

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**The State of Georgia's Management of
State Homeland Security Grants
Awarded During
Fiscal Years 2002 through 2004**





Homeland
Security

January 23, 2008

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 published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of Georgia's management of State Homeland Security Grants awarded during Fiscal Years 2002 through 2004. We contracted with the independent public accounting firm Cotton & Company LLP to perform the audit. The contract required that Cotton & Company perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. Cotton & Company's report contains nine recommendations in six areas in which State management of the grant funds could be improved.

Cotton & Company is responsible for the attached auditor's report dated October 3, 2007, and conclusions expressed in the report. The recommendations herein 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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October 3, 2007

Mr. James L. Taylor
Deputy Inspector General
Office of Inspector General
Department of Homeland Security
245 Murray Drive, SW, Building 410
Washington, DC 20528

Dear Mr. Taylor:

Cotton & Company LLP performed an audit of the State of Georgia's Management of the Department of Homeland Security Grants Awarded During Fiscal Years 2002 through 2004. The audit was performed in accordance with our Task Order TPD-ARC-06-K00208, dated May 17, 2006.

This report presents audit results and recommendations to help improve the State's management of the audited State Homeland Security Grant Programs. These 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 further assistance, please call me at 703.836.6701.

Very truly yours,

COTTON & COMPANY LLP

A handwritten signature in blue ink that reads "S Hadley".

Sam Hadley, CPA
Partner

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DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
OIG	Office of Inspector General

Executive Summary

Cotton & Company LLP completed an audit of the State of Georgia's Management of the Department of Homeland Security Grants Awarded During Fiscal Years 2002 through 2004. The objectives of the audit were to determine whether the State (1) effectively and efficiently implemented first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The audit goal was to identify problems and solutions that would help the State of Georgia prepare for and respond to terrorist attacks. Appendix A contains details on audit objectives, scope, and methodology.

The audit included a review of approximately \$115.2 million awarded to the State of Georgia from the Fiscal Year 2002 State Domestic Preparedness Program, Fiscal Year 2003 Parts I and II of the State Homeland Security Grant Program, and the Fiscal Year 2004 State Homeland Security Grant Program.

The Georgia Emergency Management Agency managed the programs, commonly referred to as first responder grant programs. The Georgia Emergency Management Agency has been designated as the State Administrative Agency. The Governor of each state designates a State Administrative Agency to apply for and administer funds awarded under Homeland Security grant programs. The Georgia Emergency Management Agency is the only agency eligible to apply for funds.

Most of the findings and conditions contained in this report generally are areas where the State of Georgia could implement improved internal controls over grant processes and procedures, including more effective oversight. Our findings, summarized here, are discussed along with appropriate recommendations in detail in the body of this report. The State of Georgia's 2003 strategy did not identify needs or address evaluation processes adequately. The controls for centralized purchases of equipment, controls and processes for monitoring subgrantees, and controls for claimed costs were not effective. Finally, funds were not properly or timely allocated.

Although the scope of this audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the State of Georgia financial statements or funds claimed in the Financial Status Reports submitted. The Office of Inspector General, however, retained us to address the three audit objectives as they related to the overall audit effort:

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1. Did the State of Georgia implement first responder grant programs effectively and efficiently?

Findings 2, 3, and 4 (pages 11, 18, and 22 respectively) identify several internal control weaknesses in the State of Georgia's centralized purchases, subgrantee monitoring, and claimed costs. With these exceptions noted, this objective was accomplished, and the State of Georgia implemented the grant programs effectively and efficiently.

2. Did the State of Georgia achieve program goals?

Finding 1 (page 8) identified some components of the 2003 strategy that were incomplete, such as inadequate evaluation processes. In addition, Finding 3 (page 18) deals with ineffective controls for the monitoring of subgrantees. With these exceptions, this objective was accomplished, and the State of Georgia achieved program goals.

3. Did the State of Georgia spend funds according to grant requirements?

Findings 3 and 5 (pages 18 and 24) indicate that the State of Georgia did not comply with certain grant requirements. Based on the monetary impact of these issues, we do not consider this objective to have been accomplished, because about 9 percent of the \$115.2 million covered in our audit scope was not spent according to grant requirements.

We have developed several recommendations related to internal controls. We recommend that the Federal Emergency Management Agency ensure that the State of Georgia implements controls for processes related to strategy development, develops controls to ensure that obligations to local jurisdictions comply with grant guidelines, implements controls regarding centralized procurements, and implements controls and monitoring processes for its subgrantees.

We also recommend that the Federal Emergency Management Agency determine the effect that an award to a State agency had on local jurisdictions, and if costs should be questioned as a result of such awards. We recommend that the agency determine the disallowance of costs claimed due to inadequate labor distribution. Finally, we recommend that the agency require the State of Georgia to monitor procurement activities of all State agencies.

In addition, during our review of sampled claimed costs, we did not identify unallowable program costs that we classify as questioned costs, nor did we expand our testing to identify all questioned costs claimed. The State of Georgia may, however, identify additional questioned costs as closeout packages (identifying actual purchases) are submitted by local jurisdictions and reviewed by the State of Georgia.

Background

The Homeland Security Grant Program is a federal assistance grant program administered by the U.S. Department of Homeland Security (DHS), Grant Programs Directorate within the Federal Emergency Management Agency (FEMA). The current Grant Programs Directorate, hereafter referred to as FEMA, began with the Office of Domestic Preparedness which transferred from the Department of Justice to DHS in March 2003. The Office of Domestic Preparedness was subsequently consolidated into the Office of State and Local Government Coordination and Preparedness which, in part, became the Office of Grants and Training, and which subsequently became part of FEMA.

DHS is responsible for enhancing the capabilities of state and local jurisdictions to respond to, and mitigate the consequences of, incidents of terrorism. FEMA provides grant funds to aid public safety personnel (e.g., first responders) in acquiring specialized training, exercises, and equipment necessary to safely respond to and manage terrorist incidents involving chemical, biological, radiological, nuclear or explosive weapons, including weapons of mass destruction. First responders include firefighters, police, paramedics, and others. The grants are collectively referred to as “first responder” grants. These types of grants within the Homeland Security Grant Program provide federal funding to help states and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism.

State governors appoint a State Administrative Agency responsible for managing and administering homeland security grant funds according to established federal guidelines. The State Administrative Agency also serves as the pass-through entity for funds subgranted to local, regional, or other state government agencies. The Governor of Georgia designated the Georgia Emergency Management Agency within the Georgia Office of Homeland Security to serve as the State Administrative Agency.

The State of Georgia received approximately \$115.2 million in funds from the Homeland Security Grant Program during Fiscal Years (FYs) 2002 through 2004. During this period, subgrants were awarded to approximately 415 State agencies, local agencies, and first responder agencies. We reviewed the following programs:

First Responder Grant Programs

FY 2002 State Domestic Preparedness Program grants provided financial assistance to each of the nation's states, U.S. Territories, District of Columbia, and Commonwealth of Puerto Rico. This program provided financial assistance for:

- Purchase of specialized equipment to enhance the capability of state and local agencies to respond to incidents of terrorism involving the use of weapons of mass destruction.
- Protection of critical infrastructure.
- Design, development, conduct, and evaluation of weapons of mass destruction exercises.
- Administrative costs associated with implementing statewide domestic preparedness strategies.

FY 2003 State Homeland Security Grant Program Part I funding provided financial assistance for:

- 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 weapons.
- Protection of critical infrastructure and prevention of terrorist incidents.
- Design, development, conduct, and evaluation for chemical, biological, radiological, nuclear, or explosive exercises.
- Design, development, and conduct of state chemical, biological, radiological, nuclear, or explosive training programs.
- Updating and implementing each state's homeland security strategy.

FY 2003 State Homeland Security Grant Program Part II provided supplemental funding available through FY 2003 for the State Homeland Security Grant Program to enhance first responder preparedness. Part II funds also were available to mitigate costs of enhanced security at critical infrastructure facilities during hostilities with Iraq and future periods of heightened threat.

FY 2004 Homeland Security Grant Program continued to provide states, U.S. Territories, District of Columbia, and Commonwealth of Puerto Rico with funding for planning, purchasing equipment, training, managing, and administering emergency prevention, preparedness, and response personnel. Program funding provided states and territories with opportunities to more effectively fill the gaps between their needs and existing capabilities, as detailed in their updated Homeland Security Strategies.

The State of Georgia was awarded approximately \$115.2 million from these four grant programs. Funded activities and amounts are shown in Table 1.

Table 1

Georgia Homeland Security Grant Awards FYs 2002 through 2004					
Funded Activity	Grant Program ('000s)				
	2002 State Domestic Preparedness Program	2003 State Homeland Security Grant Program Part I	2003 State Homeland Security Grant Program Part II	2004 State Homeland Security Grant Program	Totals
Equipment Acquisition	\$7,451	\$9,956	N/A	N/A	\$17,407
Exercises	346	2,489	N/A	N/A	2,835
Training	N/A	747	N/A	N/A	747
Planning and Administration	N/A	996	N/A	N/A	996
First Responder Preparedness	N/A	N/A	\$32,568	N/A	32,568
Critical Infrastructure Protection	N/A	N/A	5,011	N/A	5,011
State Homeland Security	N/A	N/A	N/A	\$42,214	42,214
Law Enforcement Terrorism Prevention Program	N/A	N/A	N/A	12,526	12,526
Citizens Corps	N/A	N/A	N/A	877	877
Totals	<u>\$7,797</u>	<u>\$14,188</u>	<u>\$37,579</u>	<u>\$55,617</u>	<u>\$115,181</u>

Homeland Security in the State of Georgia

The Governor created the Office of Homeland Security by Executive Order on January 13, 2003, and established the State's Homeland Security Director as a cabinet-level position. At that time, the Office of Homeland Security included the Homeland Security Task Force, Georgia Information

Sharing and Analysis Center, and Georgia Emergency Management Agency. (See Appendix B for the Georgia Office of Homeland Security Organization Chart.)

The Georgia Emergency Management Agency's mission is to provide a comprehensive and aggressive all-hazards approach to mitigation, preparedness, response, recovery, and special events. Its mission also includes a mandate to protect life and property in the State of Georgia and to prevent or reduce the negative impact of natural and man-made events in Georgia.

Daily responsibilities of emergency management are carried out by the Georgia Emergency Management Agency's six functional divisions:

- **Finance Division:** Responsible for grants, personnel, payroll, and other support functions.
- **Hazard Mitigation Division:** Responsible for the State Mitigation Plan and administering Hazard Mitigation Grants, the Flood Mitigation Program, and the Pre-Disaster Mitigation Program.
- **Operations Division:** Responsible for statewide planning, operations support, communications, training, and consequence management.
- **Public Affairs Division:** Responsible for constituent services, public affairs support, legislative liaison, multi-media support, and information technology.
- **Public Assistance Division:** Responsible for mutual aid and coordination of financial assistance for state of emergencies and Presidential declarations. Subgrantees receiving State of Georgia grant funds deal routinely with Public Assistance staff. Public Assistance administers subgrantee agreements, approves and processes payments to subgrantees, and maintains all documentation submitted by the subgrantee.
- **Terrorism Emergency Response and Preparedness Division:** Responsible for critical infrastructure analysis, terrorism incident management and response, consequence management coordination and training, All Hazards Councils programs, federal homeland security grant coordination, critical infrastructure analysis, fire services coordination, agroterrorism preparedness, exercise and training, intelligence gathering and analysis, and homeland security grant services.

Coordination of all first responders and local jurisdictions in the State of Georgia is a top priority for the Terrorism Emergency Response and Preparedness Division. All of its programs are specifically designed to assist and meet local needs. The division also has partnered with other State agencies through the Homeland Security Task Force, Counter Terrorism Task Force, and Georgia Information Sharing and Analysis Center to ensure a smooth and effective terrorism response capability. The Terrorism Emergency Response and Preparedness Division also works closely with federal partners (DHS) to coordinate funding, training, response, and preparedness programs.

We coordinated audit efforts through the Terrorism Emergency Response and Preparedness Division. As such, we visited the Georgia Emergency Management Agency headquarters on several occasions to conduct entrance and exit conferences and interviews, collected documents, and analyzed data. We also reviewed subrecipient operations at eight locations in the State of Georgia. Details about our objectives, scope, and methodology are in Appendix A.

Results of Audit

The 2003 Strategy Did Not Identify Needs or Address Evaluation Processes Adequately

The Georgia's 2003 State Homeland Security Strategy was an incomplete document that contained inadequate or insufficient information or data. The 2003 strategy did not adequately or fully address evaluation processes for preparedness, goals, and objectives as required by DHS. In addition, it contained data inaccuracies that were not validated according to DHS instructions. As a result, the Georgia Emergency Management Agency could not demonstrate how it evaluated the progress of several of its goals and objectives and, with unreliable data, could not be assured that the strategy was a reliable document that accurately assessed needs. Management from the State of Georgia informed us that DHS approved the strategy, indicating that there was a greater need for timely allocation and less emphasis on detailed needs and evaluation processes.

Georgia's 2003 State Homeland Security Strategy

The 2003 strategy was not complete or reliable. First, the document contained the following disclaimers regarding data inaccuracies for FYs 2003 and 2004:

- Data in some categories were demonstrably incorrect.
- The survey reported the number of hazardous material teams to be 92, while only 38 such teams existed.
- Jurisdictions may have reported on the same threats and vulnerabilities.
- The survey offered no means of qualitatively assessing actual dangers posed by locally perceived threats and vulnerabilities.
- The 715 Potential Threat Elements identified statewide were exaggerated and have not been validated.

DHS provided a timeframe for states to validate data collected for the 2003 strategy, as illustrated in its Information Bulletin No. 96, dated January 21, 2004, *State and Urban Area Homeland Security Assessment Data*:

While strategies must be submitted to ODP [Office of Domestic Preparedness] by January 31, 2004, the data validation period will be extended to permit states or urban areas with previously submitted and/or approved strategies to review the assessment data to ensure the data's accuracy and consistency. During the data validation period, your state should re-verify its homeland security assessment data

to ensure that it accurately reflects your state's risk, capabilities and needs.

The second issue that prevented the 2003 strategy from being viewed as a complete document was the absence of a viable evaluation plan. On January 13, 2004, DHS issued Information Bulletin No. 95, *Guidance for developing the evaluation plan for the State Homeland Security Strategy and Urban Area Security Strategy*. The guidance explained the purpose and content of the evaluation plans:

The evaluation plan is a critical element of the strategy and is tied to its ultimate approval by the Department of Homeland Security. Grantees need to demonstrate that important issues associated with evaluating progress have been contemplated thoroughly and that a plan is in place to make sure that implementation of strategic goals and objectives is tracked from the beginning. Consequently, the evaluation plan should provide details about the membership of key evaluation working groups, the frequency of working group meetings, their use of evaluation tools, and the development of corrective action plans.

The State of Georgia did not fully develop the evaluation process for assessing progress toward goals and objectives of the 2003 strategy. Gaps involving Section 6: *Goals, Objectives and Implementation Steps*, of the 2003 strategy existed, which the State of Georgia acknowledged as an area that it had not fully developed or addressed as required. For example, for the five goals identified in the 2003 strategy, the State of Georgia identified how each goal would be implemented through planning, training, organization, or equipment acquisition. The State provided a document that demonstrated implementation progress (or gaps in the progress) through February 2007. Each of the goals had several elements that were implemented and several elements that were not. Where goals and objectives were not fully implemented, evaluation of progress in meeting the objectives was difficult.

DHS reported in an internal memorandum on February 3, 2006, that the State of Georgia did not have an evaluation mechanism for its programs. The Georgia Emergency Management Agency also acknowledged in a February 2007 meeting with us that its evaluation plan was still lacking, expressing the need to evaluate the goals and needs enumerated in the strategy.

The State of Georgia would benefit from using the guidance that Information Bulletin No. 95 envisioned, emphasizing the key components

contained in that bulletin, especially the use of evaluation tools and corrective action plans.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Georgia to:

1. Develop internal controls that result in a comprehensive strategy that accurately identifies its needs and also identifies its plans to evaluate performance goals and objectives, as envisioned in Information Bulletin No. 95. Plans should include or address the following questions:
 - Who will be part of the evaluation process?
 - What meetings have been developed and scheduled to evaluate progress?
 - How will progress be evaluated?
 - How will mid-course adjustments be made if goals and objectives change, if progress toward them stalls, or if mass casualty disasters occur?
2. Establish guidelines for minimum periodic meetings, timetables for evaluation reviews, viable evaluation metrics, and mandatory progress reports to demonstrate progress toward meeting goals and objectives.

State of Georgia Comments

The State of Georgia does not concur with Auditor's Finding 1 for the following reasons:

DHS approved the 2003 State Strategic Plan. The State of Georgia complied with the requirements, which were a condition precedent to receiving the grant award. The State of Georgia's emphasis was on administering the grant to effectively enhance capabilities according to the goals of the grant program due to all levels of government placing a greater emphasis, during the grant years under review, in building capabilities than on developing performance measures.

The State of Georgia concurs with the recommendation to implement improvements in the performance measurement procedures. It has institutionalized performance measures and is currently formalizing performance measure procedures.

Federal Emergency Management Agency Verbal Comments

Subsequent strategies from the State of Georgia addressed the issues noted in the recommendation. In addition, FEMA reviews all strategies as part of its program monitoring process.

Auditor's Analysis

The responses from the State of Georgia and FEMA do not adequately address the recommendations. The State of Georgia did not address the area of establishing guidelines and timetables for demonstrating progress toward its goals. In addition, while the subsequent strategies may incorporate both needs and plans to evaluate performance goals and objectives, as FEMA stated, FEMA's verbal comments did not address how the State of Georgia plans to establish internal controls to ensure that future strategies are accurate and complete, or if the State will establish guidelines to demonstrate how progress toward meeting goals and objectives will be achieved.

The Administrator, Federal Emergency Management Agency, should provide corrective actions for the two recommendations and a plan to implement those corrective actions within 90 days.

Controls For Centralized Purchases of Equipment Were Not Effective

The State of Georgia did not have effective controls over centralized Georgia Search and Rescue equipment and hazardous material equipment purchases made through the "prime vendor" program with the Defense Logistics Agency. Under State of Georgia procurement laws, the State of Georgia was allowed to use the vendor for equipment purchases. The entire acquisition function was a multi-layered process involving several entities; controls among the principal parties involved were critical to successful procurement management. However, the State of Georgia had insufficient controls. Thus, there is no assurance that invoices totaling approximately \$10.9 million and subsequent State of Georgia payments to the Defense Logistics Agency of approximately \$10.1 million were accurate or reliable.

Centralized Purchases

The prime vendor, Fisher Scientific, supplied Georgia Search and Rescue equipment and hazardous material equipment to first responders in the State of Georgia using centralized purchases. The multi-layered ordering, shipping, receiving, and payment processes involved two divisions at the Georgia Emergency Management Agency, the Defense Logistics Agency,

Fisher Scientific (Fisher), a designated warehouse inventory custodian, and numerous local jurisdictions and State agencies in the State of Georgia.

The Georgia Emergency Management Agency generally provided Fisher with budget worksheets, viewed as purchase orders by Fisher. Equipment prices were based on a listing that the Defense Logistics Agency supplied to the Georgia Emergency Management Agency. Fisher would deliver the equipment to the user, provide the user with a shipping invoice, and subsequently bill the Defense Logistics Agency, which simultaneously paid Fisher while invoicing the State of Georgia for amounts paid to Fisher. Invoices furnished by the Defense Logistics Agency to the State of Georgia differed, however, from invoices that the Defense Logistics Agency received from Fisher. That is, the Defense Logistics Agency would convert the Fisher invoice into its own format, using a 15-digit billing code. As a result, the State of Georgia, could not interpret the billing code that the Defense Logistics Agency invoices contained.

The State of Georgia did not adhere to the type of guidance referenced in the Code of Federal Regulations Title 28 Part 66 regarding effective control and accountability. Therefore, control processes were inadequate throughout the ordering, shipping, and payment cycles. For example:

- The Georgia Emergency Management Agency did not always coordinate orders with local jurisdictions when it prepared budget worksheets. In certain instances, the local jurisdiction did not know what quantities or items were ordered, as well as the actual per-unit prices.
- Fisher delivered equipment to local jurisdictions and provided a shipping invoice, but local jurisdictions did not provide a copy of the invoice to the Georgia Emergency Management Agency, which processed the invoice.
- Defense Logistics Agency paid Fisher but did not provide a copy of the Fisher invoice to Georgia Emergency Management Agency. Instead, Defense Logistics Agency used another invoicing format to bill the State of Georgia.
- The Defense Logistics Agency invoice that the State of Georgia received contained a 15-digit billing code that the Georgia Emergency Management Agency could not interpret. The Georgia Emergency Management Agency, therefore, had to contact Fisher to receive cost breakdowns.

Additionally, a requirement for local jurisdictions to inventory equipment immediately upon receipt from Fisher was not in place. One equipment order in excess of \$3 million delivered by Fisher to an Atlanta warehouse was not inventoried immediately. In that instance, the chain-of-custody processes needed improvement. Equipment from this Fisher shipment was intended for use by eight Georgia Search and Rescue-capable fire departments in the State of Georgia and was centrally-initiated by the Georgia Emergency Management Agency through a series of budget worksheets prepared by its personnel.

Fisher delivered the multi-million dollar Georgia Search and Rescue equipment intermittently to the warehouse, planning its shipments as a series of multiple trips to accommodate the eight fire departments. Because the State of Georgia designated that the eight fire departments be handled as four distinct two-member teams, Fisher shipped the equipment as separate deliveries to the four designated team trailers. Each team received about \$800,000 in Georgia Search and Rescue equipment.

An assistant fire chief from the Cobb County Fire Department was designated as custodian for Georgia Search and Rescue equipment delivered to the Atlanta warehouse by Fisher. The chief often was not immediately available when the Fisher shipments arrived at the warehouse, because of his assigned work schedule. Therefore, an administrative fire department employee located at the warehouse would sign for the equipment and notify the chief that a shipment had arrived. The administrative employee did not verify equipment delivered by Fisher, and the chief may not have arrived at the warehouse to conduct an inventory assessment until days after the delivery.

The chief customarily would reconcile actual physical Georgia Search and Rescue equipment delivered by Fisher against shipping invoices that the administrative employee signed. As a result of these efforts, the chief maintained a spreadsheet that identified all missing items from the four Georgia Search and Rescue teams that initially had their equipment shipped to the Atlanta warehouse. In addition, the chief maintained four binders representing invoices and packing slips. This information maintained by the chief has not, however, been used to support payments to Defense Logistics Agency.

Reconciliations

The State of Georgia performed several reconciliations, but it did not coordinate this work, and the reconciliations were incomplete.

Warehouse Reconciliation - The chief's reconciliations of warehouse inventory (of the four two-member teams), which was one of three separate, uncoordinated reconciliations regarding Fisher shipments, did not always occur immediately as the shipment arrived at the warehouse. An immediate verification of equipment received could quickly resolve issues regarding inaccurate invoicing and also establish accountability between Fisher and the State of Georgia if inventory tampering occurred. Even though these reconciliations did not always occur upon equipment arrival, they were far more accurate than other efforts undertaken by the State of Georgia and likely produced the best results. The reconciliations showed that Fisher had not shipped more than 2,300 items that the State of Georgia ordered for the four two-member teams.

Terrorism Emergency Response and Preparedness Division

Reconciliation - This division reconciled warehouse inventories (resulting from shipments to the four two-member teams) from budget worksheets to the hard-count inventories on hand at local jurisdictions, requiring the latter users to certify their inventories to the division. These reconciliations were not conducted under the best conditions, as the Terrorism Emergency Response and Preparedness Division relied on local jurisdictions to reconcile equipment that was delivered as far back as 2 years in some cases. In addition, one of the local jurisdictions had not certified its inventory to the division as of February 2007.

Public Assistance Division Reconciliation - The Public Assistance Division attempted to reconcile monies due Defense Logistics Agency by comparing budget worksheets against Defense Logistics Agency invoices. The reconciliations included all Fisher orders from early 2004 through 2006, totaling about \$10.8 million (not just warehouse equipment deliveries of the four two-member teams which totaled about \$3.2 million). In December 2006, the Public Assistance Division provided an accounting of the outstanding amount due Defense Logistics Agency:

Amount Fisher billed to and paid by Defense Logistics Agency	\$10,878,029
Amount State of Georgia paid Defense Logistics Agency	<u>10,032,694</u>
Amount State of Georgia owes Defense Logistics Agency	<u>\$845,335</u>

While this reconciliation identifies the difference between billings and amounts paid, additional reconciliations are necessary because:

- The State of Georgia has no assurance that local jurisdictions received the equipment ordered.
- More important, the State of Georgia did not use Fisher shipping invoices as reconciling documents.

Due to the lack of coordination and incomplete reconciliations, the State of Georgia requested nine extensions that cited the Defense Logistics Agency-Fisher billing system as a reason for not being able to meet grant closeout requirements, as shown in the two quotes below. (The first quote refers to the FY 2002 grant, and the extension request is dated December 13, 2006.)

...The complicated prime vendor's billing system continues to challenge the State with paying existing bills and identifying de-obligated funding balance....

...It is clear that while our previous challenges with the Defense Logistics Agency and Fisher Scientific have markedly improved, we are still encumbered by a complicated billing and accounting system....

While we do not know how much of the outstanding \$845,335 amount due to the Defense Logistics Agency was attributable to the FY 2002 grant, the FEMA Preparedness Officer informed us that the State of Georgia closed out the grant in February 2007. Further, FEMA received a report from the State of Georgia that purportedly reconciled the FY 2002 grant; we did not, however, receive it. Additionally, there is no reconciliation of equipment received (by the jurisdictions) to payments made to Fisher.

Overcharges - In January 2005, the State of Georgia processed a Defense Logistics Agency-Fisher invoice for Budget Worksheet No. 0159, funded by the FY 2003 Part II grant. The invoice listed 13 line items for equipment and was billed at a total cost of \$25,100. The State of Georgia received and paid an identical invoice in July 2005 and again in August 2005. In September 2005, Defense Logistics Agency-Fisher issued a credit of \$25,099.51, which would effectively cancel the August 2005 invoice. Based on records we reviewed, however, the July 2005 invoice represents a double-billing and payment for Budget Worksheet No. 0159.

Undelivered Equipment - Undelivered equipment may affect the FY 2002 grant closeout. A special operations fire chief from a local jurisdiction that received Georgia Search and Rescue equipment and hazardous material equipment from Fisher stated that the State of Georgia did not request any input from his jurisdiction regarding equipment ordered on budget worksheets. The chief provided a copy of a budget worksheet showing that the State of Georgia ordered 10 reusable chemical suits for his fire department. The chief stated in an email to the Georgia Emergency Management Agency, however, that Fisher did not deliver the suits.

Nevertheless, invoices obtained from the State of Georgia showed that the Defense Logistics Agency-Fisher billed the State of Georgia for 22 chemical suits delivered to the assistant chief's fire department. Defense Logistics Agency-Fisher invoiced the 22 suits at a total cost of \$33,462.00.¹ The budget worksheet, funded from the FY 2002 grant, was closed-out with a \$1,459 balance.² If Fisher did not deliver the reusable chemical suits to the local jurisdiction, the State of Georgia may have paid for equipment that was not delivered.

Conclusion

The State of Georgia's control environment over the Defense Logistics Agency/Fisher processes was incomplete at nearly every phase, and action is needed to strengthen controls. As a first step in achieving effective controls, a full accounting and reconciliation of invoices is needed. In addition, as billing errors are identified, the State of Georgia did not obtain vendor refunds, as appropriate. The reconciliation also did not include a procedure that identifies equipment that local jurisdictions either did not order or did not receive. In those instances, refunds from Defense Logistics Agency/Fisher also did not occur.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the State of Georgia to:

1. Review expenditures incurred from the prime vendor to identify overcharges and equipment delivered in error and undelivered, and recover costs where applicable.
2. Implement controls over centralized procurements and inventories to ensure that local jurisdictions receive intended inventories, and that payments are made only for equipment ordered and received.

State of Georgia Comments

The State of Georgia does not concur with Auditor's Finding 2 for the following reasons:

The State of Georgia does not concur that it did not have "effective controls." According to the State of Georgia, the Audit Report overstates the issue regarding the purchases made through the DHS-approved prime vendor, the Defense Logistics Agency. Regarding the State of Georgia's

¹ The invoice did not indicate if the chemical suits were "reusable."

² The Balance on Budget Worksheet No. 0301 was provided to us as of January 11, 2007.

use of the DHS-approved prime vendor, the issues are being resolved by an internal reconciliation.

The finding that the State of Georgia “had weak and absent controls” is inaccurate, overbroad, and not supported by the examples given in the report. The State of Georgia did coordinate both the order and receipt of equipment with local jurisdictions. All subgrantees were informed of the award and what the order would include through the budget worksheet process. Fire personnel responsible for deliveries of Georgia Search and Rescue equipment to the warehouse in Atlanta have provided paperwork showing receipt of the equipment. The State of Georgia’s Fire Services Program Manager communicated with the teams throughout the process to assure receipt, training, and use of the equipment. The Georgia Search and Rescue equipment was in use by the Georgia Search and Rescue teams by May 2004 to save lives. To say there are no chain-of custody controls is an overstatement.

The State of Georgia nonetheless concurs with the recommendations, which reflect the process that the State currently utilizes and continues to practice.

Federal Emergency Management Agency Verbal Comments

FEMA concurs with the finding. FEMA stated that the State of Georgia needs to ensure that costs are reasonable, allocable, and allowable under the terms and conditions of the grant awards. FEMA will request that the internal controls within and throughout the State of Georgia’s acquisition processes provide a reasonable level of assurance. In addition, FEMA will review the State of Georgia’s reconciliation method to ensure the integrity of monies paid to the Defense Logistics Agency-Fisher.

Auditor’s Analysis

The report language was modified to change “weak and absent controls” to “insufficient controls.” In addition, the language regarding chain-of-custody controls was changed from “especially weak” to “needed improvement.”

Based on the verbal concurrence from FEMA, and the written concurrence from the State of Georgia, we believe that both parties have addressed the recommendations adequately.

The Administrator, Federal Emergency Management Agency, should provide corrective actions for the two recommendations and a plan to implement those corrective actions within 90 days.

Controls and Processes For Monitoring Subgrantees Were Not Effective

The State of Georgia did not implement a comprehensive monitoring program to measure subgrantee performance. For example, the State had not established close-out processes, enforced progress reporting requirements, conducted site visits at its subgrantee locations, evaluated subgrantee financial reporting capabilities, and ensured that information used to monitor unused obligations was current. The State of Georgia monitoring and oversight processes were inadequate even though DHS had made previous recommendations for improvement in this area. As a result of these deficient processes, the State of Georgia could not determine the amount of unused grant funds and re-obligate them to other funding priorities in a timely manner.

Close-out Processes - The State of Georgia maintained spreadsheets that identified expenditure information by subgrantee. As subgrantees submitted invoices and cancelled checks, the State of Georgia drew down grant funds to reimburse them. In some instances, the State of Georgia would determine if the subgrantee had completed its grant spending, notably when expenditure amounts equaled the grant award amount, thus creating a zero balance for the award. However, in the absence of this cancelling-out effect, or a local jurisdiction voluntarily notifying the State of Georgia that it had completed its grant spending authorization, the State of Georgia did not have a process to identify when a subgrantee had funds that could be re-obligated.

When grant expenditures were less than the grant award amount and shown as such on the aforementioned spreadsheets, the State of Georgia typically assumed that funds still remained to be spent, and subsequently carried the subgrantee's balance as an unexpended obligation. Three of the seven local jurisdictions we visited had grant funds that could have been re-obligated since they had completed grant spending. Had the State of Georgia established a more effective grant close-out process for its subgrantees, it could have re-obligated these left-over funds. However, in each instance, funds were not re-obligated.

In one instance, a jurisdiction had a balance of approximately \$50,000 in unexpended grant funds from three grants awarded by the State of Georgia in FY 2003 Parts I and II and FY 2004. The jurisdiction had completed its equipment purchases for all grant years and considered all three awards closed. The State of Georgia was carrying the combined \$50,000 as unexpended obligations, expecting further action from the subgrantee as of November 30, 2006.

Had the State of Georgia established an effective close-out process with its subgrantees, it could have re-obligated the entire \$50,000 amount to a subgrantee in need of funds.

Progress Reports - The State of Georgia did not require subgrantees to submit progress reports, even though this requirement was included in terms and conditions of subgrantee agreements signed in FY 2003 (Part I). State of Georgia representatives stated that progress reports were not viewed as a high priority, and consequently they did not enforce submission. Periodic progress reporting would permit the State of Georgia to stay apprised of subgrant activity, as in the example cited above regarding unused or outstanding obligation amounts. The progress reports could have alerted the State of Georgia that action was needed to avoid the risk of having funds lapse.

Subgrantee Monitoring - The State of Georgia's control processes over subgrantee activity were inadequate and did not address control and accountability processes at the local jurisdictions, as generally prescribed in the Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments, Title 28, Code of Federal Regulations, Part 66. In the past, DHS cited insufficient monitoring at the State of Georgia on at least two occasions prior to the start of this audit. In May 2005, the DHS External Oversight Division issued a memorandum that discussed how the State of Georgia did not maintain adequate policies for grant administration and did not have an active monitoring program over its subgrantees. DHS reported that the State of Georgia does not maintain written policies and procedures, for grant administration, which include adequate guidelines for monitoring the fiscal and programmatic activities of its subrecipients.

In a February 2006 memorandum, based on an onsite visit, DHS reported that the State of Georgia had no evaluation plan for its programs, had no monitoring plans for its subgrantees, and was still experiencing billing issues with its prime vendor (Fisher).

As a result of these DHS assessments, the State of Georgia identified jurisdictions it should visit based on a risk assessment conducted according to Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. On September 8, 2006, the Georgia Emergency Management Agency issued its first programmatic and financial monitoring report, a result of its onsite visit to the Athens-Clarke County Fire and Emergency Services. (A second onsite visit occurred at the Houston County Fire Department in early November 2006; we did not verify if a monitoring report was issued.)

The report on Athens-Clarke County Fire and Emergency Services did not show whether the State of Georgia independently reviewed the jurisdiction's equipment against the State of Georgia's equipment records. In addition, property valued at under \$5,000 was not reviewed.

The Office of Justice Programs *Financial Guide* contains stipulations regarding disposition of property valued at \$5,000 or less. The guide contains no dollar stipulation regarding maintenance of inventory records and, as such, all property must be accounted for.³ A lack of subgrantee monitoring can have several negative outcomes, such as unaccountable equipment, unallowable purchases, and inadequate supporting documentation for equipment purchases. An active subgrantee monitoring process increases the probability that those negative outcomes can be identified.

Financial Reporting Capabilities - The State of Georgia reviewed the Athens-Clarke County Fire and Emergency Services' accounting system and found it to be "adequate," generally capable of capturing and reporting grant data with accuracy. In the issued Athens-Clarke County report, State of Georgia reviewers did not report that they analyzed and reconciled grant funds against invoices and costs incurred to verify balances relating to obligated and expended amounts.

Based on documentation that the State of Georgia provided to us, the Athens-Clarke County Fire and Emergency Services was the only subgrantee accounting system that the State of Georgia reviewed. Accordingly, the State of Georgia did not determine whether the accounting system for each of its subgrantees was adequate.

Conclusion

The absence of effective monitoring created a situation where many subgrantees had completed grant spending with funds remaining. However, in some instances, the State of Georgia was unaware that subgrantees had unused funds and, therefore, could not re-obligate funds to other priorities.

The State of Georgia has recently developed certain written policies and procedures to improve its subgrantee monitoring, and also has started subgrantee site visits. In conjunction with these improvements, the agency could further improve monitoring by implementing minimum control standards for its subgrantees.

³ The DHS agrees that subgrantees must account for all property, irrespective of dollar amounts.

Recommendation

We recommend that the Administrator, Federal Emergency Management Agency, advise the State of Georgia to implement a system of controls and monitoring processes over its subgrantees to ensure compliance with Title 28, Code of Federal Regulations, Part 66, or the applicable guidance provided, and the Office of Justice Programs *Financial Guide* requirements. For example, the State of Georgia could require subgrantees to:

- Certify to the State of Georgia that its accounting system is capable of capturing and reporting grant data with accuracy.
- Conduct equipment inventories bi-annually and certify compliance.
- Maintain property records, invoices, and cancelled checks for a period of 3 years or until reviewed by the State of Georgia.
- Report at least semi-annually on the disposition of grant funds.

State of Georgia Comments

The State of Georgia does not concur with the finding that controls over monitoring subgrantees were not effective. The State of Georgia has an effective monitoring program for its subgrantees by use of the program managers and All Hazards Councils, and by desk monitoring by the Georgia Emergency Management Agency staff. However, the State of Georgia does concur that the monitoring program was not comprehensive and has begun enhancing its monitoring capacity to include site visits and formal documentation.

The State of Georgia concurs with the recommendation. It will continue to assure that the recommendations will be included in contracts with subrecipients of grant funding and implement performance measures to assure compliance by the subrecipients.

Federal Emergency Management Agency Verbal Comments

FEMA stated that the State of Georgia is monitoring its subgrantees, with the implementation of on-site visits in 2006. FEMA will continue to monitor the State of Georgia's progress with its subgrantee monitoring program through its own periodic oversight of the State of Georgia's grant funds and grant activities.

Auditor's Analysis

The State of Georgia concurred with the recommendation, stating that its contracts with subrecipients will include the type of monitoring controls identified in the recommendation. In addition, FEMA stated that it will

provide the necessary oversight to ensure that the State of Georgia is addressing its monitoring processes. Therefore, we consider the anticipated action by both parties to be adequate.

The Administrator, Federal Emergency Management Agency, should provide corrective actions for the two recommendations and a plan to implement those corrective actions within 90 days.

Controls For Claimed Costs Were Not Effective

The State of Georgia claimed costs from grant funds that were not allocable, or may not have been allowable, due to a lack of effective controls over labor costs, period of performance monitoring, and acquisition methods.

Labor Costs - The State of Georgia staff labor costs of approximately \$3.2 million funded from the annual Management and Administrative allocation did not represent actual time spent working on a grant effort. The State of Georgia established a pre-determined allocation for charging staff time against a grant. Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Section E, *Direct Costs*, requires employees rather than management to determine allocations. If an allocation is predetermined, this alone precludes it from meeting allocability requirements.

Period of Performance Monitoring - The State of Georgia permitted six subgrantees to claim costs incurred outside of performance dates established in the subgrant agreement. In each instance, the agency officials stated that verbal agreements allowed the parties to perform beyond the original dates.

Acquisition Methods - The State of Georgia did not monitor sole-source or competitive acquisition methods used by four subgrantees. In those four examples, agency personnel were under the impression that subgrantee agency-specific procurement guidelines relieved them of any oversight responsibilities.

These four examples conflict with the system of controls advocated by government grant standards, such as Part III, Chapter 9 (Subawards) and Chapter 10 (Procurement Under Awards of Federal Assistance), of the Office of Justice Programs *Financial Guide*, dealing with effective control and accountability. Because the State of Georgia did not implement effective controls over claimed costs it submitted or costs submitted by its subgrantees, the government may have incurred costs not attributable to State of Georgia grant performance. In addition, the State of Georgia may

have incurred costs that were not economical or within a competitive market-rate range.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

1. Require the State of Georgia to:
 - Ensure that all State agencies that receive grant funds comply with the grant requirements established in Office of Justice Programs *Financial Guide*.
 - Comply with performance dates as required by the *Financial Guide*.
 - Ensure that its submission of claimed labor costs represents actual staff time charged to a grant.
2. Determine the amount of grant funds, if any, which should be disallowed due to the inadequate labor distribution system.

State of Georgia Comments

The State of Georgia does not concur with Auditor's Finding 4. Management and Administration funding expenditures represent actual time spent managing and administering the Homeland Security Grants, and the State of Georgia is addressing the issue of Period of Performance Monitoring.

The State of Georgia concurs with Recommendation 1. It has and will continue to follow the actions recommended.

The State of Georgia does not concur with Recommendation 2 for the reason that no amount of grant funds should be disallowed. The government did not incur costs that were not attributable to grant performance.

Federal Emergency Management Agency Verbal Comments

FEMA concurred with these recommendations and believes that the State of Georgia must comply with Office of Management and Budget requirements regarding labor allocations. FEMA will request that the State of Georgia provide justification for labor costs expended against the grant awards. While FEMA understands that the State of Georgia is implementing new Management and Administration cost processes, FEMA will request that the State of Georgia provide documentation to support compliance with this finding.

Auditor's Analysis

Both the State of Georgia and FEMA concurred with Recommendation 1. However, while the State of Georgia did not concur with Recommendation 2, we documented during our review that the State of Georgia management had pre-determined labor allocations. Nevertheless, the action planned by FEMA, to request from the State of Georgia justification for labor costs expended, addresses the intent of Recommendation 2 and is therefore adequate.

The Administrator, Federal Emergency Management Agency, should provide corrective actions for the two recommendations and a plan to implement those corrective actions within 90 days.

Funds Were Not Properly or Timely Allocated

The State of Georgia did not obligate FY 2004 Law Enforcement Terrorism Prevention Program grant funds properly, awarding the entire amount to a State agency. As a result of this over \$12 million obligation, more than \$10 million was not made directly available to the local jurisdictions for their use as required. In addition, the State of Georgia did not obligate funds to local jurisdictions within the 45-day requirement stipulated in FY 2003 Parts I and II grant guidelines. Because of this untimely action, jurisdictions may not have had sufficient time to plan for use of their grant funds. These matters are discussed below.

FY 2004 Equipment Allocation - The State of Georgia obligated over \$12 million directly to a State agency, the Georgia Bureau of Investigation, bypassing certain grant requirements dealing with the Law Enforcement Terrorism Prevention Program portion of the grant. The FY 2004 DHS grant guidelines dealing with Law Enforcement Terrorism Prevention Program funds require each state to obligate not less than 80 percent of Law Enforcement Terrorism Prevention Program funds to local units of government within 60 days after grant award. The requirements further stipulate that, *if requested in writing by a local unit of government* (our emphasis), the state may retain some or all of the local unit of government's allocation of grant funds for purchases made on behalf of the local unit of government. Additional requirements indicate that states holding grant funds on behalf of local units of government must enter into a Memorandum of Understanding with the local unit of government specifying the amount of funds to be retained by the state for purchases.

The State of Georgia entered into Memorandums of Understanding with eight local jurisdictions (primarily small, rural police and sheriff departments) representing \$1.5 million per Memorandum of Understanding

to upgrade the infrastructure of a widely-used law enforcement network. The State of Georgia subsequently awarded \$12,078,533 to the Georgia Bureau of Investigation with DHS awareness and approval. Of the seven jurisdictions we interviewed, none had initiated a request, either in writing or verbally, for the State of Georgia to retain grant funds on its behalf.

While the State of Georgia did enter into Memorandums of Understanding before awarding \$12,078,533 to the Georgia Bureau of Investigation, local jurisdictions did not submit written requests for the State of Georgia to act on their behalf regarding equipment purchases.

Finally, all eight Memorandums were signed on March 9, 2004, but the effective date of the State’s 2004 award was March 29, 2004. Planning for agreements with local jurisdictions is acceptable, however the State of Georgia should not enter into agreements with local jurisdictions before having received the federal grant award, because this would obligate the State without having adequate federal funding to support the obligations.

FY 2003 Parts I and II Untimely Grant Obligations - The State of Georgia did not obligate FY 2003 Parts I and II funds in a timely manner. An obligation occurred once the State of Georgia issued the subrecipient or local jurisdiction an award letter. A summary of the State of Georgia obligations and award notifications follows:

Table 2

Summary of Untimely State of Georgia Awards				
Grant Year	Award Date	Days to Obligate	Days from Award to Notification	
2003 Part I	May 27, 2003	45	East Point:	110 days
			DeKalb:	112 days
2003 Part II	June 4, 2003	45	All eight award notifications were made on 8/19/2003, or after 105 days.	
2004	March 29, 2004	60	All award notifications were timely	

As a result of these delays in FY 2003, jurisdictions may not have had adequate time to plan for use of their grant funds.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency:

1. Determine the effect, to include the amount of questioned costs, of the State’s noncompliance with the local-jurisdiction requirement by awarding funds directly to a State agency.

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2. Require the State of Georgia to develop internal controls to ensure that funds are obligated to local jurisdictions according to grant timeline requirements.

State of Georgia Comments

The State of Georgia does not concur with Auditor's Finding 5.

The finding regarding the Law Enforcement Terrorism Prevention Program funding allocation is not supported by the facts.

The federal awarding agency approved the process by which the Law Enforcement Terrorism Prevention Program funding was retained by the state for use on behalf of local jurisdictions. The local jurisdictions agreed to the expenditure of local funds by the state on behalf of the local units of government. The State of Georgia complied with all grant requirements in this instance.

The awarding federal agency rescinded the requirement to obligate funds within 60 days for the FY 2003 Part 2 funds. The obligation periods for the FY 2003 Part 1 funds were set by the Grant Adjustment Notices as each budget was approved by DHS, and not measured by the Grant Award date. The Auditor's findings related to this issue do not support the conclusion that the State of Georgia failed to comply with the obligation timeliness requirements.

The State of Georgia does not concur with the recommendations because the State of Georgia was compliant. It did not award local share funds to non-local jurisdictions, and the State of Georgia met the grant timeline requirements set by the federal awarding agency.

The State of Georgia also provided comments on an issue included in the draft report involving FY 2002 funds allocated to a mutual aid group as a local jurisdiction. This section was deleted from the final report.

Federal Emergency Management Agency Verbal Comments

FEMA did not concur with the finding and recommendations.

Auditor's Analysis

The two recommendations remain unresolved since both FEMA and the State of Georgia did not concur with either the finding or recommendations. In addition, FEMA did not address the issues regarding the Law Enforcement Terrorism Prevention Program funding or the non-compliance with FY 2003 Parts I and II.

Regarding the Law Enforcement Terrorism Prevention Program issue, we believe that FEMA should seek a determination from the Office of General Counsel affirming the process the State of Georgia pursued in allocating Law Enforcement Terrorism Prevention Program funds.

Another issue involving FY 2002 funds allocated to a mutual aid group as a local jurisdiction was originally included in the draft report, and addressed by Georgia Emergency Management Agency in its comments. Due to differences in interpretation and no criteria in 2002 to define a local jurisdiction, this section was deleted from the final report.

The Administrator, Federal Emergency Management Agency, should provide corrective actions for the two recommendations and a plan to implement those corrective actions within 90 days.

The audit objectives were to determine if the State of Georgia effectively and efficiently implemented the first responder grant programs, achieved program goals, and spent funds awarded according to grant requirements. The audit goal was to identify problems and solutions that would help the State of Georgia prepare for and respond to terrorist attacks.

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

- Fiscal Year (FY) 2002 State Domestic Preparedness Program
- FY 2003 Parts I and II of the State Homeland Security Grant Program
- FY 2004 State Homeland Security Grant Program

The audit methodology included work at the Georgia Emergency Management Agency headquarters, the State of Georgia's offices responsible for grant management, and the following State agency and local jurisdiction subgrantees:

Location	Visit Dates (2006)	All Hazards Council Region
Albany Police Department	November 14-15	2
De Kalb County Police Department	November 6-7	7
East Point Fire Department	November 16-17	7
Houston County Fire Department	November 16-17	8
Kingsland Fire Department	Desk Review (2007)	5
Paulding County Board of Commissioners	November 14-15	6
Savannah Fire Department	December 11-12	5
Southside Fire Department	December 12-13	5

Visit purposes were to obtain an understanding of the four grant programs and assess how well the programs were being managed. Our audit considered the State of Georgia and its policies and procedures, as well as applicable federal requirements. We reviewed documentation received from the Georgia Emergency Management Agency, State of Georgia offices, and subgrantees. We interviewed appropriate officials, reviewed documentation provided by the State of Georgia and subgrantee personnel responsible for managing grant funds, and physically inspected some of the equipment procured with grant funds.

In addition, we reviewed the State of Georgia costs incurred for planning, management and administration, and exercises, as well as the incurred equipment costs of state agencies in the State of Georgia.⁴

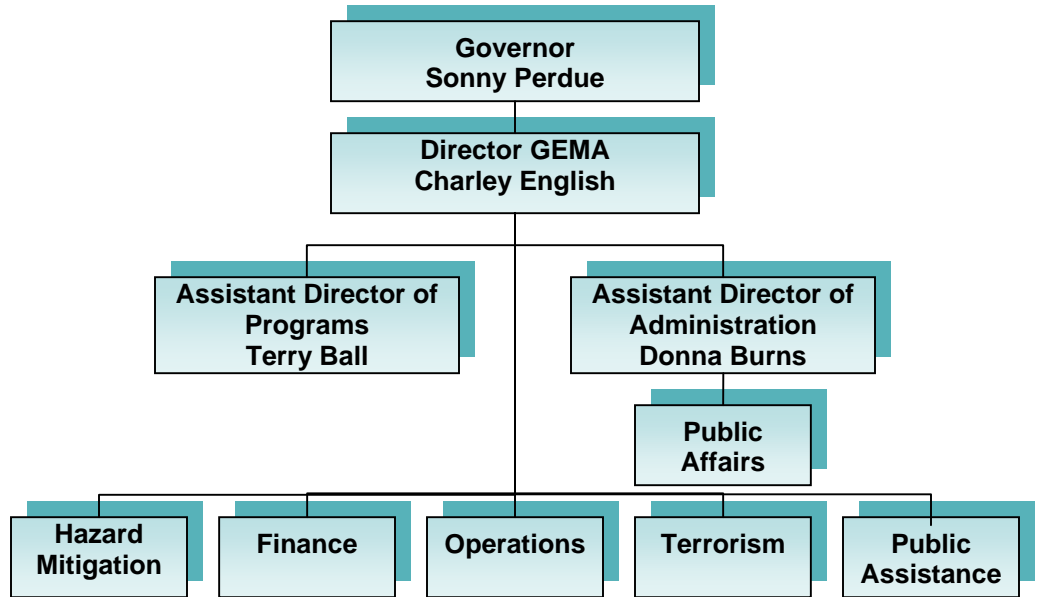
⁴ Regarding the review of costs incurred by the Georgia Emergency Management Agency and State agencies, we selected 21 expense items and acquisitions to review. For example, we reviewed State of Georgia staff labor costs and costs incurred to prepare the State Homeland Security strategies and reviewed incurred costs for equipment and consultant services at State agencies.

We also reviewed prior audit reports dealing with first responder subject matter, such as reports from the Government Accountability Office and the House Committee on Appropriations Survey and Investigative Staff. We conducted the audit between September 2006 and March 2007 and performed the work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States.

This was primarily a performance rather than a compliance audit performed by a Department of Homeland Security, Office of Inspector General contractor. 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 were neither required to nor expressed an opinion on costs claimed for grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of financial statements according to 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 and does not extend to any financial statements of the State of Georgia.

While the audit work was performed and the report was prepared under contract, audit results are being reported by the Department of Homeland Security, Office of Inspector General, to appropriate officials within the Federal Emergency Management Agency and the State of Georgia.

Georgia Office of Homeland Security Organization Chart
(Effective from 1999 – Present)



GEORGIA EMERGENCY MANAGEMENT AGENCY

SONNY PERDUE
GOVERNOR



CHARLEY ENGLISH
DIRECTOR

**State of Georgia
Response to
Office of Inspector General
Department of Homeland Security
Audit Report Entitled
*The State of Georgia's Management of State Homeland Security Grants
Awarded During Fiscal Years 2002 through 2004*
September 18, 2007**

The State of Georgia appreciates the opportunity to make these comments regarding the Office of Inspector General Department of Homeland Security Audit Report for State Homeland Security Grants Awarded during Fiscal Years 2002 through 2004.

Auditor's Finding 1:

Georgia's 2003 Strategy Did Not Identify Needs or Address Evaluation Processes Adequately

Executive Summary of Response to Auditor's Finding 1:

The State of Georgia does not concur with Auditor's Finding 1 for the following reasons:

The Office of Domestic Preparedness (ODP) approved the 2003 State Strategic Plan. The Georgia Emergency Management Agency (GEMA) complied with the requirements which were a condition precedent to receiving the grant award. The State's emphasis was on administering the grant to effectively enhance capabilities according to the goals of the grant program due to all levels of government placing a greater emphasis, during the grant years under review, in building capabilities than on developing performance measures.

The State of Georgia concurs with the recommendation that we implement improvements in the performance measurement procedures. The State has institutionalized performance measures and is currently formalizing performance measure procedures.

Georgia's Response to Auditor's Finding 1:

The 2003 State Strategic Plan (SSP) was approved by ODP. ODP accepted the SSP and awarded grants and drawdowns of grant funding after review and acceptance of the SSP, which was a precondition to drawdown of funds. All funding allocations for 2003 were approved by ODP prior to drawdown of funds or expenditures. ODP has monitored programs and accepted CAPRs for all of the funding and program evaluations, and this review by ODP was how the SAA "demonstrate[d] how it evaluated the progress of . . . goals and objectives." Likewise the needs assessment was evaluated and approved by ODP each year in approving the specific subgrant awards prior to expenditures.

During the grant periods under review, there was a greater emphasis at all levels of government in building capabilities than on developing performance measures, and, thus, the State's emphasis was on administering the grant to effectively enhance capabilities according to the goals of the grant program. Nevertheless, Georgia complied with the requirements which were a condition precedent to receiving the grant awards.

While the State of Georgia did comply with ODP grant requirements for the grant years under review, the State concurs with the recommendation that we implement performance measurement procedures. Although the performance measures previously used were not as formal as they could have been, the State is formalizing the procedures and has documents that refer back to our progress. Since FY 2006, performance measures have been included in the State's applications for Homeland Security Grant Program funding.

Auditor's Finding 2:

Controls over Centralized Purchases of Equipment were not Effective

Executive Summary of Response to Auditor's Finding 2:

The State of Georgia does not concur with Auditor's Finding 2 for the following reasons:

The State does not concur that it did not have "effective controls." The Audit Report overstates the issue regarding the purchases made through the ODP-approved prime vendor, the Defense Logistics Agency (DLA). Regarding the State's use of the ODP-approved prime vendor, the issues are being resolved by an internal reconciliation.

The finding that Georgia "had weak and absent controls" is inaccurate, overbroad and not supported by the examples given in the report. GEMA did coordinate both the order and receipt of equipment with local jurisdictions. All subgrantees were informed of the award and what the order would include through the budget worksheet process. Fire personnel responsible for deliveries of Georgia Search and Rescue (GSAR) equipment to the warehouse in Atlanta have provided paperwork showing receipt of the equipment. The GEMA Fire Services Program Manager communicated with the teams throughout the process to assure receipt, training and use of the equipment. The GSAR

equipment was in use by the GSAR teams by May 2004 for use by the teams to save lives. To say there are no chain-of custody controls is an overstatement.

The State of Georgia concurs with the recommendations which reflect the process which the State currently utilizes and continues to practice.

Georgia's Response to Auditor's Finding 2:

The Audit Report overstates the issues involved and the phrases, "Controls . . . were not Effective" and "there is no reasonable assurance that the invoices, totaling approximately \$10.9 million . . . were accurate or reliable" should be modified to reflect a more appropriate statement of the situation. The phrase "Controls . . . were not Effective" should be restated to say "Controls . . . were not Sufficient". The last sentence should be stated as: "Because of these insufficient controls, Georgia cannot demonstrate conclusively that the invoices totaling approximately \$10.9 million and subsequent payments to DLA, totaling \$10.1 million, were accurate."

Georgia Emergency Management Agency (GEMA) staff is performing an internal reconciliation of Fisher payments and deliveries. At this time, GEMA believes overcharges, if any, will be minimal and immaterial based on undelivered equipment or equipment delivered in error. Furthermore, payment matching issues have been isolated to four large purchases and have not been problematic on smaller purchases. Given this, GEMA has determined that an independent review would not be cost beneficial. Overcharges, if any, discovered will be collected from the vendor through a credit memo or offset against future invoices. The GEMA is improving the payment and receiving process and reconciling payment records to receiving records. No invoices were paid that did not match to the original order. The GEMA is reconciling these payments to receiving records now and does not expect to discover material discrepancies in equipment paid for and equipment received. Any discrepancies found will be either billed back to the vendor or netted from future payments.

The State acknowledges the need to improve controls. Initially, Georgia used the ODP-approved and recommended DLA Prime Vendor program, with the understanding that the process would enable local subgrantees to more expeditiously enhance capabilities without having to expend their funding and seek reimbursement. Ironically, the use of the ODP-approved prime vendor, DLA, contributed to the issue of "weak controls" and reconciliation. To correct this problem, GEMA has begun using the National Association of State Purchasing Officers contract. Under this contract, purchase orders are issued with firm unit pricing and quantities, required validated, authorized signed-off receiving records, and matched invoices to improve this process. This process has dramatically improved the State's ability to monitor, track and process procurements.

The State concurs with the recommendation 1. The State currently utilizes and continues to practice the recommended procedures. The State also welcomes a review of the new process and any suggestions on how the new process could be improved to ensure purchase and inventory controls meet or exceed the applicable standards.

The finding that Georgia "had weak and absent controls" is inaccurate, overbroad and not supported by the examples given in the discussion of this finding. Georgia did coordinate both the order and

receipt of equipment with local jurisdictions. First, all subgrantees were informed of their order approval of award and instructed as to what that order would be through the budget worksheet process. Receipt was coordinated by scheduling delivery to specific addresses and having fire fighter personnel validate receipt of equipment. The fire personnel responsible for deliveries of Georgia Search and Rescue equipment to the Atlanta Warehouse have provided paperwork which GEMA is reviewing and using in its reconciliation process. Consequently to say there are no chain-of-custody controls is an overstatement.

Before, during and after the distribution of this equipment to the GSAR team members, the GEMA Fire Services Program Manager was in continual contact with the member teams to verify receipt, training and use of the equipment. The equipment was in almost immediate use after delivery and has been in use saving lives since May 2004 at which time the fully equipped GSAR teams were capable and available for deployment to any WMD or natural disaster event. If the delivery of the \$10.9 million in equipment had been in dispute by the GSAR team members, the equipment could not have been deployed and in operational use saving lives.

Similarly, in the fourth paragraph of the discussion of this finding, the report includes the misleading statement, “In that instance the chain-of-custody processes were especially weak.” The words “especially weak” should be changed to “in this instance found to be insufficient” in order to more specifically relate to the particular finding rather than making an overbroad implication unsupported by specific findings in other instances. There was chain of custody. The State scheduled the delivery of this equipment to a specifically designated and locked area within the City of Atlanta Fire Department warehouse, and had local fire personnel validate receipt of the equipment. These same fire personnel also were responsible for distributing this equipment to the appropriate GSAR and HazMat teams. The Audit Report states, “The chief often was not immediately available when the . . . shipments arrived . . . because of his assigned work schedule.” This statement does not support the conclusion that the State did not have effective controls over centralized purchases of equipment, especially in view of the fact that deliveries were contained within that locked area within the warehouse, awaiting the chief’s arrival and processing of the deliveries. Although, the State acknowledges that this chain-of-custody was not maintained in every instance, the statement that Georgia “had weak and absent controls” in this instance is not supported by the findings. As acknowledged in the Audit Report, GEMA was authorized to use the state procurement laws. Also, as acknowledged in the report, GEMA knew that a custodian had been designated to receive the Georgia Search and Rescue equipment delivered to the Atlanta warehouse by Fisher. Also, as stated in the draft audit report, “the [designated custodian] would reconcile actual physical Georgia Search and Rescue equipment delivered by Fisher against shipping records that the administrative employee signed. As a result of these efforts, the chief maintained a spreadsheet that identified all missing items . . . shipped to the Atlanta warehouse.” The process described in the report does not support a finding that the “chain-of-custody process” was “especially weak” nor the finding that controls over centralized purchases were not effective as stated in the “Centralized Purchases” section. The finding, as it pertains to the “Centralized Purchases” section, should be removed or restated to say the “controls were not sufficient.”

Auditor's Finding 3:

Controls over Monitoring Subgrantees were not Effective.

Executive Summary of Response to Auditor's Finding 3:

The State of Georgia does not concur with the finding that controls over monitoring subgrantees were not effective. The State has an effective monitoring program for its subgrantees by use of the GEMA program managers and All Hazards Councils and by desk monitoring by GEMA staff. However, the State does concur that the monitoring program was not comprehensive and has begun enhancing its monitoring capacity to include site visits and formal documentation.

The State concurs with the recommendations. The State will continue to assure that the recommendations will be included in contracts with subrecipients of grant funding and implement performance measures to assure compliance by the subrecipients.

Georgia's Response to Auditor's Finding 3:

The State of Georgia does not concur with Auditor's Finding 3 for the following reasons:

Georgia has implemented a monitoring program. The State acknowledges that it is in the early implementation stages of this program. Initially, more emphasis was placed on establishment of the Homeland Security Grant Program and the awarding of subgrants. During this time, the State relied predominantly on desk monitoring and monitoring activities of the GEMA program managers and the All Hazards Councils. The first grant period during which major capital was infused into the State by the grant program was in 2002, just after September 11, 2001, when, by general agreement at all levels of government, the emphasis of the program was to enhance capabilities as quickly and efficiently as possible. The State will be further enhancing its monitoring capacity by executing a comprehensive monitoring package during the current program year. The GEMA program managers will continue to monitor the subgrantees, and desktop monitoring will continue.

The State does have close-out processes and procedures. While the processes and procedures may not be efficient, they do exist. The State determines future funding and/or equipment needs through communications with the subgrantees regarding both progress payments and final payments. The State assesses the status of the subgrantee's project and budget at those times. If all equipment purchases have been made and there are funds remaining, the subgrantee generally requests additional purchases against the remaining funds. The need is assessed. If approved, budget revisions are made which do not allow the closure of the subgrant at that time. This process occurs frequently. Although the closure process is not efficient, there is a process in place which allows GEMA "to determine the amount of unused grants funds and re-obligate them to other funding priorities..."

Subgrantees are required to submit written Progress Reports. However, as stated above, the constant communication between the State and the subgrantees allows the State to make determinations to re-obligate funds "regarding unused or outstanding obligation amounts." Currently, more effective

controls have been put in place within the State to more accurately monitor the submittal of written progress reports.

The Audit Report discussion of “Inaccurate and Untimely Obligation Information” is not accurate. The State does “maintain controls over the obligation of funds awarded to the local jurisdictions from the time of the award through the obligation and expenditure process to the liquidation and closeout process.” Obligation and expenditure data is submitted to GEMA by an independent contractor that tracks funds based on approved budget worksheets. This information is updated weekly and is available to access through use of common network drives for the agency as a whole.

The State concurs with the recommendations. The subgrantee agreements signed by recipients of grant funding include their agreement to comply with all requirements included in the grant guidance as well as the special conditions included with the State’s award. The subgrantees are also under contract to comply with all requirements of the relevant Financial Guide governing the grant, including requirements for inventories, audits, and financial reporting. The State will continue to assure that the recommendations will be included in contracts with subrecipients of grant funding and take performance measures to assure compliance by the subrecipients.

Auditor’s Finding 4:

Controls over Claimed Costs were not Effective.

Executive Summary of Response to Auditor’s Finding 4:

The State of Georgia does not concur with Auditor’s Finding 4. Management and Administration (M&A) funding expenditures represent actual time spent managing and administering the Homeland Security Grants, and the State is addressing the issue of Period of Performance Monitoring.

The State concurs with Recommendation 1. The State has and will continue to follow the actions recommended.

The State does not concur with Recommendation 2 for the reason that no amount of grant funds should be disallowed. The government did not incur costs not attributable to grant performance.

Georgia’s Response to Auditor’s Finding 4:

The State of Georgia does not concur with Auditor’s Finding 4 for the following reasons:

The Audit Report fails to acknowledge that Georgia is currently implementing new procedures for the recording of management and administration (M&A) expenditures, that the aggregate allocation of M&A expenditures represents the actual time spent working on Homeland Security Grants, and that the State is addressing the issue of Period Performance Monitoring.

Regarding Acquisition Methods, state agencies and local governments are legally required to accept lowest responsive bids.

The statement that GEMA “may have” incurred costs not attributable to Georgia’s grant performance and “may have” incurred costs that were not economical or within a competitive market-rate range are not findings supporting the conclusion that controls over claimed costs were not effective. The recommendations regarding compliance with the OJP Financial Guide would only be applicable to DHS grants prior to FY 2006 when a new financial guide was issued for the Homeland Security Grant Program.

As stated in the Executive Summary above, the State concurs with Recommendation 1 since it has been compliant with this recommendation and will continue to comply.

The State does not concur with Recommendation 2. Even the finding does not show any misconduct or misuse of funding by the State. The M&A expenditures represent actual time spent managing and administering the grants.

Auditor’s Finding 5:

Funds were not Properly or Timely Allocated

Executive Summary of Response to Auditor’s Finding 5:

The State of Georgia does not concur with Auditor’s Finding 5.

The findings regarding GMAG and the LETPP funding allocations are not supported by the facts. Under Georgia law, O.C.G.A. §25-6-2, the Georgia Mutual Aid Group is a local unit of government, and the State complied with grant guidance in awarding local share funding to the local unit of government. The clear language of the Georgia statute and the facts presented by the State show that a portion of the 80% local share funding was properly allocated to GMAG as a local unit of government.

The federal awarding agency approved the process by which the LETPP funding was retained by the state for use on behalf of local jurisdictions. The local jurisdictions agreed to the expenditure of local funds by the state on behalf of the local units of government. The State complied with all grant requirements in this instance.

The awarding federal agency rescinded the requirement to obligate funds within 60 days for the FY 2003 Part 2 funds. The obligation period for the FY 2003 Part 1 funds were set by the Grant Adjustment Notices as each budget was approved by ODP, not measured by the Grant Award date. The Auditor’s findings related to this issue do not support the conclusion that the State failed to comply with the obligation timeliness requirements.

The State does not concur with the Recommendations because the State was not noncompliant. The State did not award local share funds to non-local jurisdictions, and the State met the grant timeline requirements set by the federal awarding agency.

Georgia's Response to Auditor's Finding 5:

The State of Georgia does not concur with Auditor's Finding 5 for the following reasons:

All language regarding the 80% local obligation requirement should be deleted. The Official Code of Georgia Annotated (OCGA) §25-6-2 defines a mutual aid group such as Georgia Mutual Aid Group (GMAG) as two or more jurisdictions authorizing "their respective fire departments to render aid and assistance in the extinguishment of fires or other immediate response emergencies outside of their respective jurisdictions . . ." Furthermore OCGA §25-6-1 defines jurisdiction as " . . . a local governmental subdivision . . ." Because GMAG is a mutual aid group rendering aid and assistance in immediate response emergencies for local jurisdictions and is composed of local governmental subdivisions, it is incorrect to say GMAG does not meet the definition of a local governmental jurisdiction and does not enable the State to comply with the 80% obligation requirement. The Audit finding ignores the clear language of the state statute. The funding was not allocated to GMAG on behalf of local jurisdictions, but to GMAG as a local unit of government.

All language regarding the State not obligating FY 2004 LETPP grant funds properly should be deleted. The State submitted to the auditor, as an enclosure to letter from Charley English, GEMA Director, dated May 2, 2007, a copy of an e-mail from the U.S. Department of Homeland Security specifically approving the procurement process used to obligate the FY 2004 LETPP grant funds. The discussion in the Audit Report regarding the Law Enforcement Terrorism Prevention Program funding used by the State on behalf of local units of government fails to acknowledge the prior approval of the procurement process by DHS as evidenced by the e-mail referred to above. The State executed memoranda of understanding with eight local jurisdictions to implement a Computerized Criminal History project utilizing the Georgia Bureau of Investigation's system. ODP approved this method of obligation prior to the implementation of the project. All eight jurisdictions were agreeable to this method of obligation. The discussion in the Audit Report regarding the initiation of the request and the "written requests," also ignores the prior approval by DHS and no authority is given to show noncompliance with the guidance. The Audit Report states "The requirements further stipulated that *if requested in writing by a local unit of government* (our emphasis), the state may retain some or all of the local unit of government's allocation . . ." In the next paragraph, the Audit Report acknowledges that the State entered into Memorandums of Understanding (MOUs) with eight local jurisdictions. Signing an MOU with the State for the state to retain and use funding on behalf of local jurisdiction *is a request in writing*. This procurement model was used to ensure uniformity, consistency and timeliness in the implementation of the project. per the agreed upon ODP approved memorandum of understanding.

All language regarding the SAA not meeting the 45-day obligation period should be deleted. The State submitted to the auditor as an enclosure to letter dated May 2, 2007 from Charley English, GEMA Director, a copy of a Grant Adjustment Notification from the U.S. Department of Homeland Security rescinding the special condition to obligate within 45 days. The award letters for FY 2003

Part 1 could not be mailed out prior to approval by ODP of the detailed budget worksheet and project narrative, and, upon approval, ODP started an obligation period for the particular approved subawards.

The State does not concur with the Recommendations because the State was not noncompliant. The State did not award local share funds to non-local jurisdictions, and the State met the grant timeline requirements of the federal awarding agency.

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