State of North Carolina from the Fiscal Year (FY) 2002 State Domestic Preparedness Program, and from Parts I and II of the FY 2003 State Homeland Security Grant Program. North Carolina's State Department of Crime Control and Public Safety, Division of Emergency Management (NCEM) managed the programs, commonly referred to as first responder grant programs. During the audit, we visited three local jurisdictions and eight first responder organizations. NCEM awarded these local jurisdictions and first responder organizations about \$4.5 million from the FY 2002 and FY 2003 first responder grant programs.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on North Carolina's financial statements or the funds claimed in the Financial Status Reports (FSRs) submitted to DHS/ODP.

While North Carolina attempted to conscientiously manage the first responder grant programs, it did not measure accountability in achievement of the DHS/ODP-approved strategic plan. Frequent changes in the grantee's management team adversely affected the State's management of the programs. Additionally, the lack of written policies and procedures and the inadequacy of the budget structure diminished the effectiveness of the administration of the programs. The need to hire through temporary employment agencies also caused us security concerns because of the sensitive nature of information that they may have processed. The State made some payments for inappropriate equipment and other unsupported purchases and did not always adequately monitor subgrantees. We noted delays in the expenditure of grant funds as well as limitations on measurement standards to determine the effectiveness or efficiency of North Carolina's progress in preparing for terrorist incidents.

The body of this report provides detailed discussion of the following findings.

### **A. Approved Preparedness Strategy Progress Not Measured**

North Carolina did not:

- Establish an accountability system to measure achievement in terrorism preparedness.

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<sup>1</sup> Currently the Office of Grants and Training

## **B. Program Management**

North Carolina's management of the grant programs has suffered as a result of:

- An inadequate accounting and budget structure.
- High staff turnover and related staffing concerns.
- Undeveloped policies and procedures.
- Inadequate monitoring of subgrantees.

These management issues have resulted in:

- Unreliable accounting for grant expenditures and reduced capability to monitor grants in an adequate fashion.
- Reduced compliance assurance with ODP program guidance and related regulations.
- Reduced security of sensitive assessment and vulnerability data.
- Lack of consistency, effectiveness, and efficiency in administering grants.
- Reduced assurance that grant purchases have and will enhance terrorism preparedness and increase interoperability across responder disciplines.

## **C. Grant Expenditures**

The State is not expending all money in a timely manner or in full compliance with grant terms. Expenditure delays and non-compliance purchases have resulted in:

- Only 67% of 2002 and 2003 program funding being expended by March 31, 2005.
- Reduced effectiveness in terrorism preparation.
- Purchases made without adequate supporting documentation, unallowable per grant conditions, unauthorized per the equipment detail budget, or supplanted local funds.

## II. Background

The Office for Domestic Preparedness (ODP)<sup>2</sup> was transferred from the Department of Justice to Department of Homeland Security in March 2003. DHS/ODP is responsible for enhancing the capabilities of State and local jurisdictions to plan for, prepare for, prevent, respond to, and mitigate the consequences of incidents of domestic terrorism. During fiscal years (FY) 2002 and FY 2003, DHS/ODP provided grant funds to aid public safety personnel (first responders) to provide specialized training/exercises and acquire equipment necessary to safely respond to and manage terrorist incidents involving weapons of mass destruction (WMD). First responders include firefighters, police, paramedics, and others. The FY 2002 and FY 2003 grants were commonly referred to as first responder grants.

### First Responder Grant Programs

**FY 2002 State Domestic Preparedness Program (SDPP):** This program provided financial assistance to each of the nation's states, U.S. Territories, the District of Columbia, and the Commonwealth of Puerto Rico. DHS/ODP provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of State and local agencies to respond to incidents of terrorism involving the use of WMD; (2) the protection of critical infrastructure; (3) costs related to the design, development, conduct, and evaluation of WMD exercises; and (4) administrative costs associated with the implementation of the statewide domestic preparedness strategies.

**FY 2003 State Homeland Security Grant Program – Part I (SHSGP-I):** This program provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of State and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear, or explosive (CBRNE) weapons; (2) the protection of critical infrastructure and prevention of terrorist incidents; (3) costs related to the design, development, conduct, and evaluation for CBRNE exercises; (4) costs related to the design, development, and conduct of State CBRNE training programs; and, (5) costs associated with updating and implementing each State's homeland security strategy.

**FY 2003 State Homeland Security Grant Program – Part II (SHSGP-II):** This program supplemented funding available through FY 2003 for the SHSGP to enhance first responder preparedness. SHSGP-II funds were available to mitigate the costs of enhanced security at critical infrastructure facilities during period of hostilities with Iraq and future periods of heightened threat.

The State of North Carolina received over \$58 million from these three grant programs. The funded activities and amounts are shown in the following table.

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<sup>2</sup> In March 2004, the Secretary of Homeland Security consolidated ODP with the Office of State and Local Government Coordination to form the Office of State and Local Government Coordination and Preparedness (SLGCP). For the purposes of this report, we are using ODP in discussing the first responder grant programs.



Funded Activities	Grant Programs			Total
	SDPP	SHSGP-I	SHSGP-II	
Equipment Acquisition Funds	\$7,364,000	\$ 9,760,000	N/A	\$17,124,000
Exercise Funds	\$ 342,000	\$ 2,440,000	N/A	2,782,000
Training Funds	N/A	\$ 732,000	N/A	732,000
Planning and Administration Funds	N/A	\$ 976,000	N/A	976,000
SHSG	N/A	N/A	\$31,928,000	31,928,000
Critical Infrastructure	N/A	N/A	\$ 4,912,000	4,912,000
Totals	\$7,706,000	\$13,908,000	\$36,840,000	58,454,000

### Department of Crime Control and Public Safety

The *Department of Crime Control and Public Safety (CC&PS)* leads North Carolina’s homeland security strategy. CC&PS includes many of the State’s first responder personnel: Emergency Management, the National Guard, the State Highway Patrol, the Civil Air Patrol, as well as the Governor’s Crime Commission, and Alcohol Law Enforcement among other divisions. These divisions provide statewide planning, coordination, and operational capabilities in law enforcement and for man-made and natural disaster response. Because of the existing CC&PS structure, North Carolina did not have to create new agencies or hire new personnel to take immediate action on homeland security after the September 2001 attacks. However, in the fall of 2003 a new branch was created within the Division of Emergency Management to manage the Homeland Security funds from the federal government.

### III. Results of the Audit

DHS/ODP awarded about \$58 million to the State of North Carolina from the FY 2002 State Domestic Preparedness Program, and from Parts I and II of the FY 2003 State Homeland Security Grant Program. North Carolina's Department of Crime Control and Public Safety– Division of Emergency Management (NCEM) managed the first responder grant programs.

While North Carolina attempted to conscientiously manage the first responder grant programs, it did not follow its DHS/ODP-approved strategic plan and did not aggressively manage the programs. Frequent changes in the grantee's management team adversely affected the State's management of the programs. Additionally, the State had not developed an adequate accounting and budget structure or documented policies and procedures and did not properly define measurement standards for terrorism preparedness. The State made some payments for goods and services as well as payments to subgrantees without adequate supporting documentation or that were otherwise ineligible. As a result, DHS/ODP had no assurances of the efficiency or effectiveness of North Carolina's progress in preparing for terrorist incidents.

#### **A. Approved Preparedness Strategy Progress Not Measured**

The State and local responders have not established an accountability system to measure achievement in terrorism preparedness. The State established Goals, Objectives and Implementation Plan as part of their 2001 State Strategy (See Appendix B). The State may have used the 2001 State Strategy as a baseline to measure improvements. However, supporting documentation or testimony was not available to explain how the State developed such goals and objectives. Although the State has submitted semi-annual Categorical/Discretionary Assistance Progress Reports (CAPRs) to DHS, the State is measuring itself against a standard with no supporting basis. A determination of achievement cannot, therefore, be assured. The Preparedness Officer in an on-site monitoring report dated June 28, 2005 states:

“The SAA (NCEM) identified several goals in the 1999 State of North Carolina Three Year Statewide Domestic Preparedness Strategy. The goals are listed below with specific examples of how the State and local jurisdictions are implementing them and a measure of effectiveness that the programs have toward achievement of the goals. Since none of the FY 1999 goals were fully achieved most are restated in the FY04 State Homeland Security Strategy”

CAPRs have not been detailed to correlate with the Goals and Objectives included in the 2001 State Strategy. The reports lacked detail as to the specific status of each goal and objective. The initial report filed for the 2002 grant included some discussion of specific use of the grant funds. However, the more recent reports provide discussion limited to delays in the expenditure of funds, the need to extend the grant completion date, and a schedule of budget to actual expenditures (State-Local). This does not provide assurances that the Goals and Objectives have been accomplished. Appendix C summarizes our analysis of the accomplishments in meeting some of the goals and objectives. Additionally, of the 14 CAPRs that should have been completed, only 11 reports were on file with the Preparedness Officer.

An example of the State's inability to illustrate how effectively the exercises performed are contributing to the State's terrorism preparedness is reflected in the State's informal policy that no exercise is ever considered a failure. Regardless of whether the State/local jurisdiction actually completes an exercise, the State views each step of the process for conducting an exercise as contributory to the State's terrorism preparedness. If the State or a local jurisdiction only completes part of the process for an exercise, State officials consider the exercise a success because lessons were learned even if the exercise was never completed. No association with the overall exercise plan and its relationship to the State Strategy goals and objectives was apparent.

Grant requirements state that exercises implemented with grant funds should be performance-based and should be evaluated using performance measures being defined by ODP, which incorporate standards and guidelines issued by federal agencies and national organizations (FY 2003 State Homeland Security Grant Program – Program Guidelines and Application Kit, pgs. 13-14).

As an example, the State allocated 42% of total SDPP equipment grants directly to building capabilities within regional-based teams for the following response initiatives: Urban Search and Rescue (USAR) teams, hazardous material (HazMat) response teams referred to as Regional Response Teams (RRTs), and surgical medical capabilities in the form of State Medical Assistance Team (SMAT). These response initiatives are placed strategically throughout the State, staffed by local responders from within the immediate regional area, and directed by State agencies. The remainder of the SDPP equipment grants was allocated primarily to personal protective equipment (PPE). The State allocated a smaller portion (8%) of the SHSGP-I equipment grants directly for the USAR, RRT, and SMAT response initiatives. A review of the purchases made at three local jurisdictions indicated that the remainder of the SHSGP-I equipment grants was used to purchase additional personal protective equipment that the SDPP grants could not fulfill and permitted some jurisdictions to begin to focus on higher-level items that would permit them to respond to specific CBRNE threats. This reflects a change in goals. Additionally, the State and local officials could not provide documentation or illustrate how effectively the agreement items being purchased and exercises and training being conducted related to the specific goal and objective.

The effectiveness of spending for the SDPP, SHSGP-I, and SHSGP-II cannot be evaluated and monitored. Consequently, the State cannot provide assurance that grant funds were expended to produce effective improvements in terrorism preparedness. Although the State has expended over \$31 million for equipment, training and exercises, the effectiveness of those expenditures towards accomplishing the goals and objectives presented in the Three-Year State Strategy has not been measured.

We recommend that the Assistant Secretary, Office of Grants and Training require the Director of the State Administrative Agency (SAA) to:

1. Document and implement procedures for evaluating their progress in achieving the plans goals and objectives and either:
  - Redirect spending to be in line with the plan, or
  - Approve a revised plan based on the progress achieved.

In response to the finding and recommendation, ODP officials said that it is unfair for the State to receive criticisms in establishing measurement standards since the federal government has yet to develop such standards. However, the State does need to report what has been accomplished. State officials said that their initial CAPRs were more detailed but the State Preparedness Officer changed the submission requirement to only provide summary expenditure data. The State believes that all CAPRs reports have been submitted. The State has not received direction from DHS regarding measurement standards. Currently, the State has a better accountability system to keep track of what has been done and progress towards achievement. The State concurred with the recommendation.

## **B. Program Management**

The State's ongoing administration of the grant programs could be improved by (a) implementing an adequate accounting and budget structure, (b) addressing high staff turnover and related staffing concerns, (c) developing policies and procedures, and (d) improving the monitoring of subgrantees.

### **a. Accounting and Budget Structure**

The State accounting system does not provide for an adequate accounting for grant expenditures. The system does not permit accurate tracking and reporting of grant expenditures according to grant requirements.

The State accounting system provides for the grant expenditures to be tracked by the type of expenditure that relates to the State's chart of accounts. It does not accommodate the additional accountability necessary to track grant expenditures directly for equipment, exercise, training, or administrative costs.

In order to accomplish this accountability, NCEM's Grant Manager has developed a secondary accounting system to track grants by the functional obligation, such as for equipment expenditures. The Grant Manager posts the grant expenditures from the State accounting system to this secondary system. However, this posting is done in totals only, thereby precluding an audit trail detailing the expenditures posted for each functional obligation.

While the State should be commended for their management of cash in an effective manner, the manner of accounting used for tracking expenditures and report preparation is not adequate. The detail for functional classifications such as equipment, exercise, training, or administrative expenses cannot be provided. Therefore validation of budgetary accounting for these items and monitoring thereof cannot be assured. Compliance with budgetary restrictions also cannot be assured. The audit could not test the validity of the classifications.

The control of expenditures through the accounting system is also limited by the manner by which related State agencies expend funds through these grants. Other State agencies are allotted a budget from the grant obligations and those State agencies manage that expenditure budget of the grant funds in accordance with the grant requirements. The Grant Manager typically does not see the detail expenditures of these State agencies until his monthly reconstruction of the accounting system, as

discussed above, when he tracks and reviews the supporting documentation for all the expenditures of his grant. However, by that time the Federal funds have typically already been drawn down and disbursed to the State.

Processes for developing quarterly financial reports are particularly vulnerable to this lack of consistency in reporting costs that are allowable, allocable, and reasonable. A number of personnel are in place to administer the grants and therefore charge costs for the benefit of the program. However, the accounting system does not consistently capture these costs.

According to the Office of Justice Programs (OJP) – Office for Domestic Preparedness Fiscal Year 2002 State Domestic Preparedness Program Guidelines and Application Kit, as well as the DHS – Office for Domestic Preparedness Fiscal Year 2003 State Homeland Security Grant Program Guidelines and Application Kit: “Financial Status Reports are due within 45 days of the end of each calendar quarter. A report must be submitted for every quarter the award is active, including partial calendar quarters, as well as for periods where no grant activity occurs.” Further, Office of Management and Budget (OMB) Circular A-87, Attachment A.C.1. stipulates that to be allowable under Federal awards, costs must: (a) be necessary and reasonable...(b) be allocable to Federal awards....and...(f) be awarded consistent treatment.

According to the SDPP Grant Manager, the weaknesses of the State accounting system have been a known issue of the State government for quite some time and reported in various State Auditor reports. However, the State has not yet made the necessary commitment of cost and effort to implement a new accounting system to resolve the weaknesses. The loss of accountability due to the numerous processes by which the State approves and expends the grant funds appears to be the result of an inadequate grant management philosophy among senior State government officials and a lack of written policies and procedures.

The State’s tracking of grant expenditures is unreliable. The grants cannot be monitored in an adequate fashion to ensure compliance with the budget and other compliance provisions of the grant. Additionally, the State’s reporting of expenditures quarterly on the FSR cannot be determined to be reliable and accurate and therefore, cannot be used to promote the most effective and efficient use of grant funds.

#### **b. High Staff Turnover and Related Staffing Concerns**

NCEM has been plagued by high turnover of staff. The rate at which the State has experienced turnover has inhibited the State from administering the programs effectively and efficiently and thereby fueled a number of the concerns discussed in this report. Further, the State’s use of contract employees on ODP grants without background verification leaves the State open to a breach of potentially sensitive information held in public trust.

OMB Circular A-87, Attachment A.2.a.(1) stipulates that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

The issue of high staff turnover has been compounded by an inflexible and cumbersome hiring process and an inadequate temporary labor solution given the sensitive nature of the grants. The current Homeland Security Branch Manager has indicated that the State's formal hiring process can take upwards of two full months to complete. Therefore, the State often relies on a State government temporary labor provider that provides temporary staffing strictly for State government staffing needs. Employees of the labor provider are State government employees. This service offers State agencies more flexible employment options, which sometimes later become full-time positions as agency resources allow. However, neither the State nor the temporary labor provider conduct extensive background verifications of employees. The primary background check, which has been in place for approximately two years, is a simple criminal check on prospective employees to identify applicants that have a criminal record in the State of North Carolina. This may result in unsecured employees gaining access to potentially sensitive security information.

The employment turnover among key personnel in the administration of the 2002 and 2003 ODP grants causes a number of concerns surrounding the hiring process and staff retention policies, particularly regarding the protection of sensitive information. For example, during the administration of the assessments prior to writing the November 2001 Strategy, the State hired a full-time OJP Coordinator and three Field Assessors to administer the assessments in the local jurisdictions. The responsibility for conducting the assessments and developing the State Strategy was placed under the daily direction of a Federal Emergency Management Agency (FEMA) Grant Manager that oversaw the OJP Coordinator and Field Assessors. The FEMA Grant Manager reported to the Planning Support Branch Manager. Shortly after the assessments began, the Eastern Branch Field Assessor's employment was terminated, leaving the Central Branch Field Assessor and the OJP Coordinator to pick up the extra workload. Consequently, the assessment process took approximately 18 months for the State to complete.

Simultaneously, the NCEM office experienced a surge in staffing requirements necessary to input the assessment data coming in from the Field Assessors to the OJP website. However, the State hiring process did not provide the flexibility to quickly staff these positions. NCEM relied on the State contracted temporary labor provider to input the assessment data to the OJP website. As a result, temporary employees contracted by the State were working with sensitive information without background verification.

Just as the assessments were completed and prior to the writing of the State Strategy, the State emergency management office experienced significant turnover. During a period of a few months,

- The Planning Support Branch Manager left State employment,
- The FEMA Grant Manager in charge of the 2002 Grant also left the State employment,
- The OJP Coordinator also vacated State employment, and
- The two remaining Field Assessors returned to retirement or moved on to other projects.

This placed the responsibility for interpreting the assessment results and drafting the State Strategy with the Director of the NCEM and the Assistant Director of Information and Planning. However, the Director of the NCEM vacated State employment for FEMA employment opportunities prior to the approval of the 2001 State Strategy and the 2002 grant application process.

The Assistant Director of Information and Planning contracted employment with a public policy student from Duke University to interpret the assessment data and help apply the results to State funding priorities and write the November 2001 State Strategy. Prior to the completion of the State Strategy, the public policy student moved on to other employment.

Just prior to the award of the 2002 OJP grant the current Director of the NCEM was hired. Upon award of the 2002 OJP grant, a temporary employee was moved from FEMA grants to manage the OJP grant. This employee was eventually hired as a full-time State employee and currently serves as the 2002 Domestic Preparedness Grant Manager.

The Homeland Security Branch was created within the NCEM in the Fall of 2003 and another temporary employee was utilized to manage the 2003 Homeland Security Grant initially. The 2002 Grant Manager was also moved under the Homeland Security Branch.

- During the fall of 2004 the Assistant Director of Information and Planning retired his position during the North Carolina State Auditor's audit of the OJP and prior to the DHS Domestic Preparedness Grants audit.
- The 2003 Part I Grant Manager moved on to other employment with the State during fieldwork.
- Two seasoned employees within the State Budget Office that had financial management experience with the ODP grants either retired or moved on to other employment opportunities during fieldwork.
- There have been two Homeland Security Branch Managers within the first eighteen months of the position.

Consequently, the NCEM has not been able to effectively and efficiently administer the grant programs. The personnel issues also increase the risk of noncompliance because the newly hired management personnel are less familiar with ODP program guidance.

### **c. Policies and Procedures Not Developed**

NCEM currently does not have written policies and procedures. The State has not developed written policies and procedures for any of the day-to-day operations performed by the Grants Managers and other supporting staff such as:

- Issuing subgrant agreements and processing cost reimbursement requests from local jurisdictions for review and approval,

- Initiating draw downs of Federal funds for reimbursement,
- Accounting for State and local subgrantee expenditures, monitoring subgrantee financial and programmatic performance; or
- Other grant administration duties.

The State has used procedures that are generally followed within the NCEM for performing grant administration duties based on previous grants experience from other federal and State programs. However, the procedures are neither documented nor consistently performed. As a result, a number of inconsistencies and other errors in spending the grant funds have been disclosed. During our testing of grant expenditures for compliance with the federal and State grant requirements, we found a variety of instances representing and confirming inconsistent application of administration procedures by the NCEM grants staff, including:

- Insufficient and inconsistent recordkeeping of cost documentation and general ledger costs not completely supported by documentation,
- Costs charged to the incorrect grant in the general ledger,
- Significant cost overruns on individual items,
- Inability to reproduce detail budgets for State expenditures of funds, and
- Approval and expenditure of Federal funds for unallowable costs.

This condition is of particular importance given the lack of continuity and consistency of staff within the NCEM from the inception of the grants through the current period. Documented policies and procedures are a critical element in administering grants effectively and efficiently, especially in an environment of consistently high turnover where unwritten policies and procedures may not be effectively or consistently passed down to incoming personnel.

The State's lack of written policies and procedures has been previously reported and brought to the attention of State officials in the October 2004 audit of North Carolina's Homeland Security and Bioterrorism Efforts conducted by the Office of the State Auditor. Since that audit, both the Homeland Security Branch Manager for the NCEM and the Grants Manager for the SHSGP-I have changed. The current Homeland Security Branch Manager for the NCEM has stated that he is aware of the absence of written procedures. However, currently NCEM has no formal plan or deadline for completing the documentation of the policies and procedures. In a period of rapidly expanding funding budgets and evolving program guidelines, the need for documented procedures is enhanced.

#### **d. Inadequate Monitoring of Subgrantees**

The State does not have adequate processes to monitor subgrant activities in the local jurisdictions. The State required the local jurisdictions to file lists of equipment, exercises, and training (the SDPP



did not include training) that they wished to perform with their allocation of the grant funds. When the State received the local jurisdictions' requests, they verified that the items requested met the criteria in the program guidance. Further, as the local jurisdictions expended the funds and submitted reimbursement requests with invoices and other supporting documentation of the purchase, the State reviewed those requests against the local jurisdiction's initial purchase list to ensure that items being purchased matched the purchase list, as approved by the State. Items not matching the approved purchase request list were not reimbursed with Federal funds. The State will not reimburse a local jurisdiction for the purchase of an item without submission of a cost report reimbursement request and adequate supporting documentation for the purchases, such as invoices.

Although the NCEM has processes to ensure that purchases of the local jurisdictions are compliant with the grant terms, the State has not adequately monitored the activities of the local jurisdictions to ensure that the equipment, exercise, and training expenditures of the local jurisdictions are in line with State, regional, and local terrorism preparedness goals. The State has not adequately conducted site visits at the local jurisdictions to ensure that the equipment purchases are adequately controlled, used for their intended purpose, and adequately advance interoperability for local and possibly State response efforts. For exercises, the State requires after-action reports prepared by the local jurisdictions to evaluate the effectiveness and efficiency of the exercises performed by local responders. However, the State does not perform analysis on the after-action reports to ensure that the local jurisdictions are actually developing terrorism preparedness capabilities with the exercises by advancing exercise difficulty, response relevance, and correcting weaknesses discovered in prior after-action evaluations. Finally, the State does not verify that training attendees have adequately demonstrated competence from their training and are improving terrorism response capabilities as a result of the training.

Program guidelines from the Fiscal Year 2002 State Domestic Preparedness Program state "To insure compliance with the Government Performance and Results Act, Public Law 103-62, this solicitation...is measured by: 1) number of local jurisdictions that enhanced their capacity to respond to weapons of mass destruction with new equipment; 2) number of emergency responders who have enhanced skills needed to respond to a WMD incident through training; and 3) number of jurisdictions that tested preparedness through participation in tabletop or full-scale exercises."

The State has not developed a process by which subgrantees are monitored and has not taken a leading role in promoting interoperability among individual jurisdictions during the early years of the Homeland Security grants. While the State has developed a better sense of interoperability as the grant program has evolved and more local jurisdictions' basic response needs have been filled, subgrantees are not adequately monitored to ensure that they are purchasing items that will enhance the quality of local and State capabilities to respond to terrorism events while increasing interoperability across responder disciplines and outside jurisdictional borders.

We recommend that the Assistant Secretary, Office of Grants and Training require the Director of the SAA to:

2. Commit the necessary resources to an accounting system that adequately tracks and details grant expenditures by budgetary category. The accounting system should provide assurance of

budgetary compliance as well as promote the most effective manner to expend grant funds for terrorism preparedness.

3. Establish policies to ensure that adequately trained and secured staffing are in place to effectively administer grant funds and provide a security analysis of sensitive data to limit access to only those authorized to use and process such information.
4. Establish written policies and procedures for consistent and effective administration of grant funds.
5. Establish processes to improve monitoring of funds allocated to subgrantees to ensure that subgrantee purchases:
  - Serve the objective of terrorism preparedness on a coordinated basis throughout each region within the State.
  - Meet interoperability objectives.
  - Are evaluated for effectiveness and efficiency by State and local officials.

ODP officials agreed that the State's accounting system needs to track and detail grant expenditures by budgetary category and said it would follow up with the State to determine if an appropriate accounting system is in place. Those officials also agreed with our recommendation that adequately trained and secured staff administer grant funds. In response to recommendation 4, ODP officials agreed that documented procedures should be in place in a period of rapidly expanding budgets and evolving program guidelines. Lastly, ODP officials did not comment on the State's need to improve subgrantee monitoring.

State officials do not believe that the secondary accountability system is inadequate but recognize the need for improvement at the statewide level. Regarding staff turnover, those officials said they have few options to limit the turnover because all DHS grant positions are temporary and continue based on availability of funding and work. The State does not believe that temporary personnel had access to secured information, only numbers, and it plans to perform an analysis of information that may be sensitive to ensure that only appropriate personnel have access. In response to recommendation 4, the State officials we talked to said standard operating procedures have been developed and are currently in use. For recommendation 5, those same officials said that even though they did not believe that DHS established a monitoring requirement, 12 grant managers have been authorized (8 currently filled) and will perform subrecipient monitoring as part of their grant management responsibilities. The State has also instituted a regionalization concept that has benefited standardization and efficiency of the subrecipient use of funds.

### **C. Grant Expenditures**

The State did not expend grant funds in a timely manner. The grant funds expended were not in full compliance with grant guidance.

**a. Delays in the Expenditure of Grant Funds**

The table below documents the timeliness of grant expenditures by the State and local jurisdictions. The SDPP original grant period was from August 1, 2002 to July 31, 2004. The State requested an extension of the grant period on March 18, 2003 because they were unable to spend all of the money by the end of the grant period. The State also had to request a grant extension for the SHSGP-I on February 11, 2005 to extend the grant period to September 30, 2005 because of its inability to spend all of the money by the end of the grant period:

	<b>SDPP</b>	<b>SHSGP-I</b>	<b>SHSGP-II</b>
Program Start Date	August 1, 2002	April 1, 2003	May 1, 2003
Award Date	September 13, 2002	May 7, 2003	June 12, 2003
Award Amount	\$7,706,000	\$13,908,000	\$36,840,000
Original End Date	July 31, 2004	March 31, 2005	April 30, 2005
Extension Date	July 31, 2005	September 30, 2005	October 31, 2005
Dollars Expended @ June 30, 2004	\$4,953,058	\$2,316,695	\$1,751,311
% Expended	64%	17%	5%
Dollars Expended @ March 31, 2005	\$7,363,849	\$7,157,244	\$17,025,932
% Expended	96%	51%	46%

According to the OJP – Office for Domestic Preparedness Fiscal Year 2002 State Domestic Preparedness Program Guidelines and Application Kit, as well as the DHS – Office for Domestic Preparedness Fiscal Year 2003 State Homeland Security Grant Program Guidelines and Application Kit: "5. Suspension or Termination of Funding: DHS may suspend or terminate funding, in whole or in part, or other measures may be imposed for any of the following reasons: a) Failing to make satisfactory progress toward the goals or objectives set forth in this application. b) Failing to follow grant agreements requirements or special conditions."

Local jurisdictions expended the majority of the funding. The following schedule highlights examples of the delays in grant expenditures at the local level:

<b>Award</b>	<b>Jurisdiction</b>	<b>Grant Award</b>	<b>MOA Sign</b>	<b>Initial Order*</b>	<b>First Invoice</b>	<b>Reimb. Approval</b>	<b>Reimb. Received</b>	<b># Days Award to Reimb.</b>
SDPP	Mecklenburg	9/13/02	5/6/03	8/6/03	8/22/03	3/24/04	5/4/05	964
SDPP	Forsyth	9/13/02	6/12/03	10/23/03	1/6/04	1/26/04	3/2/04	536
SDPP	Duplin	9/13/02	**	**	**	**	**	
SHSGP-I	Mecklenburg	5/7/03	9/30/03	3/25/04	3/30/04	5/25/04	7/7/04	427
SHSGP-I	Forsyth	5/7/03	9/30/03	1/28/04	3/26/04	4/9/04	5/6/04	365
SHSGP-I	Duplin	5/7/03	12/23/03	2/23/04	2/28/04	3/26/04	4/21/04	350

\* The initial order date for equipment typically occurred within a few days after the State approved the purchase list.

Notes:

\*\* County requested the State procure purchases due to cash flow concerns.

Based on our review of three local jurisdictions, the period from the award date of the grant to the time the local jurisdictions signed the Memorandums of Agreement (MOAs) ranged from eight to nine months for the SDPP grant and four to five months for the SHSGP-I grant. The State appeared to be slow in sending the MOAs to the local jurisdictions. The delays in drafting and issuing the MOAs to each of the 101 local jurisdictions, as well as the State approving the purchase requests is attributable to the lack of continuity in staffing and the lack of written policies and procedures. The lack of continuity within the NCEM during the time of the issuance of the subgrants and approval of the purchase requests did not accommodate the significant demands placed on the NCEM during the early stages of the administration of the grants. This cause is related more to start-up issues and is less likely to continue to cause delays in disbursement of funds.

Duplin County did not sign an MOA with the State for the SDPP. An MOA was not signed because Duplin County struggled with cash flow concerns and requested that the State procure the items on behalf of the county. Once Duplin County submitted its list of desired equipment, the State purchased the items and shipped them to the county. For the SHSGP-I grant, the State determined that it was not feasible to perform procurement services for the local jurisdictions and all local jurisdictions were required to perform their own procurement procedures. Duplin County suffered the delay in signing the MOA after a leading county official heading up the administration of the grant passed away. Duplin County experienced some turnover in this position before the current Director of Emergency Management for the county discovered the grant documents and began spending the county's allocation of the funding for terrorism preparedness.

Our sampling of three local jurisdictions along with eight first responder organizations, along with our review of the State Auditor's<sup>3</sup> sampling of 89 local jurisdictions and first responder organizations provided the following input of the common causes for delays:

- The local jurisdictions and first responder organizations interviewed explained that they held meetings to decide what their needs were and ensure that they were complying with DHS grant regulations and this process took time. (Estimated 5-7 months.) This is a start-up issue and will likely resolve itself in future grant periods.
- Cash flow was also an issue for the local jurisdictions, where 65 local jurisdictions (State managed procurement for these jurisdictions) for the SDPP grant and all local jurisdictions in the SHSGP-I grant were required to advance the money for these expenditures. The Director stated that many local jurisdictions did not have the funds available on hand to purchase these items without State assistance or other methods to make funds available. The Director also added that the local jurisdictions appeared hesitant of outlaying the required funding because of fear that their purchases may be disallowed as a result of changes in program guidance from DHS. The local jurisdictions also submitted listings of items for approval to the State. (Estimated delay 3-4 months.) This is a continuing issue unless cash management processes are changed.
- The local jurisdictions and first responder organizations must ensure that they are following their own local procurement guidelines along with the federal guidelines. Often the local

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<sup>3</sup> State of North Carolina Performance Audit, North Carolina's Homeland Security and Bioterrorism Efforts, October 2004.

jurisdictions do not use a State purchasing contract (which would speed up the procurement process) because they can purchase items cheaper by doing their own procurement. (Estimated delay 2-3 months.) This is also a continuing issue although additional experience with the types of purchases may alleviate some of this cause.

- Since many of the local jurisdictions and first responder organizations needed the same types of equipment, they used the same vendors for the equipment. This backlogged the vendor and increased the time required by the vendor to get the invoice and the equipment delivered. Emergency Management Directors confirmed that this was a cause of the delays at the local jurisdictions. This is a continuing issue.
- The Deputy Fire Chief of Charlotte-Mecklenburg Fire Department explained that many of the sole source vendors that are producing decontamination tents and similar equipment have not increased capacity, even after three years of production at an insufficient level to meet national demand, causing the backlogs to grow. The Deputy Fire Chief illustrated the fact when he described how some equipment still has a lead time of several months. This is a continuing issue.
- Seven local jurisdictions declined funding because staff lacked time to perform exercises or handle the paperwork. This is a continuing issue.

After the State received the cost reports submitted by the local jurisdictions, it put into motion the process of getting the reimbursement checks sent to the local jurisdictions. The time it took the State to approve a cost report was usually less than a month for most cases tested, and the State took a month, on average, to get the local jurisdictions their reimbursement checks after the cost report had been submitted to the State. Overall, the process took the local jurisdictions over a year after the date of the grant award to get their first reimbursement check from the State.

The State and its local jurisdictions are not spending the grant money within the time period of the grant. The local jurisdictions and the State have to go through numerous processes from award date of the grant up to reimbursement. Each of these processes caused significant delays in the expenditure of grant funds.

#### **b. Compliance Issues Related to the Use of Grant Funds**

Test work performed during audit procedures disclosed numerous exceptions to ODP grant guidance in the areas of equipment purchasing and administrative expenses. The exceptions relate to: (a) inadequate supporting documentation (\$123,808), (b) other unallowable equipment and travel costs (\$21,177), (c) unauthorized changes to equipment detail budgets (\$195,575), and (d) supplanting of funds (\$86,018).

Guidelines for allowable expenditures are listed in the OJP – Office for Domestic Preparedness Fiscal Year 2002 State Domestic Preparedness Program Guidelines and Application Kit and the Fiscal Year 2003 State Homeland Security Grant Program Guidelines and Application Kit. Additionally, fund

expenditures for these programs are subject to the OJP – Office of the Comptroller Financial Guide and OMB Circular A-87.

Inadequate Supporting Documentation Issues

Invoices requested for testing purposes were widely scattered throughout the NCEM and other State agencies. Consequently, it was often difficult to obtain a full understanding of a transaction from the documentation provided. In other instances, we were unable to obtain any supporting documentation that was relevant to the transaction being tested. Items tested for which supporting documentation was not available are disclosed in the table below:

Award	Ref No.	Description of Item	Amount
SDPP	557812	Could not determine - Purchased for Asheville Fire Dept.	\$ 1,954
SDPP	990933	Could not determine	2,854
SDPP	9999269	Subgrant Funds Disbursed to NC DENR for Radiological Detection Equipment	119,000
SDPP Total Questioned Costs – Inadequate Supporting Documentation			\$ 123,808
Total Questioned Costs			\$ 123,808

Unallowable Items

Williamston Fire Department made an unallowable vehicle purchase and charged the SDPP grant. The purchase was made in response to their inability to tow a Rapid Response Team trailer provided to them as part of the State Strategy. However, vehicle purchases are unallowable by the grant conditions set forth in the application booklet. Testing also disclosed other unallowable costs and a significant cost overrun. These instances are presented in the table below:

Award	Check No.	Description of Item	Amount	Reason for Questioning
SDPP	583169	Truck Purchased to Pull RRT Trailers	\$ 9,500	Unallowable Item
SDPP Total - Other Unallowable Costs			\$ 9,500	
SHSGP-I	568582	Generator	5,950	Exceeded State Policy Limits
SHSGP -I	5/25/2004	Mecklenburg Co. Direct TV Subscription.	465	Unallowable Item
SHSGP -I	9/10/2004	Forsyth Co. Lowe's Lumber	5,262	Unallowable Lumber charged to Training
SHSGP-I Total - Other Unallowable Costs			\$ 11,677	
Total Questioned Costs			\$ 21,177	

Unauthorized Charges on Equipment Detail Budget

Test work also disclosed numerous purchases of equipment items not listed on the original equipment budget submitted with the grant proposal. While the items purchased were allowable under program conditions, the purchase of them was not specifically approved under the specific grant proposal, and are therefore questioned by us. Instances of this nature identified during the audit are disclosed in the table below:

Award	Ref No.	Description of Item	Amount
SDPP	580192	Rescue Helmets	\$ 426
SDPP	575438	Full-Face Respirator	5,165
SDPP	572897	Carbon Fiber Air Tanks	3,328
SDPP	557647	Portable Air Shelter	12,348
SDPP	550695	Purifying Air Respirators	22,930
		SDPP Total - Not on Equipment Budget	\$ 44,197
SHSGP-I	583182	Printer	\$ 194
SHSGP-I	586069	New Hanover Co. Emergency Management	132,752
SHSGP-I	556981	Search Systems, Inc.	18,432
		SHSGP-I Total - Not on Equipment Budget	\$ 151,378
		Total Questioned Costs	\$ 195,575

Supplanting of Funds

Expenditures tested at the NCEM and in Forsyth County disclosed supplanting of funds. Forsyth County has been proactive in developing terrorism preparedness within the county and the Winston-Salem area. Forsyth County officials saw a need for an 800 MHz radio system to enhance interoperability for communications across local responder disciplines. County officials developed a plan to acquire a multi-million dollar 800 MHz system over a period of several years that would ultimately enable the county to reach their communications interoperability goals. For the SDPP, Forsyth County was awarded \$72,702 from the local jurisdictions' allocation of the grant. Forsyth County officials chose to spend their award entirely on 22 additional 800 MHz radios for the Volunteer Fire Departments and emergency rooms in both hospitals. Because Forsyth County had developed a plan to acquire the 800 MHz system prior to the award of the SDPP, the county's use of its SDPP funding appears to be a supplanting of funds.

The General Assembly of North Carolina in its 2001 session enacted House Bill 1471 – “An act to appropriate funds from the General Fund and to authorize the Governor to access funds from the Savings Reserve Account to address terrorism issues.” Section 2 of the bill states that “the General Assembly approves the use of and the Governor may access up to thirty million dollars (\$30,000,000) from the Savings Reserve Account for the 2001-2002 fiscal year to be used to implement defense measures against all forms of terrorism...” Further, the bill states, “The Governor shall take steps to repay any monies diverted under this section if funds become available to offset the State’s

expenditures for its terrorism response efforts.” Thus, the language of the bill has provided the Governor with the power to use reserve funding to address “terrorism issues,” and reimburse the State reserves with Federal funding where available. Therefore, the potential existed for the State to use funding from the SDPP or possibly the SHSGP-I grants to reimburse the State reserves for monies expended on terrorism preparedness. While testing the purchase of equipment, exercise, training, and administrative expenditures for allowability and for compliance with State and local purchasing procedures, we did not construct our testing specifically towards reporting supplanting of funds issues associated with the North Carolina House Bill 1471. However, our test samples disclosed one instance of a State purchase where the cost of hydraulic rescue equipment was made with State funds and transferred to the federal cost centers for the SDPP grants.

Transactions tested that disclosed supplanting of funds are presented in the following table:

Award	Check No.	Description of Item	Amount
SDPP	PO040412	Forsyth County 800 MHz Radios & Eqpt.	\$ 72,338
SDPP	553907	Hydraulic Ram	13,680
Total - Supplanting of Funds			\$ 86,018

The total costs questioned resulting from: (a) inadequate supporting documentation, (b) unauthorized changes to equipment detail budgets, (c) other unallowable equipment and travel costs, and (d) supplanting of funds, is \$426,578.

Scattered and disorganized supporting documentation resulted from a lack of written policies and procedures and an inadequate accounting and budget structure. The approval of unallowable items for purchase with Federal funds also resulted from an inadequate accounting and budget structure, along with inconsistent monitoring of the use of grants funds and a high employee turnover rate.

We recommend that the Assistant Secretary, Office of Grants and Training require the Director of the SAA to:

6. Spend grant money within the time period originally established by the grant or the approved extended period.
7. Support the allowability, allocability, and reasonableness of expenditures with adequate documentation.
8. Obtain approved documentation from appropriate parties.
9. Ensure that the grants accounting system properly accounts for grant expenditures.
10. Ensure that equipment procured is on the detail budget equipment listing or that deviations from the listing are approved.



We also recommend that the Assistant Secretary, Office of Grants and Training:

11. Disallow costs of \$426,578.

ODP officials took no exception with the finding and recommendations and said they would evaluate the propriety of the expenditures questioned in this finding. State official said they are investigating the details available to determine the propriety of the costs associated with the questioned transactions. They further said that State accounting system payments would have been supported with invoices and that copies of those invoices have been requested from local governments. The State contends that items not on the equipment detail budget were otherwise allowable and therefore subsequent approval was not necessary. The State is reviewing other unallowable items we questioned to determine whether they were later reversed and therefore not charged to the grant. In particular, the State is investigating the possible reversal of \$119,000 subgranted for radiological detection equipment. Further, the State is investigating the supplanting of funds issue raised in this finding.

#### IV. Other Matters

The following matters indicate our concerns regarding compliance with grant terms. While these matters have now been overtaken by grants awarded after 2003, they are reported here to illustrate the conditions that existed for the grant programs within the scope of this audit.

##### **1. SDPP and SHSGP Local Allocation Formula Deviated From Strategy**

The method used to prioritize local jurisdictions and allocate the local share of funding deviated from the method presented in the State's approved Three-Year Statewide Domestic Preparedness Strategy dated November 2001. According to the November 2001 State Strategy, "*Local jurisdictions were prioritized through use of a...weighted average methodology. This methodology was utilized to prioritize jurisdictions according to potential risk from a terrorist attack and their need for initial equipment necessary to respond to a terrorist attack. Both scores were combined to create a priority score that was ranked according to specified factors and weights.*" Appendix E provides a comparison of the actual State Strategy to the actual funding allocation factors.

In addition to those differences described in Appendix E, the weight assigned to each factor presented in the State Strategy differed from the weight that was actually used. The sum of all the weights assigned to the factors used in the weighted average did not add to 100, nor did they add to the same total as shown in the State Strategy. The relationship between the factors used was more difficult to analyze.

For the SHSGP-I and SHSGP-II calculations, NCEM based the calculations on a base allocation amount to each county of \$10,000 for equipment, \$2,500 for exercises, and \$1,000 for training grants. The base allocation amount was then followed by a pro rata allocation of the remaining portion of the local share funding based solely on each county's proportionate share of the State's population.

The State's method used to prioritize the local jurisdictions and allocate the local share of funding for the SDPP shifted the weighted average from using the assessment data that had been researched and compiled in the counties after expending considerable effort and resources of several State agencies, towards data and funding and allocations that were not addressed in the State Strategy. The factors used for allocation were reasonable given their relevance to risk determination. However, we could not determine the changes that resulted from the allocation modification because of inadequate data. Consequently, the State's methodology may have resulted in significant adjustments in the allocations of funding when the actual calculations were performed.

NCEM officials could not provide documentation or an explanation as to why the factors used in the weighted average varied so greatly from the State Strategy for 2002. Individuals that were responsible for processing the assessment results into meaningful information, establishing State priorities, and drafting the State's Three-Year State Domestic Preparedness Strategy were no longer available for comment.

For 2003, the State gave a variety of reasons for the shift of the funding allocation methodology. State officials desired to resolve some of the discord that occurred in many of the local jurisdictions during

the allocation of the SDPP funding. Many of the local jurisdictions felt that the State allocated the 2002 local share of funding based on a higher standard than was used by DHS to allocate funding to the States. The State's methodology for allocating the local share of funding was based on a weighted average methodology with specific factors and weights rather than an allocation built on a base award amount plus a population-share allocation, which was the methodology used by DHS to allocate funding to the States. Therefore, State officials shifted the methodology towards a population-based allocation.

The State also offered that the 2003 methodology for prioritizing the local jurisdictions to allocate funding shifted away from the assessment data because the assessments were conducted prior to writing the November 2001 State Strategy and had been developed in a pre-September 11, 2001 era. The State therefore questioned the relevance of those assessment methodologies. The State also offered that the supporting data for the assessments conducted prior to writing the 2001 State Strategy were destroyed as a matter of confidentiality, as directed by the Federal Bureau of Investigation (FBI). As a result, State officials expressed that the detail from the original assessments was not available and rendered the original assessment efforts useless.

According to the OJP – Office for Domestic Preparedness Fiscal Year 2002 State Domestic Preparedness Program Guidelines and Application Kit: “Pursuant to Conference Report 107-278, States are required to allocate these grant funds in accordance with their State’s approved domestic preparedness strategy.” According to the DHS – Office for Domestic Preparedness Fiscal Year 2003 State Homeland Security Grant Program Guidelines and Application Kit: “States should allocate these grant funds in accordance with their State’s approved homeland security strategy...”. Due to time constraints associated with obligating funds within the 45-day window, DHS permitted the State to carry-forward the Three-Year State Domestic Preparedness Strategy dated November 2001 for purposes of administering the SHSGP-I and SHSGP-II funding. According to the current DHS Preparedness Officer for the Homeland Security Grants, the State was not required to strictly adhere to the strategy in allocating the funds. However, adherence to the strategy was recommended. .

In response to this matter, ODP officials said they were interested in ensuring that the strategies are properly funded rather than how each local jurisdiction is funded and that the strategies need to be a living document. State officials responded that they established objectives for the HazMat teams, RRTs, decontamination units and the like, and that funding allocations were made to meet those objectives. They also said that DHS did not reject those goals and objectives and that allocations to locals may have changed but the 2001 objectives were met.

## **2. State Control Over Local Use of Funds**

The State did not meet the minimum 80% pass-through of equipment acquisition funds to local jurisdictions. NCEM set aside 20% each from the SDPP and the SHSGP-I. Then, NCEM stipulated a large portion of the 80% local share of funding in these grants for State-led initiatives such as USAR teams, SMATs, and HazMat teams called RRTs. These State-led projects would build or enhance statewide response capabilities but be based in and staffed out of the local jurisdictions. The remaining funds were then allocated among the local jurisdictions based on the prioritization calculations. After September 11, 2001, the State decided to move forward with the current response development plan in

place at the State through NCEM, Office of Emergency Medical Services and Public Health to create a tiered response capability. The primary project to accomplish this goal was the realization of the SMATs and USARs that had been developed in concept and to a limited capability before September 11<sup>th</sup>. The State has taken the position that 80% of the funding has been passed-through to the local jurisdictions because the funds are being spent on equipment that will be operated by local responders to build a statewide/regional capability.

For 2002, various teams and committees for HazMat, Medical Agencies and Hospitals, and USARs developed estimates of equipment, personnel, and funding necessary to meet the State’s objectives. These units had varying number of team members and regional boundaries. The teams and committees were comprised of State employees, local recipients, and first responders. For instance, the HazMat committee’s objective was to get each of the State’s 22 Type II teams to a strong Type II, leaning towards Type I. A HazMat committee (HazMat responders organization) communicated its needs to NCEM. For 2003 a similar concept was maintained. Because of the 45-day limit to obligate funds, NCEM had no time to define new regions or develop a new strategy.

The following table illustrates how SDPP equipment funding was allocated to the local jurisdictions in relation to total equipment grant funding to the State:

<b>Benefited Agencies</b>	<b>%</b>	<b>Cost</b>	<b>%</b>
<b>Subgrants Directly to Local Jurisdictions</b>	<b>47%</b>	<b>\$2,785,000</b>	
<b>State-managed efforts:</b>			
Locally-Staffed HazMat Teams	34%	2,000,000	
Locally-Staffed Medical Agencies and Hospitals	17%	987,360	
Locally-Staffed USAR Teams	2%	120,000	
Total Allocation to Local Jurisdictions	100%	\$5,892,360	80%
Total State Jurisdiction Allocation		1,471,640	20%
Total SDPP Equipment Grant		\$7,364,000	100%

The following table illustrates how the SHSGP-I equipment funding was allocated to the local jurisdictions in relation to total equipment grant funding for the State:

<b>Benefited Agencies</b>	<b>%</b>	<b>Cost</b>	<b>%</b>
<b>Subgrants Directly to Local Jurisdictions</b>	<b>90%</b>	<b>\$7,008,000</b>	
<b>State-managed efforts:</b>			
Locally-Staffed HazMat Teams	6%	500,000	
Locally-Staffed USAR Teams	3%	200,000	
Locally-Staffed Medical Agencies and Hospitals	1%	100,000	
Total Jurisdiction Allocation	100%	\$7,808,000	80%
Total State Jurisdiction Allocation		1,952,000	20%
Total SHSGP Equipment Grant		\$9,760,000	100%

The State stipulated how a portion of the local pass through funding would be spent. However, the initiatives have improved terrorism preparation in the State.

According to the OJP – Office for Domestic Preparedness Fiscal Year 2002 SDPP Guidelines and Application Kit, as well as the DHS – Office for Domestic Preparedness Fiscal Year 2003 SHSGP-Part I Guidelines and Application Kit, 80% of the equipment acquisition funding allocation must be “provided” (SDPP) / “obligated” (SHSGP-I) to local communities. The appropriation establishing these programs did not address this requirement. Furthermore, the DHS Preparedness Officer noted that the State could retain a portion of the funds so long as the project would directly benefit local jurisdictions and the state has local concurrence through a memorandum of understanding or other formal mechanism to retain funds on their behalf. ODP officials further said that memoranda of understanding between the State and the local governments need to be completed to ensure that locals have input regarding their homeland security needs.

State officials said that the local jurisdictions were solicited for input for distribution of equipment centrally procured by the State. Local jurisdictions benefit from regional distribution and the local jurisdictions build SMATs. The budgets for the regional teams were apparently acceptable to DHS since they did not object.

## APPENDIXES

Appendix A

Objectives, Scope, and Methodology

The **objective** of the audit was to determine whether the State of North Carolina effectively and efficiently implemented the first responder grant programs, achieved the goals of the programs, and spent the funds awarded according to grant requirements. The goal of the audit was to identify problems and solutions that would help the State of North Carolina prepare for and respond to terrorist attacks.

The Department of Homeland Security, Office of Inspector General (DHS/OIG) is reporting the results of the audit to appropriate DHS officials.

The **scope** of the audit included the following three grant programs. These programs are described in the Background section of this report.

- FY 2002 State Domestic Preparedness Program (SDPP)
- FY 2003 State Homeland Security Grant program -- Part I (SHSGP-I) and Part II (SHSGP-II)

The audit **methodology** included work at DHS/ODP Headquarters, the State of North Carolina's offices responsible for the management of the grants, and various subgrantee locations. The subgrantee locations visited included three counties and eight first responder organizations. These subgrantees were awarded about \$58 million by NCEM under the above three grant programs. The purposes of the visits were to obtain an understanding of the three grant programs and to assess how well the programs were being managed. Our audit considered DHS/ODP and State policies and procedures, as well as applicable Federal grant and program requirements. We reviewed documentation received from DHS/ODP, as well as from the State offices and the subgrantees. In each of the locations visited, we interviewed responsible officials, reviewed documentation supporting the State and subgrantees management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds.

We reviewed reports from prior audits. We also coordinated our work with the North Carolina State Auditor's Office. This office had recently issued a performance audit that included the first responder grant programs.

The audit of the State of North Carolina began January 2005 and we exited with State officials in June and July 2006. The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2003 Revision). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we did not express an opinion on the costs claimed for the first responder grant programs included in 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 programs specified. The report does not extend to any financial statements of the State of North Carolina.

State of North Carolina  
Goals and Objectives  
Strategic Plan – Annex D

**Three-Year Statewide Domestic Preparedness Strategy**

**Goal 1: Provide statewide leadership in planning measures that will effectively aid preparedness, response, and recovery efforts to incidents of terrorism.**

- Objective 1.1:** Identify high-risk jurisdictions and regions.
- Objective 1.2:** Activate planning groups to address terrorism consequences.
- Objective 1.3:** Coordinate the development of procedures for effective urban and regional response and recovery to incidents of WMD terrorism.
- Objective 1.4:** Establish integrated plans of consequence management and business resumption between government and business continuity planners.
- Objective 1.5:** Establish continuity of operations measures for executive, legislative, and judicial branches of State government.
- Objective 1.6:** Enhance statewide response capacity through the completion of the OJP 3-year strategic plan, which will enable the funding of State and local equipment priorities.
- Objective 1.7:** Initiate hospital planning that supports a minimum mass casualty capability in urban and key regional locations.
- Objective 1.8:** Initiate public health planning that supports early detection, diagnosis, and intervention for infectious diseases.
- Objective 1.9:** Finalize a national pharmaceutical stockpile plan.



**Goal 2: Promote a commitment to building the professional capacity to manage incidents of terrorism, and a commitment to the preparedness of potential victims.**

- Objective 2.1:** Identify and offer standard and consistent awareness and tactical operations response and recovery training.
- Objective 2.2:** Establish an integrated government and business continuity planning curriculum.
- Objective 2.3:** Enhance Community Emergency Response Team outreach in terrorism self-preparedness.
- Objective 2.4:** Establish an emergency management training facility to provide hands-on access to consequence management.

**Goal 3: Strengthen and enhance statewide terrorism exercise efforts.**

- Objective 3.1:** Establish consistent exercise standards for measuring the effectiveness of response and recovery procedures to incidents of terrorism.
- Objective 3.2:** Encourage analysis of local, State, and federal resource capability in all exercises involving terrorism.
- Objective 3.3:** Explore all elements of terrorism consequences in exercise scenarios.

**Goal 4: Ensure proper statewide equipment selection and distribution for effective and safe response and recovery to incidents of terrorism.**

- Objective 4.1:** Meet priority equipment needs of high risk jurisdictions.
- Objective 4.2:** Strengthen equipment capability in detection, personal protection, and decontamination for RRTs, SORT, and State Highway Patrol (SHP).
- Objective 4.3:** Identify and fill equipment and pharmaceutical needs for State Medical Assistance Teams.
- Objective 4.4:** Fund equipment and supplies for maintaining a mass casualty capability at urban and key regional hospitals.
- Objective 4.5:** Create, fund, and equip State Medical Assistance Teams necessary for establishing mass casualty response and treatment in the field.
- Objective 4.6:** Create, fund, and equip Urban Search and Rescue teams for response to catastrophic collapse incidents.

Appendix C

State of North Carolina  
Audit Analysis of Goals and Objectives

**Note – The State has not provided a report on measurement of accomplishment for the Goals and Objectives as listed in the 2001 State strategy as reported on Appendix B. Following is the audit analysis of each Objective.**

**Objective 1.1:** Identify high-risk jurisdictions and regions.

**Audit Analysis:** The State has completed identification of high risk jurisdictions and regions.

**Objective 1.2:** Activate planning groups to address terrorism consequences.

**Audit Analysis:** The State Emergency Response Commission (SERC) was expanded. The Terrorism Preparedness Advisory Committee became SERC. The Committee met with local advisory committees to inform them that funds were available.

**Objective 1.3:** Coordinate the development of procedures for effective urban and regional response and recovery to incidents of WMD terrorism.

**Audit Analysis:** Procedures were not evident. An emergency contingency plan is present, but it is uncertain that it is relevant to WMD terrorism.

**Objective 1.4:** Establish integrated plans of consequence management and business resumption between government and business continuity planners.

**Audit Analysis:** In at least one of the subgrantees reviewed, there was a public/private committee to address continuity. This was unlikely statewide.

**Objective 1.5:** Establish continuity of operations measures for executive, legislative, and judicial branches of State government.

**Audit Analysis:** An exercise, termed Capital Guardian, was performed. The plan was to evacuate and drill on actions to be taken in the event of a terrorist attack. The exercise was considered a failure because of the Highway Patrol's inability to identify certain buildings. During the exercise, another disaster was imminent, therefore the exercise was discontinued. No rescheduling was evident to address the failures of the exercise.

**Objective 1.6:** Enhance statewide response capacity through the completion of the OJP 3-year strategic plan, which will enable the funding of State and local equipment priorities.

**Audit Analysis:** The three year plan was not written but indications are that a plan and execution of the plan for SMATs, USARs, and RRTs was performed. This was confirmed through CAPRs.

**Objective 1.7:** Initiate hospital planning that supports a minimum mass casualty capability in urban and key regional locations.

**Audit Analysis:** Public Health assigned an individual to develop hospital planning. A health and medical assessment has been developed.

**Objective 1.8:** Initiate public health planning that supports early detection, diagnosis, and intervention for infectious diseases.

**Audit Analysis:** The Department of Health and Human Services has identified a need for a public health preparedness position at each of the 85 local public health departments

**Objective 1.9:** Finalize a national pharmaceutical stockpile plan.

**Audit Analysis:** The Public Health response is not helpful to determine whether this objective was accomplished.

**Objective 2.1:** Identify and offer standard and consistent awareness and tactical operations response and recovery training.

**Audit Analysis:** The State has developed a certification plan and goals.

**Objective 2.2:** Establish an integrated government and business continuity planning curriculum.

**Audit Analysis:** It could not be determined. No specific assertions were made by the State in reports or other documentation.

**Objective 2.3:** Enhance Community Emergency Response Team outreach in terrorism self-preparedness.

**Audit Analysis:** It could not be determined. No specific assertions were made by the State in reports or other documentations.

**Objective 2.4:** Establish an emergency management training facility to provide hands-on access to consequence management.

**Audit Analysis:** There is nothing imminent.

**Objective 3.1:** Establish consistent exercise standards for measuring the effectiveness of response and recovery procedures to incidents of terrorism.

**Audit Analysis:** See Finding “Approved Preparedness Strategy Progress Not Measured” No exercise is considered a failure. Standards are not established to consider effectiveness.

**Objective 3.2:** Encourage analysis of local, State, and federal resource capability in all exercises involving terrorism.

**Audit Analysis:** The specific inclusion of RRTs is not evident. The SMATs and USARs analysis is not clear as to degree of capability.

**Objective 3.3:** Explore all elements of terrorism consequences in exercise scenarios.

**Audit Analysis:** The audit reviewed “After Action” reports. Preparedness has improved from when they began, but the overall analysis of all elements not clear.

**Objective 4.1:** Meet priority equipment needs of high risk jurisdictions.

**Audit Analysis:** An allocation of funds was made on 2002 grant based on risk assessment. However, no final analysis was made to assure that purchases met risk concerns. Purchases made were reviewed per request to ensure that they were authorized equipment list items. No field review performed. No assurance that overall it has met goals.

**Objective 4.2:** Strengthen equipment capability in detection, personal protection, and decontamination for RRTs, SORT, and State Highway Patrol (SHP).

**Audit Analysis:** Equipment capabilities have been strengthened for detection, personal protection and documentation although a complete analysis of statewide and local purchase inventory is not available.

**Objective 4.3:** Identify and fill equipment and pharmaceutical needs for State Medical Assistance Teams.

**Audit Analysis:** A list of needs was developed for SMATs.

**Objective 4.4:** Fund equipment and supplies for maintaining a mass casualty capability at urban and key regional hospitals.

**Audit Analysis:** This capability is not evident from State reports or other documentation.

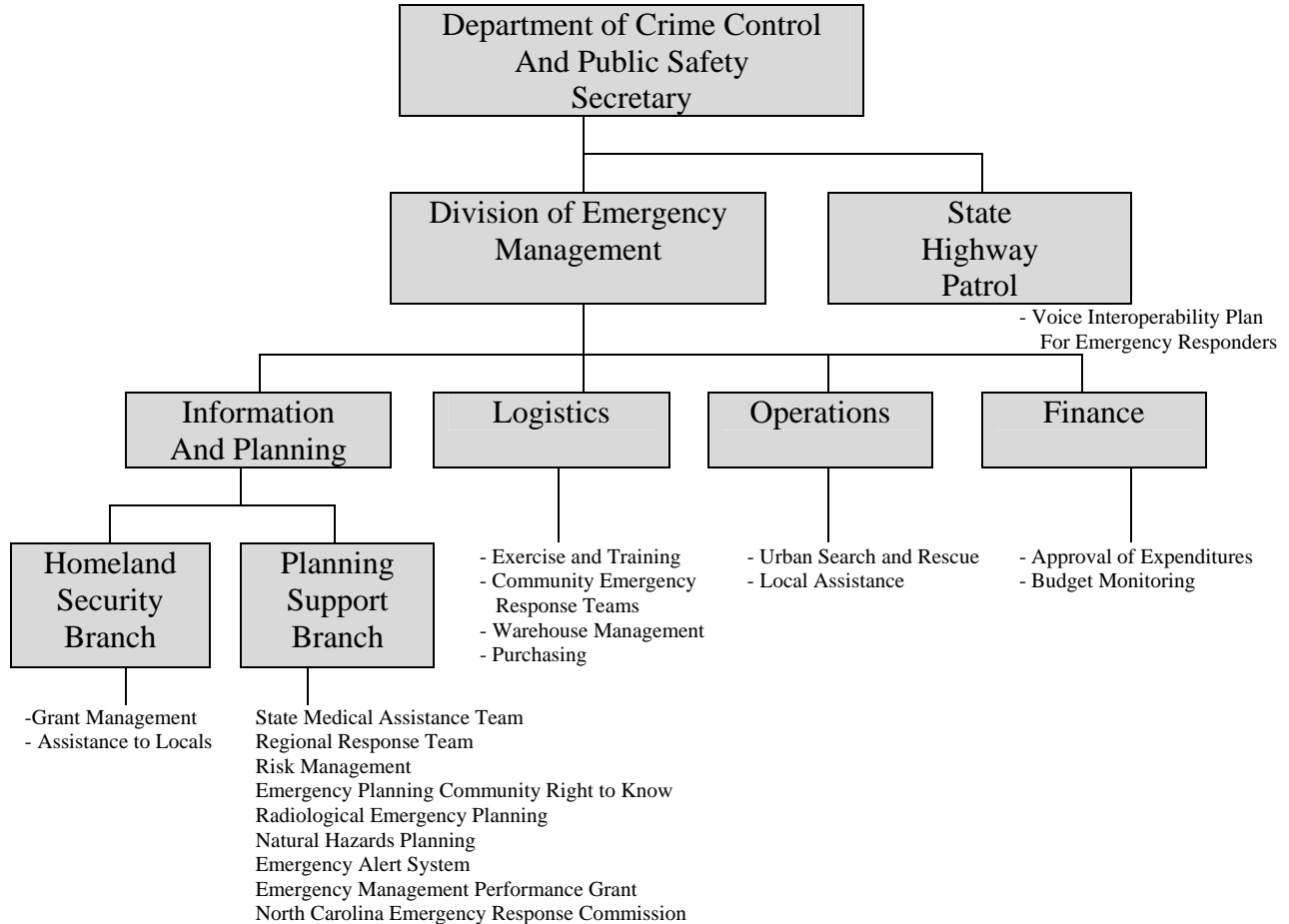
**Objective 4.5:** Create, fund, and equip State Medical Assistance Teams necessary for establishing mass casualty response and treatment in the field.

**Audit Analysis:** SMATs are operational.

**Objective 4.6:** Create, fund, and equip Urban Search and Rescue teams for response to catastrophic collapse incidents.

**Audit Analysis:** USARs are operational.

**STATE OF NORTH CAROLINA  
DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY  
HOMELAND SECURITY/BIOTERRORISM  
GRANT/PROJECT MANAGEMENT STRUCTURE**



Source: Department of Crime Control and Public Safety

**COMPARISON OF STATE STRATEGY TO ACTUAL  
FUNDING ALLOCATION FACTORS**

2002	
Strategy	Actual
Risk Rating (5)	-
Biological (2)	-
Chemical (2)	-
Incendiary & Exposure (2)	-
Nuclear (2)	Nuclear (5)
Identified PTE's (2)	-
Population (7)	Population (20)
Population Density (3)	Population Density (10)
Presence of Interstate (3)	Presence of Interstate (7.5)
Presence of Military Facilities (5)	Number of Military Facilities (7.5)
Presence of Other Sources of Funding (1)	Non-NLD Cities (5)
-	Presence of Railroad or Railcam (7.5)
-	Presence of Public Venues (7.5)
-	Presence of Major Government Facility (7.5)
Note – Number in brackets are relative weight assigned.	

2003	
Strategy	Actual
Risk Rating (5)	Base Allocation to each county:
Biological (2)	\$10,000 – equipment
Chemical (2)	\$2,500 – exercises
Incendiary & Exposure (2)	\$1,000 – training grants
Nuclear (2)	Plus:
Identified PTE's (2)	Pro rata allocation of remaining funding
Population (7)	based on proportionate share of
Population Density (3)	population.
Presence of Interstate (3)	
Presence of Military Facilities (5)	
Presence of Other Sources of Funding (1)	

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