



# Department of Homeland Security Office of Inspector General

## Annual Report to Congress on States' and Urban Areas' Management of Homeland Security Grant Programs Fiscal Year 2010





Homeland  
Security

DEC 10 2010

### 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 addresses the annual requirement to report to Congress on the results of audits of individual states' management of State Homeland Security Program and Urban Areas Security Initiatives grants. It is a summary of the findings from four individual audit reports, including recommendations to the Federal Emergency Management Agency for states to take corrective measures and actions to improve their grant management programs.

We trust 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 blue ink that reads "Anne L. Richards".

Anne L. Richards  
Assistant Inspector General for Audits

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## Abbreviations

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

# OIG

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*Department of Homeland Security  
Office of Inspector General*

## **Executive Summary**

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security, Office of Inspector General, to audit individual states' management of State Homeland Security Program and Urban Areas Security Initiative grants, and annually submit to Congress a report summarizing the results of those audits. This report responds to the annual reporting requirement and summarizes audits of four states completed in Fiscal Year 2010.

The objectives of the state audits were to determine whether each state: (1) effectively and efficiently implemented the grant programs; (2) achieved program goals; and (3) spent funds in accordance with grant requirements. The audits included a review of approximately \$218 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded to the four states during Fiscal Years 2005 through 2007.

Generally, the states did an efficient and effective job of administering the grant management program requirements, distributing grant funds, and ensuring that all of the available funds were used. The states used reasonable methodologies to assess threats, vulnerabilities, capabilities, and needs, and allocated funds accordingly. The states complied with cash management and status reporting requirements, and procurement methodologies conformed to the states' strategies. The states generally spent funds in accordance with grant requirements and State-established priorities. We also identified an effective tool and practice used by one of the states.

We identified two areas for improvement: strategic planning and oversight of grant activities. We also identified \$46,000 in questioned costs. We made 19 recommendations addressing these areas. The Federal Emergency Management Agency concurred with all recommendations, and corrective actions are underway to implement them.

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## Background

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security (DHS), Office of the Inspector General (OIG), to annually submit to Congress a report summarizing completed audits of State Homeland Security Program grants and Urban Areas Security Initiatives grants awarded to states, territories, and the District of Columbia. This report summarizes our Fiscal Year (FY) 2010 audits of the management of Homeland Security Grants awarded to four states as indicated in Table 1. Internet links to the reports are included in Appendix B.

**Table 1**

<b>Audits Included In This Report</b>				
<b>State</b>	<b>Fiscal Years Reviewed</b>	<b>Homeland Security Grant Awards (000s)</b>	<b>Audited SHSP Grant Awards (000s)</b>	<b>Audited UASI Grant Awards (000s)</b>
West Virginia	2005 - 2007	\$38,295	\$23,268	No UASI Grants
South Carolina	2005 - 2007	\$43,994	\$25,125	No UASI Grants
Missouri	2005 - 2007	\$121,055	\$45,759	\$51,304
Maryland	2005 - 2007	\$99,211	\$39,786	\$33,018
<b>Subtotal</b>			\$133,938	\$84,322
<b>Total</b>		\$302,555	\$218,260	

### Homeland Security Grant Program

The Homeland Security Grant Program provides federal funding to help states and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism. The program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administrative costs. Depending on the fiscal year, the program included some or all of the following: the State Homeland Security Program, the Urban Areas Security Initiative, the Law Enforcement Terrorism Prevention Program, the Citizen Corps Program, the Metropolitan

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Medical Response System Program, and the Emergency Management Performance Grant Program. The following are descriptions of the two programs addressed in this report:

- **State Homeland Security Program** provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from all-hazards. The program supports the implementation of the State Homeland Security Strategy to address identified planning, equipment, training, and exercise needs.
- **Urban Areas Security Initiative** provides financial assistance to address the unique planning, equipment, training, and exercise needs of high-risk urban areas, and to assist them in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism. Allowable costs for the urban areas are consistent with the State Homeland Security Program, and funding is expended based on the Urban Area Homeland Security Strategies.

The objectives of the individual state audits were to determine whether the states implemented the grant programs effectively and efficiently, achieved their program goals, and spent funds in accordance with grant requirements. Nine researchable questions established the framework for the audits and were related to the State's planning, management, and evaluations of grant activities. Appendices A and C provide additional details on the purpose, scope, and methodology of this report and the state audits, including the nine researchable questions.

## **Results of Audit**

Generally, our audits showed that the states did an efficient and effective job of managing grant programs requirements, distributing grant funds, and ensuring that all of the available funds were used. The states used reasonable methodologies to assess threats, vulnerabilities, capabilities, and needs. The states complied with cash management and status reporting requirements, and procurement methodologies were in conformance with the states' strategies. The states generally spent the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities, and priorities.

However, the audit reports identified two areas for improvement: strategic planning and oversight of grant activities. We made 19 recommendations

in these areas to the Federal Emergency Management Agency (FEMA) that, if implemented, should strengthen program management, performance, and oversight. FEMA concurred with all of the recommendations, categorized in Table 2 below, and is taking corrective actions to implement them. The recommendations will remain open pending completion of corrective actions by FEMA.

**Table 2**

<b>Status of Audit Recommendations</b>					
<b>Areas for Improvement</b>	<b>No. Issued</b>	<b>Agency Concurrence</b>		<b>Status:</b>	
		<b>Yes</b>	<b>No</b>	<b>Open</b>	<b>Closed</b>
<b>I. States Need to Improve Their Strategic Planning Processes</b>					
Homeland Security Strategy Was Outdated	1	1	0	1	
Strategy Lacked Measurable and Achievable Goals and Objectives	3	3	0	2	1
Processes to Collect or Analyze Performance Data Required Updating and Refinement	3	3	0	3	
<b>II. States Need to Improve Their Oversight of Grant Activities</b>					
FY 2005 Financial Status Reports Were Inaccurate	2	2	0	2	
Quarterly Financial Status Reports Were Not Submitted Timely	2	2	0		2
State's Oversight of Subgrantees Needed Improvement	4	4	0	3	1
Reimbursements Not Supported by Invoices	1	1	0	1	
Withheld Portion of Local Units' Funding Without Required Memorandums of Understanding	1	1	0		1
Grant Funds Were Not Obligated Timely	1	1	0	1	
Detailed Equipment List Was Not Maintained	1	1	0		1
<b>Total</b>	<b>19</b>	<b>19</b>	<b>0</b>	<b>13</b>	<b>6</b>

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## **States Need to Improve Their Strategic Planning Processes**

Our audit reports identified system weaknesses in the states' strategic planning processes. The strategies were outdated, lacked fully measurable goals and objectives, or required updating to processes to collect and analyze performance data.

### **The State Homeland Security Strategy Was Outdated**

The State of Maryland had not revised its State Homeland Security Strategy even though the State's priorities have changed. The State's Homeland Security Strategy was developed in 2003 and revised in 2007, and included 17 broad-based goals, 53 objectives, and multiple implementation steps with target dates for achieving the objectives. However, the State began to transition in 2006 from the FEMA-approved strategy to 12 Core Priorities established by the newly elected Governor. Not all of the Governor's core priorities were reflected in the current FEMA-approved strategy, thereby requiring an update. While the Governor's 12 Core Priorities have become the State's strategic focus to address homeland security, the 12 priorities had not been developed into a formal strategic plan. Subsequent to the audit period, the State submitted, and FEMA approved, an updated strategy.

### **States Lacked Fully Measurable and Achievable Statewide Goals and Objectives**

The Homeland Security Strategies for the states of Maryland, Missouri, and South Carolina lacked fully measurable and achievable statewide goals and objectives. Consequently, the States' strategic goals did not provide a basis for measuring progress during FYs 2005 through 2007.

For the State of Maryland, neither the FEMA-approved State Homeland Security Strategy, nor the Governor's 12 Core Priorities included specific, measurable, results-oriented, and time-limited objectives.

Similar deficiencies were found in the States of Missouri and South Carolina statewide goals and objectives in their Homeland Security Strategies. In addition to not being measurable, some objectives may not be achievable or realistic because, as written, they were contingent on the availability of federal funding and guidance.



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Without measurable goals and objectives and a mechanism to collect objective, results-oriented data, the States did not have a basis for evaluating the effectiveness of grant fund expenditures on the response capabilities of first responders. Also, the States could not consider progress already made towards goals and objectives when making funding and management decisions about future grant expenditures.

**States Processes to Collect or Analyze Performance Data Required Updating and Refinement**

The States of South Carolina, Missouri, Maryland, and West Virginia did not have mechanisms to collect performance data, nor any procedures to analyze such data and maintain documentation to support the evaluation. Without the mechanism and proper supporting documentation, there is no assurance the information is accurate.

In preparing the South Carolina annual threat and vulnerability assessments, the State did not document and retain supporting data such as emergency call logs for fire trucks and ambulances as required by FEMA. While the State did form Counterterrorism Coordinating Councils to develop, define, and review the State strategy and goals, it did not create a mechanism to collect data, nor any procedures to analyze such data and maintain documentation to support the evaluation. The lack of supporting documentation maintained by the State prevented individuals not present at the time the assessment is performed, such as auditors and FEMA, as well as the State Administrative Agency, from validating the assessments and ensuring consistency in the assessment information from year to year. Without documentation, the State cannot be assured of the accuracy of the assessments and therefore, cannot determine whether progress has been made towards preventing, responding, and recovering from acts of terrorism.

The State of Maryland did not have an adequate process to conduct a review and update of its Homeland Security strategy's goals and objectives, or to ensure that local input is incorporated into the strategy. The Maryland State Administrative Agency conducted annual regional workshops as a part of the needs assessment phase of the strategic planning process. However, the needs assessment phase culminated in each jurisdiction's "wish list" for Homeland Security projects without regard to budget constraints or regional and State of Maryland needs. The Maryland State Administrative

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Agency monitored subgrantees' homeland security activities in support of the State's Strategy; however, data related to progress made for ongoing projects or completed projects was not collected or documented. Without a process to collect and analyze performance data, the State Administrative Agency was not able to provide adequate documentation demonstrating the progress that has been made toward achieving the State of Maryland's homeland security goals.

The State of West Virginia did not perform an analysis of capabilities and performance with respect to equipment purchased and training obtained. Specifically, there was no evidence that monthly subgrantee reports or After Action Reports were reviewed and analyzed to ensure that the goals and objectives of the grant were being achieved or were still in line with the real threats and vulnerabilities of the State. In addition, the State of West Virginia did not have written policies and procedures requiring analysis of capabilities and performance, and the documentation of such, in order to determine improvements in performance and progress towards achieving program goals. As a result, there was no assurance that the equipment purchased and the training conducted was in accordance with the specific goals and objectives of the State Strategy.

The State of West Virginia was unable to provide documentation to support the identification of primary threats and vulnerabilities, and the evidence used to measure the risk of threats and vulnerabilities. While the State Administrative Agency did use committees and subcommittees to evaluate threats and vulnerabilities, it did not create and maintain documentation to support the evaluations. This occurred because the State did not have written policies and procedures in place to require documentation of the primary threats and vulnerabilities identified. Lack of written policies and procedures on documenting the identification of primary threats and vulnerabilities and the corresponding risk assessment prevented the State of West Virginia from compiling necessary supporting documentation, reducing assurance that the information is accurate. Without accurate risk assessments, the State may be hindered in evaluating progress in mitigating these risks.

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## **States Need to Improve Their Oversight of Grant Activities**

Our audits found weakness in the States' oversight in grant activities. The weaknesses included inaccurate financial status reports, untimely quarterly financial reports, deficiencies in monitoring subgrantee activities, unsupported reimbursement request, improper withholding of subgrantee funds, untimely obligation of funds, and problems with equipment inventories.

### **FY 2005 Financial Status Reports Were Inaccurate**

The State of Maryland's FY 2005 Grant Financial Status Report was inaccurate because it did not maintain adequate financial management controls for information on federal and recipient outlays in the Homeland Security Grant program. In its FY 2005 financial status reports, the State erroneously included the FY 2006 cost-share match with the FY 2005 cost-share match, resulting in a \$1.0 million deficit in its cost-share. This occurred because the responsibility for program administration and fiscal management over the Homeland Security Grants Program was transferred from one State agency to another, eliminating adequate segregation of duties to ensure accurate accounting and reporting of the financial activities, drawdowns were not independently reconciled, reviewed, and properly approved prior to being executed. Independent reconciliation would likely have identified the erroneous cost-share match.

### **Quarterly Financial Status Reports Were Not Submitted Timely**

The States of Maryland, South Carolina, and West Virginia did not submit timely Financial Status Reports to FEMA. The state-prepared quarterly Financial Status Reports are designed to provide FEMA with financial information about the grant program expenditures that it can use to monitor grant implementation. The report is due within 30 days of the end of each calendar quarter (a change from 45 days in FY 2005).

During FY 2005, the South Carolina Law Enforcement Division submitted 16 of 30 Financial Status Reports between 1 to 17 days late because it miscalculated the report due dates. Additionally, the Division did not revise its procedures to effectively and consistently meet the new 30-day requirement for FYs 2006 and 2007 grants.

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The State of West Virginia State submitted 9 of 33 Financial Status Reports late. For FY 2005, a change in the agency designated as the State Administrative Agency caused delays in submission of the Financial Status Reports. State Administrative Agency officials stated that reports were delayed for FYs 2006 and 2007 because the State did not become aware of the change in the due date in a timely manner. The State had subsequently taken action to adequately address the issue.

The Maryland Emergency Management Agency did not submit six Financial Status Reports for Fiscal Years 2005 through 2007 within the required filing period. As a result, the Maryland Emergency Management Agency was at risk of future grant funds and drawdowns being withheld, which could affect its emergency preparedness and incidence response readiness.

Delays in the submission of Financial Status Reports may hamper FEMA's ability to effectively and efficiently monitor program expenditures and may prevent the State from drawing down funds in a timely manner, and ultimately affects the functioning of the program.

### **States' Oversight of Subgrantees Needs Improvement**

Necessary improvements in subgrantee monitoring were identified during the audits of the states of Maryland and Missouri. The states did not consistently enforce subgrantee financial and performance reporting requirements, did not document the status of subgrantees' performance during site visits, and were unable to assure compliance with federal regulations with respect to its responsibility to provide day-to-day management oversight.

The State of Maryland Administrative Agency did not enforce requirements for subgrantees to submit quarterly financial and performance reports, nor document subgrantee performance and progress towards program goals. The State Administrative Agency implemented its monitoring program in 2006; however, the State did not enforce the subgrantee requirements established under its monitoring program. As a result, the State did not ensure that its subgrantees program goals were being achieved and that funds were being expended as intended for FYs 2005 through 2007.

During FYs 2005 through 2007, the State of Missouri did not perform on-site subgrantee monitoring of the State Homeland Security Program and Urban Areas Security Initiative grants to

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ensure subgrantees' performance was in accordance with program goals, and that subgrantees were administering federal awards in compliance with federal and state requirements. The State's lack of effective on-site monitoring of Homeland Security Grant Programs was previously reported in the State of Missouri Single Audits in 2005, 2006, and 2007.

Without effective subgrantee monitoring, the states cannot ensure that program goals are being met and assets purchased are used as intended. Also the states cannot ensure subgrantee compliance with grant requirements.

### **Reimbursements Not Supported by Invoices**

The State of Maryland did not have the required documentation to support over \$46,000 in expenditures reimbursed under the State of Maryland's Homeland Security Program. Purchase orders were the only support provided in some instances, instead of the required third party invoices. For larger reimbursement requests with a significant number of expenditures, all documentation had not been provided at the time the request was processed for payment. Without proper supporting documentation, there is an increased risk of unauthorized or unsupported expenditures being incurred or reimbursed.

### **State Withheld Portion of Local Units' Funding Without Required Memorandums of Understanding**

During FYs 2005 through 2007, the State of Missouri Administrative Agency withheld a total of \$3,628,080 in State Homeland Security Program grant funds from local units without the required written memorandums of understanding. Program Guidelines required the states to provide at least 80% of the total grant program amount to local units of governments. The State of Missouri, however, withheld grant funds each year from the initial 80% allotted to the local jurisdictions in order to centrally provide training and exercises for the local units of government, without proper supporting documentation. Without written memorandums of understanding, we cannot determine whether local units of government gave authorization to the State to spend a certain portion of their grants funds on training and exercises. Additionally, we cannot determine whether the intent of Congress to put control of funds with the local governments was satisfied.

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### **Grants Funds Were Not Obligated Timely**

For FYs 2005 through 2007, the West Virginia State Administrative Agency did not obligate grant funds to subgrantees within 60 days of receipt from FEMA, as required. The average number of days to obligate grant funds ranges from 385 days to 692 days. Due to delays in allocating funds it was necessary for the State to request two extensions to grant performance periods for FY 2005 and one extension for FY 2006. While FEMA officials stated that the State had made good faith efforts during FYs 2005 to 2007 to obligate funds in a timelier manner, they recognized that there was room for continued improvement.

### **Detailed Equipment List Was Not Maintained**

Neither the State of West Virginia, nor its subgrantees, maintained a detailed equipment list that provided a full description of all assets purchased with grant funds. Although accounting records provided the details of the asset purchases, as reported in each reimbursement request package, these details did not include all the information required by FEMA guidance and regulations and the West Virginia Homeland Security Program Sub-Grant Administrative Manual. The State only maintained a list of subgrantee programs and the related funding allocations. Without a readily available, detailed equipment list for each subgrantee, the State Administrative Agency cannot effectively account for equipment state-wide to ensure that the State is prepared to handle a major catastrophe. Further, without such information, the State Administrative Agency may not be able to determine whether equipment purchases are duplicative or help meet program goals. The State had subsequently taken action to adequately address the issue.

## **Best Practices**

During the course of these performance audits, a potentially effective tool and practice was identified for possible use by, and sharing with, other states and jurisdictions. We believe the Federal Emergency Management Agency should consider evaluating its potential benefits to help improve grant management and preparedness.

### **Electronic Grants Management System May be a Best Practice**

The Missouri State Administrative Agency implemented a grants management tool known as the Electronic Grants Management

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System (the System) in 2005. The System has helped the State of Missouri overcome challenges in its critical mission to enhance preparedness and response capabilities. The System efficiently tracks and accounts for grant funds, links funds distribution to strategic goals and objectives, and accounts for equipment in accordance with applicable Federal Acquisition Regulations. Additionally, the System allows the State to integrate administration of Homeland Security Grant Programs with existing information systems enabling critical resource data sharing.

Users of the Electronic Grants Management System can:

- Track and display distribution of equipment, training, and other resources;
- Develop resource usage and sharing plans across jurisdictions;
- Display equipment and training provided in each jurisdiction;
- Estimate and assess equipment maintenance needs statewide;
- Audit selected jurisdictions based on the State Homeland Security Program and Urban Areas Security Initiative grants disbursements and reimbursements data; and
- Prepare planning budgets.

In summary, the System provides a comprehensive tool that removes traditional barriers to effective grants management and can be customized to the users' specifications.

## **Appendix A**

### **Purpose, Scope, and Methodology**

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The purpose of this report, prepared in accordance with Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, was to assess and summarize the audit reports completed during FY 2010 on State Homeland Security Program grants and Urban Areas Security Initiative grants awarded to states, territories, and the District of Columbia. Specifically, we were to determine (1) the number of audits conducted and completed; (2) whether findings are applicable to the mandate; (3) whether the funds awarded were used in accordance with the law, program guidance, and State homeland security plans and other applicable plans; and (4) the extent to which funds awarded enhanced the ability of a grantee to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism and other man-made disasters.

The audit reports included in this annual consolidated report to Congress were the result of four audits conducted by independent public accounting firms under contract to the Office of Inspector General. A citation and an internet link to each report are included in Appendix B.

The individual audits summarized in this report were conducted in accordance with the Government Auditing Standards as prescribed by the Comptroller General of the United States. No additional audit work was performed in preparing this report.



**Appendix B**  
**Audit Reports Included in this Report**

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<b>Report</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Internet Link</b>
The State of West Virginia's Management of State Homeland Security Grants Awarded During Fiscal Years 2005 through 2007	OIG-10-20	11/20/09	<a href="http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-20_Nov09.pdf">http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-20_Nov09.pdf</a>
The State of South Carolina's Management of State Homeland Security Program and Urban Areas Security Initiatives Grants Awarded During Fiscal Years 2005 through 2007	OIG-10-29	12/11/09	<a href="http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-29_Dec09.pdf">http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-29_Dec09.pdf</a>
The State of Missouri's Management of State Homeland Security Program and Urban Areas Security Initiatives Grants Awarded During Fiscal Years 2005 through 2007	OIG-10-33	01/06/10	<a href="http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-33_Jan10.pdf">http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-33_Jan10.pdf</a>
The State of Maryland's Management of State Homeland Security Grants Awarded During Fiscal Years 2005 through 2007	OIG-10-116	09/10/10	<a href="http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-116_Sep10.pdf">http://www.dhs.gov/xoig/assets/mgmtrpts/OIG_10-116_Sep10.pdf</a>

## **Appendix C**

### **Scope of State Grant Program Management Audits**

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The purpose of each individual state audit was to determine whether the state distributed and spent State Homeland Security Program and Urban Areas Security Initiative grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The goal of the audit was to identify problems and solutions that can help the state better prepare for and respond to threats and acts of terrorism. The audit further enabled us to answer the following nine researchable questions:

- Were measurable goals developed from plans?
- Do funded plans link all hazards capabilities to goals?
- Were funds and resources distributed based on goals?
- Does the State accurately measure risk?
- Does the State measure response capability?
- Can the State demonstrate improved performance?
- Were grants administered compliantly?
- Did the State monitor grant programs?
- What innovative practices can be used by other states?

The scope of the audit included the State Homeland Security Program and Urban Areas Security Initiative grants, where applicable, for Fiscal Years 2005, 2006, and 2007.

**Appendix D**  
**Report Distribution**

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