

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

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





Homeland  
Security

October 16, 2007

Preface

The Department of Homeland Security Office of Inspector General 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 Commonwealth of Pennsylvania's management of State Homeland Security Grants awarded during Fiscal Years 2002 through 2004. We contracted with the independent public accounting firm of Williams, Adley & Company, LLP to perform the audit. The contract required that Williams, Adley & Company, LLP perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. Williams, Adley & Company, LLP's report identified seven areas where the Commonwealth of Pennsylvania's management of the grant funds could be improved. Williams, Adley & Company, LLP is responsible for the attached auditor's report dated August 28, 2007, and the conclusions expressed in the report.

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

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

Richard L. Skinner  
Inspector General



**Williams Adley & Company, LLP**

Certified Public Accountants/Financial Management Consultants

August 28, 2007

Mr. James L. Taylor  
Deputy Inspector General  
Office of Inspector General  
Department of Homeland Security  
245 Murray Drive, S.W. Bldg. 410  
Washington, D.C. 20528

Dear Mr. Taylor:

Williams, Adley & Company, LLP performed an audit of the Commonwealth of Pennsylvania's management of the Department of Homeland Security's State Homeland Security Grants for Fiscal Years 2002, 2003, and 2004. The audit was performed in accordance with our Task Order TPD-ARC-06-K-00209 dated May 17, 2006.

This report presents the results of the audit and includes recommendations to help improve the Commonwealth'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 Commonwealth, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the Commonwealth of Pennsylvania'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. Should you have any questions, or if we can be of any further assistance, please call me at (202) 371-1397.

Sincerely,

Williams, Adley & Company, LLP

Charbet M. Duckett, CPA  
Partner

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**Abbreviations**

DHS	Department of Homeland Security
FY	Fiscal Year
OIG	Office of Inspector General

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## Executive Summary

Williams, Adley & Company, LLP completed an audit of the Department of Homeland Security's (DHS) State Homeland Security Grants awarded to the Commonwealth of Pennsylvania. The objectives of the audit were to determine whether the Commonwealth (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the Commonwealth of Pennsylvania prepare for and respond to terrorist attacks. (See Appendix A for additional details on the objectives, scope, and methodology of this audit.)

The audit included a review of approximately \$150.6 million awarded by the DHS to the Commonwealth of Pennsylvania from the Fiscal Year (FY) 2002 State Domestic Preparedness Program, the FY 2003 State Homeland Security Grant Program Parts I and II, and the FY 2004 State Homeland Security Grant Program. The Pennsylvania Emergency Management Agency managed the programs, commonly referred to as first responder grant programs.

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 Commonwealth of Pennsylvania's financial statements or the funds claimed in the Financial Status Reports submitted to DHS.

Overall, we determined that the Commonwealth (1) generally implemented the first responder grant programs in an effective and efficient manner; (2) did not measure whether it achieved the goals of the programs; and (3) generally spent the funds according to grant requirements. However, the following exceptions and areas of non-compliance detailed in the body of this report warrant attention. The Pennsylvania Emergency Management Agency was not in compliance with the grant requirements when it:

- had a burdensome, time consuming, and inefficient administrative subgrant award process;
- did not implement a system to monitor and measure improved preparedness and subrecipient performance;
- did not provide access to supporting documentation for expenditures charged to federal funds;
- acquired various unauthorized warranties, maintenance agreements, spare parts, and other expenses totaling \$721,317;
- submitted 16 of 25 Categorical Assistance Progress Reports late and 1 was not submitted;

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- did not submit the final FY 2002 Financial Status Report timely; and
  - reported unliquidated obligations on the Financial Status Reports that were not in agreement with the accounting system for six Financial Status Reports.

We have developed 13 recommendations for the Assistant Administrator, Grant Programs Directorate within the Federal Emergency Management Agency, to improve the overall effectiveness of the Pennsylvania Emergency Management Agency's operations. Significant recommendations include ensuring that the Pennsylvania Emergency Management Agency:

- evaluate its organizational structure and focus to determine if the current structure is sufficient to meet its domestic preparedness responsibilities and requirements;
- develop and implement a system to monitor and measure improved preparedness of the Commonwealth;
- return to DHS unauthorized amounts totaling \$721,317;
- develop policies and procedures that ensure the proper and timely submission of progress and financial reports; and
- implement procedures to identify and document variances between accounting system financial data and the Financial Status Reports.

The details of all findings, as well as the 13 recommendations, are described in the *Findings and Recommendations* section of the report.

The Grant Programs Directorate officials within the Federal Emergency Management Agency and the Commonwealth of Pennsylvania officials provided verbal concurrences with the recommendations contained in this report at their exit conference on July 31, 2007 and July 17, 2007, respectively. Additionally, the Commonwealth provided a written response to the recommendations on August 1, 2007. See the full text of their response in Appendix C. The Grant Programs Directorate will provide corrective actions and a plan to implement those corrective actions within 90 days of the date of this report.

While this report addresses the Commonwealth of Pennsylvania's management of the grant programs listed above, we also identified potential opportunities for improved oversight by the Grant Programs Directorate within the Federal Emergency Management Agency. These opportunities will be considered by the Office of Inspector General for reporting under separate cover when the results of other State audits are available.

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## Background

The Homeland Security Grant Program is a federal assistance grant program administered by the U.S. Department of Homeland Security, Grant Programs Directorate within the Federal Emergency Management Agency. This grant program originated in the Office for Domestic Preparedness, which transferred from the Department of Justice to DHS in March 2003. The Office for Domestic Preparedness was subsequently consolidated into the Office of State and Local Government Coordination and Preparedness. When the Secretary reorganized that office, the grant program was moved to Office of Grants and Training, which later became part of the Federal Emergency Management Agency. The DHS is responsible for enhancing the capabilities of state and local jurisdictions to respond to, and mitigate the consequences of, incidents of domestic terrorism. The DHS provides grant funds to aid public safety personnel (e.g., first responders) acquiring specialized training, exercises, and equipment necessary to safely respond to and manage terrorist incidents involving weapons of mass destruction. First responders include firefighters, police, paramedics, and others. The grants are collectively referred to as “first responder” grants.

The Homeland Security Grant Program encompasses several different federal grant programs, including the State Domestic Preparedness Program and the State Homeland Security Grant Program. 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 the Commonwealth of Pennsylvania designated the Pennsylvania Emergency Management Agency to serve as the State Administrative Agency.

The Commonwealth of Pennsylvania received approximately \$150.6 million in funds from the Homeland Security Grants Program during FYs 2002 through 2004. During FYs 2002 to 2004, the Pennsylvania Emergency Management Agency awarded subgrants to 9 Regional Counter-Terrorism Task Forces and 11 Commonwealth agencies.

### **First Responder Grant Programs**

**The FY 2002 State Domestic Preparedness Program** grants provided financial assistance to each of the nation’s states, including U.S. Territories, the District of Columbia and the Commonwealth of Puerto Rico. This financial assistance was provided for the 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; for the protection of critical infrastructure; for costs related to the design, development, conduct,

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and evaluation of weapons of mass destruction exercises; and for administrative costs associated with the implementation of the statewide domestic preparedness strategies.

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

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

**The FY 2004 State Homeland Security Grant Program** provided funding for specialized equipment, exercises, training, and planning costs associated with updating and implementing each state's homeland security strategy.

### **Grant Funding**

The Commonwealth of Pennsylvania received approximately \$150.6 million in funds from the Homeland Security Grant Program during FYs 2002 through 2004. See Table 1 for a breakdown by year and funded activity. The awards were allocated to various State agencies and the nine Regional Counter-Terrorism Task Forces (the Regional Task Forces). The available funding in the FY 2002 Grant Program was used to purchase specialized equipment. The Commonwealth used the FY 2003 Grant Program and the FY 2004 Grant Program funds to purchase specialized emergency response equipment, training, and exercise activities, and to perform planning and administration for the Regional Task Forces.



**Table 1**

Pennsylvania Homeland Security Grant Awards FYs 2002 through 2004					
Grant Program (‘000s)					
Funded Activity	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	\$9,800	\$13,721	\$34,034	\$52,592	\$110,147
Exercise	466	3,258	7,503	N/A	11,227
Training	N/A	977	136	690	1,803
Administration	246	614	957	1,648	3,465
Critical Infrastructure	N/A	N/A	6,559	N/A	6,559
Law Enforcement Terrorism Prevention	N/A	N/A	N/A	16,300	16,300
Citizen Corps	N/A	N/A	N/A	1,141	1,141
<b>TOTALS</b>	<b>\$10,512</b>	<b>\$18,570</b>	<b>\$49,189</b>	<b>\$72,371</b>	<b>\$150,642</b>

### State Administrative Agency

State governors appoint a State Administrative Agency to administer the Homeland Security Grant Program. The State Administrative Agency is responsible for managing these grant programs according to established federal guidelines. The State Administrative Agency is also the pass-through agency for funds subgranted to local, regional, and other state government agencies.

The Governor of the Commonwealth of Pennsylvania designated the Pennsylvania Emergency Management Agency to serve as the State Administrative Agency and it has served as the State Administrative Agency since FY 1999. The Pennsylvania Emergency Management Agency is responsible for the coordination of all available Commonwealth resources to support county and local governments in the areas of civil defense, disaster mitigation, preparedness, planning, and response to and recovery from emergencies of any kind, natural or man-made. The Pennsylvania Emergency Management Agency supported a regional approach to its counterterrorism efforts; sustained, financially and logistically, the Commonwealth’s nine Regional Task Forces; fostered legislative support to adopt new state laws that enhance response capabilities; developed unique strategies to procure equipment more efficiently; and distributed funds to Commonwealth-level first responders.

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The Pennsylvania Emergency Management Agency coordinated efforts with the Governor's Office to pass into law the *Counterterrorism Planning, Preparedness and Response Act*, 2002 Pa. Laws 227. The Act defines responsibilities of the Pennsylvania Emergency Management Agency, Regional Task Forces, and Urban Search and Rescue Task Forces, and charges the Pennsylvania Emergency Management Agency, in coordination with the Regional Task Forces, to define the necessary components and composition of the specialized Regional Counterterrorism Response Team.

The Pennsylvania Emergency Management Agency employs approximately 160 persons, none of whom work full-time on homeland security, and has an annual budget of more than \$100 million. (See Appendix B for an organization chart of the Pennsylvania Emergency Management Agency, as provided by the Commonwealth.) The Comptroller's Office, as the finance and treasury arm of the Commonwealth, assists the Pennsylvania Emergency Management Agency by recording financial information in the general ledger, making payments for grant expenses, and preparing and submitting financial status reports. The Comptroller's Office does not report to the Pennsylvania Emergency Management Agency, nor do any of its employees work full-time on homeland security grants.

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## Results of Audit

The DHS awarded approximately \$150.6 million to the Commonwealth of Pennsylvania from the FY 2002 State Domestic Preparedness Program, the FY 2003 State Homeland Security Grant Program Parts I and II, and the FY 2004 State Homeland Security Grant Program. The Pennsylvania Emergency Management Agency managed the programs, commonly referred to as first responder grant programs.

The objectives of the audit were to determine whether the Commonwealth of Pennsylvania (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements.

In determining whether the Commonwealth of Pennsylvania had effectively and efficiently implemented the first responder grant programs, we answered the following researchable questions:

- Did the Commonwealth use reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs?

Yes, in the FY 2003 strategy development, the Commonwealth of Pennsylvania used acceptable methodologies for assessing threat, vulnerability, capability, and prioritized needs. The Pennsylvania Emergency Management Agency hired a national consulting firm to assist the Bureau of Plans within the Pennsylvania Emergency Management Agency, the Regional Task Forces, and the first responders to develop the Commonwealth's strategy. The team used jurisdictional assessments, intelligence reports, and other information to determine the key facilities/infrastructure, current capabilities, skills, experiences, and vulnerabilities. In its strategy manual, the Commonwealth used 11 disciplines to assess threats, vulnerabilities, capabilities, and prioritized needs. Those disciplines were (1) Emergency Management, (2) Emergency Medical Services, (3) Fire Services, (4) Governmental Administrative, (5) Hazardous Material, (6) Health Care, (7) Law Enforcement, (8) Public Health, (9) Public Safety Communications, (10) Public Works, and (11) Agriculture. These disciplines were addressed in the strategy. According to the Emergency Management Specialist, Bureau of Plans, the contractor spent 3 to 4 days with each Regional Task Force, including first responders, in order to compile the necessary information to enable the Pennsylvania Emergency Management Agency to put together its strategic plan. Additionally, the Regional Task Force officials stated that they participated in the compilation of the needs assessment and domestic preparedness strategies for the State/local

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communities for FYs 2002 through 2004. We determined that the greater allocation of funding in the grant years was received by Regional Task Forces that were the most heavily populated, had the most critical and vulnerable infrastructure, and needed the greatest capacity to address potential threats. Also, we interviewed the DHS Preparedness Officer who stated that “the State Homeland Security Strategy was developed in 2003 by the Commonwealth using a system and methodology developed by DHS to assess current levels of preparedness capabilities and identify gaps that would be addressed by the FY 2003 Strategy.”

- Did the Commonwealth appropriately allocate funding based on threats, vulnerabilities, capabilities, and priorities?

The Commonwealth considered five factors of threat and vulnerability to calculate the allocation of grant funds. Those factors were (1) Threat of Potential Weapon of Mass Destruction terrorist attacks in each region, (2) Vulnerability Assessment, (3) Agricultural Assessment, (4) Critical Infrastructure, and (5) Changes in the Risk Environment. The Commonwealth allocated federal funding to the Regional Task Forces, primarily based on population size. To ensure the accuracy of the population information used, we compared the population size with the census posted on the Bureau of Census website. We determined that the population used by the Commonwealth of Pennsylvania agreed with the Bureau of Census. Also, the Commonwealth officials identified and evaluated individual targets using the DHS methodology and planning factors that estimated population impacts of various chemical, biological, radioactive, nuclear, and explosive scenarios. Their analysis resulted in the top ten targets that became prioritized needs. With those areas identified, the Commonwealth planned for acquisition of equipment among the Regional Task Forces based on their capabilities to manage potential weapons of mass destruction, with a major emphasis upon population, vulnerable targets, and priorities.

- Are the Commonwealth’s procurement methodologies (centralized, local, or combination) reasonable and in conformance with its homeland security strategies?

Yes, the Commonwealth’s combination procurement system is reasonable and in conformance with its homeland security strategies. The Pennsylvania Emergency Management Agency determined early on that to be successful in procuring the goods and services required by the State Homeland Security Grant Program, it would need to control purchasing from a central location. Therefore, equipment purchases are centralized using the Department of General Services, but other goods and services, such as training, exercises, and payroll, are locally purchased by the

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Regional Task Forces or local jurisdictions. The centralized method of equipment procurement has proven to be an efficient, timely, and cost-effective approach. This approach relieved the financial and administrative burden from the local jurisdictions for expensive equipment purchases and allowed the procurement specialists to make bulk purchases using the State and federal purchasing/contracting methods, thereby resulting in potential cost savings to the Commonwealth.

- Was the time it took the Commonwealth to get funds/equipment to first responders (from the time the funds/equipment were available to the State until they were disbursed/provided to the jurisdiction) reasonable, and if not, what caused the delays?

No, the time taken by the Commonwealth was not reasonable. The Regional Task Forces did not receive funds directly. Generally, they are given obligation authority and are reimbursed for actual expenditures. The current administrative process for providing obligation authority is burdensome and time consuming and, therefore, inefficient, because of (1) the number and multilevel of personnel required for subgrant agreement approval, and (2) insufficient planning and preparation on the part of the Pennsylvania Emergency Management Agency. For FYs 2002, 2003 Part I, 2003 Part II, and 2004, the number of days from the grant award to the day the subgrantees were allowed to incur the obligations, were 247, 249, 273, and 251, respectively. These delays resulted in several requests for grant extensions. The program guidelines established the following standards for funds availability: 45 days for FY 2003 Parts I and II, and 60 days for FY 2004. Although the program guidelines did not establish a standard for FY 2002, we believe the 247 days timeframe is unreasonable. See further details of the finding and recommendation starting on page 12.

In determining whether the Commonwealth of Pennsylvania achieved the goals of the grant program, we answered the following researchable question:

- Has the Commonwealth developed and implemented plans to measure improvements in preparedness as a result of the grants and have such measurement efforts been effective?

No, the Commonwealth of Pennsylvania did not have written policies and procedures for performing monitoring activities of the Homeland Security Grant Program for FYs 2002 through 2004, nor did the Commonwealth measure improvements in its preparedness as a result of the grants. See further details of the finding and recommendations starting on page 14.

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In determining whether the Commonwealth of Pennsylvania spent funds in accordance with the grant requirements, we answered the following researchable questions:

- Does the State Administrative Agency have procedures in place to monitor the funds and activities at the local level to ensure that grant funds are spent according to grant requirements and the Commonwealth-established priorities? Have these monitoring procedures been implemented and are they effective?

No, the Pennsylvania Emergency Management Agency did not have written policies and procedures for performing monitoring activities. Although the Pennsylvania Emergency Management Agency reviewed reimbursement requests from the Regional Task Forces and entered into signed grant agreements with the Regional Task Forces, it did not require the Regional Task Forces to provide the semiannual reports required by the grant agreements. Further, the Pennsylvania Emergency Management Agency did not conduct site visits to ensure that the equipment items acquired were adequately controlled, used for their intended purposes, and adequately advanced interoperability for local and possibly the Commonwealth's response efforts. See further details of the finding and recommendations starting on page 14.

- Did the Commonwealth comply with cash management requirements and DHS' financial and status reporting requirements for the grant programs and did local jurisdictions spend grant funds advanced by the Commonwealth in a timely manner and, if not, what caused the delays?

No, the Pennsylvania Emergency Management Agency, which is responsible for all programmatic, financial, and administrative aspects of the grant program, did not fully comply with the reporting requirements. The Pennsylvania Emergency Management Agency officials did not submit 1 and also were not timely in the submission of 16 of 25 semiannual Categorical Assistance Progress Reports. See further details of the finding and recommendations starting on page 22.

Generally, the Financial Status Reports were prepared and submitted timely by the Commonwealth officials. Therefore, they experienced no time lags in the receipt of their reimbursements. However, in cooperation with the Pennsylvania Emergency Management Agency, the Comptroller's Office did not prepare the final Financial Status Report for the FY 2002 grant within the required 120-day period. Also, they did not properly report unliquidated obligations on 6 of 8 quarterly Financial Status Reports. The unliquidated obligations did not agree with the

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accounting system. See further details of the findings and recommendations starting on page 22 and page 25, respectively.

- Were grant funds used according to grant requirements and State-established priorities?

Generally, the Commonwealth of Pennsylvania used the grant funds according to the grant requirements and the established priorities, except for \$721,317 in unauthorized expenditures. Based on site visits to five Regional Task Force subgrant recipients and four first responder agencies, interviews with Pennsylvania Emergency Management Agency and the Comptroller's Office personnel, and a review of supporting documentation at the subgrant recipient level, we determined that \$40 million was spent according to the provisions of the program guidelines. The Commonwealth spent the grant funds for various types of training, information technology resources, personnel, and equipment for various organizations including, but not limited to, bomb squads, emergency management services, and police. We physically inspected various purchased equipment. However, our audit identified questioned costs for various unallowable expenditures charged to the grants for the FYs 2002, 2003 Part I, and 2004 totaling \$721,317 out of the total \$40.7 million tested. The federal government could require the State to repay any monies not expended according to the grant requirements. Additionally, noncompliance could place future homeland security grant funds at risk. See further details of the findings and recommendations starting on pages 17 and 22, respectively.

- Are there best practices that can be identified and shared with other states and DHS?

We identified the following effective tools and practices that should be reviewed by the DHS for possible use by and sharing with other states.

First, the division of the Commonwealth of Pennsylvania into nine Regional Task Forces has strengthened each region because it has unified subject matter experts, first responders, and support agencies who have examined their abilities to protect and plan the response to threats at critical infrastructures, transportation venues, community events, medical facilities, and chemical plants. Each Regional Task Force is comprised of five to eight member counties. All Regional Task Forces have a core county that maintains responsibility for conducting monthly meetings and managing the overarching homeland security initiatives within its jurisdiction. As a result of a monitoring visit performed by the DHS Preparedness Officer on July 13, 2005, for the period December 1, 2004, to June 30, 2005, the Preparedness Officer stated that the Pennsylvania

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Emergency Management Agency continues to be commended for developing and engaging in a model regional program. The Regional Counterterrorism Task Force structure works well throughout the Commonwealth and could serve as a model for the nation in regionalism.

Second, a centralized purchasing team, mandated by the Governor of Pennsylvania, was established to do all equipment purchasing for this grant. The Pennsylvania Emergency Management Agency established an Equipment Acquisition Team within its headquarters, staffed by acquisition personnel provided by the Office of the State Purchasing Agent and headed by an experienced senior Contracting Officer. The Equipment Acquisition Team consolidated requirements and purchased equipment for all first responders throughout the Commonwealth. The Commonwealth therefore was able to negotiate the best available contract prices; provide standardization, interoperability, and volume purchasing discounts; and relieve the financial and administrative burden from the individual local jurisdictions.

### ***Findings and Recommendations***

Overall, we determined that the Commonwealth (1) generally implemented the first responder grant programs in an effective and efficient manner, (2) did not measure whether it achieved the goals of the programs; and (3) generally spent the funds according to grant requirements. We also determined that the following exceptions warrant attention.

### **Improvements Are Needed in the Grant Allocation Process**

The administrative process was burdensome and time consuming and therefore, inefficient, because of the number and multiple levels of personnel required for subgrant agreement approval, and the insufficient planning and preparation on the part of the Pennsylvania Emergency Management Agency. Therefore, the Regional Task Forces had limited time to expend their obligation authority within the grant performance period. As a result, for each grant year from FYs 2002 through 2004, the Pennsylvania Emergency Management Agency requested at least one extension of the grant period of performance.

We determined that the administrative process was burdensome and time consuming. This occurred because of the number and multiple levels of personnel required for subgrant agreement approval, and insufficient planning and preparation on the part of the Pennsylvania Emergency Management Agency. The estimated allocation to the Commonwealth was usually known a few months prior to the grant award. However, only after the award had been granted and the Pennsylvania Emergency Management Agency had



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determined each Regional Task Force's allocation did the Pennsylvania Emergency Management Agency instruct the Regional Task Forces to develop a list of their equipment, training, and exercise needs. Using the allocated amount as a cost base, each Regional Task Force formulated its listing of equipment, training, and exercise needs. The listing was placed on the agenda of the next monthly meetings of each Regional Task Force for discussion and approval. After approval had been granted, each Regional Task Force submitted its listing and signed subgrant agreement to the Pennsylvania Emergency Management Agency. Generally, this list development and approval process took from 30 to 90 days from the initial grant award.

After receiving the signed agreement and listing, the Pennsylvania Emergency Management Agency reviewed each listing. If the listing complied with the program requirements and was within the allocated amount, the Pennsylvania Emergency Management Agency's Director of Administration approved the subgrant agreement and forwarded the subgrant agreement with the listing to the Comptroller's Office for review and approval. Finally, after the Comptroller's Office's approval, the documents were forwarded to the Office of the General Counsel and the Office of the Attorney General for final approval. We determined for FYs 2002 through 2004 that the average time from grant award receipt to signed subgrant agreement was 261 days. This process exceeded the program guideline requirements to allocate funds to the subgrantees.

The Program Guidelines and Application for the FYs 2003 Part I, 2003 Part II, and 2004 require that each State shall obligate not less than 80 percent of the total amount of the grant to local units of government within 45 days for FY 2003, and 60 days for FY 2004, respectively, after the grant award. The program guidelines for FY 2002 did not provide a timeline requirement.

The lengthy administrative process resulted in the Regional Task Forces having limited time to expend their obligation authority within the original grant performance period. For each grant year from FYs 2002 through 2004, the Pennsylvania Emergency Management Agency requested one to three extensions of the grant period of performance.

Number of Grant Extensions Requested per Fiscal Year

- 2002                                      1 extension
- 2003 Part I                                3 extensions
- 2003 Part II                               3 extensions
- 2004                                        2 extensions

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**Recommendation:**

We recommend that the Assistant Administrator, Grant Programs Directorate within the Federal Emergency Management Agency, advise the Director, Pennsylvania Emergency Management Agency, to assess its administrative approval process for subgrantee allocation and determine areas for improvements. One such efficiency could be for the Pennsylvania Emergency Management Agency to provide instructions prior to grant award, such that the preliminary equipment listings and budgets are completed before the grants are awarded, but after the allocation is known.

**Management Comments:**

We received verbal concurrences on the recommendation from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that the Pennsylvania Emergency Management Agency is currently mapping the entire DHS grant program, which will determine the grant flow process and identify gaps. The Pennsylvania Emergency Management Agency will develop a gap closure plan. It is anticipated that the mapping process will reduce the time frames associated with the grant signature processes and facilitate the timely expenditure of grant funds.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendation adequately, except for the timeframe for completion of the gap analysis. In the exit conference, the State officials verbally agreed to the recommendation, but this area was not included specifically in writing in the attached response (see appendix C).

The Grant Programs Directorate needs to provide corrective action for the recommendation and a plan to implement the action within 90 days.

**A System to Monitor and Measure Improved Preparedness and Subrecipient Performance Was Not Implemented**

The Pennsylvania Emergency Management Agency did not implement a system to monitor and measure improved preparedness and subrecipient performance. Therefore, the Pennsylvania Emergency Management Agency did not monitor the programmatic and financial effectiveness of its Statewide strategy. This condition occurred because the Pennsylvania Emergency Management Agency's organizational structure did not change as a result of the new homeland security grant responsibilities, including the assignment of monitoring responsibilities and the responsibility to measure improved

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preparedness. Consequently, the Commonwealth did not measure improved preparedness at an overall program or subrecipient level.

For the FYs 2002 through 2004 State Homeland Security Grant Programs, the Pennsylvania Emergency Management Agency did not establish a written plan to monitor, nor did they monitor, financial or programmatic performance or effectiveness against its agency strategic goals. Currently, the Pennsylvania Emergency Management Agency's monitoring activities lack the following:

- individual(s) responsible for performing and coordinating monitoring activities;
- written guidance or procedures for performing monitoring activities;
- written plan or schedule for monitoring;
- documented quantifiable goals or criteria to determine the effectiveness of purchases, training, and exercises implemented under each grant; and
- subrecipient monitoring of financial or programmatic performance or effectiveness.

Although defined monitoring was not performed, the Pennsylvania Emergency Management Agency submitted semiannual Categorical Assistance Progress Reports to DHS. However, the Categorical Assistance Progress Reports were not based on the goals and objectives of the Commonwealth's Domestic Preparedness Strategy and were not used as a tool to gauge enhanced preparedness. In the FY 2005 single audit report, the auditors reported the lack of site visits and monitoring of the Regional Task Forces. As a result, in October 2006, the Pennsylvania Emergency Management Agency began visiting the Regional Task Forces to monitor activities.

According to the FY 1999 State Domestic Preparedness Equipment Program Assessment and Strategy Development Tool Kit D - Evaluation Plan for the Three-Year Domestic Preparedness Strategy, the evaluation of the statewide strategy is the responsibility of the designated State Administrative Agency for each state. The State Administrative Agency is responsible for establishing a formal plan to evaluate the effectiveness of its statewide strategy. In this plan, the State should describe the mechanisms and methods it has or will establish to evaluate the impact of the statewide strategy, including the programs and projects funded to implement the statewide strategy. Also, according to the Tool Kit, at a minimum, the State should report its progress in attaining the objectives established for each goal based on the performance measure for each objective. For example, the attainment of training objectives can be measured by the number of individuals and teams who have successfully completed requested training by course and discipline.

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The impact of exercises can be measured by results documented in the formal After Action Report for each exercise. The amount of equipment ordered and received, by type and discipline, is a measure of success for equipment acquisition. Technical assistance can be measured by the effect achieved by the particular use of this resource. Additionally, the Tool Kit provides that a subjective appraisal of the progress toward preparedness for response can be covered in a narrative.

According to the Code of Federal Regulations Title 28 § 66.40 *Monitoring and reporting program performance* – grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

From FYs 2002 through 2004, the Pennsylvania Emergency Management Agency received four State Homeland Security Grant Awards. According to the Pennsylvania Emergency Management Agency officials, the administration of these four awards became another emergency management task for their employees. Over the years, the requirements of the grants have grown. However, the Pennsylvania Emergency Management Agency's organizational structure has not changed as a result of the new responsibilities. Consequently, the Pennsylvania Emergency Management Agency did not monitor the grants at all levels or focus on implementing measures to assess improved preparedness. The Commonwealth did not measure its preparedness for improved effectiveness in several areas:

- emergency responders' capacity to respond with new equipment to incidents that pose a threat to homeland security;
- number of emergency responders who have increased skills needed to respond to threats to homeland security and properly use the new equipment; and
- number of Regional Task Forces, counties, or emergency responders that participated in exercises and trainings.

**Recommendations:**

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

1. advise the Director, Pennsylvania Emergency Management Agency, to evaluate its organizational structure and focus to determine if the current structure is sufficient to meet its domestic preparedness responsibilities and requirements.

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2. require the Director, Pennsylvania Emergency Management Agency, to comply with the administrative requirement to develop and implement a system to monitor and measure improved preparedness of the Commonwealth, including the Regional Task Forces and first responders.

**Management Comments:**

We received verbal concurrences on the recommendations from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that the Pennsylvania Emergency Management Agency is currently mapping the entire DHS grant program, which will determine the grant flow process and identify gaps. The Pennsylvania Emergency Management Agency will develop a gap closure plan. The final process map will include the individual(s) responsible for performing and coordinating monitoring activities, written guidance or procedures for performing monitoring activities, written plan or schedule for monitoring, documented quantifiable goals or criteria to determine the effectiveness of each grant specific to each grant year, and subrecipient monitoring or financial or programmatic performance or effectiveness.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendations adequately, except for the timeframe for the completion of the gap analysis. In the exit conference, the State officials verbally agreed to the recommendations, but this area was not included specifically in writing in the attached response.

The Grant Programs Directorate needs to provide corrective actions for each recommendation and a plan to implement those actions within 90 days.

**Supporting Documentation for Expenditures Charged to Federal Funds Was Not Accessible**

The Commonwealth initially was unable to provide documentation to support our sample grant expenditures. According to the Pennsylvania Emergency Management Agency officials, the primary reason for the lack of documentation was the change in the method of filing the supporting documentation for grant expenditures. The lack of adequate documentation hampers the Pennsylvania Emergency Management Agency's ability to support the allowability of grant expenditures and the federal government could require the Commonwealth to return the funds for the unsupported expenditures.

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The Pennsylvania Emergency Management Agency used the grant funds to pay for or reimburse the Regional Task Forces for counter-terrorism training, planning, minor equipment, and exercises. In addition, the Pennsylvania Emergency Management Agency purchased equipment for domestic preparedness for the Regional Task Forces. Also, personnel and benefit costs were paid for directly or reimbursed to the Regional Task Forces.

To evaluate the procedures in place to ensure the allowability, approval, and propriety of documentation of grant expenses, we statistically selected and tested a sample of expenditures for each grant year. During the performance of our testing, the Commonwealth was initially unable to provide us with supporting documentation for various expenditures charged to the grants for FYs 2002 through 2004.

According to the Code of Federal Regulations Title 28 § 66.42 *Retention and access requirements for records*, all financial records, supporting documents, statistical records, and other records pertinent to an award must be retained for a period of at least 3 years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the last quarterly or annual financial report, as required.

Eventually, the Commonwealth officials were able to substantiate the expenditures. The supporting documentation for our sample took months to obtain, because the Commonwealth's retention policy was not followed effectively, communication channels operated ineffectively, and the Pennsylvania Emergency Management Agency changed the method of filing the supporting documentation for grant expenditures. Prior to 2005, the Pennsylvania Emergency Management Agency maintained all documentation related to grant expenditures in the Pennsylvania Emergency Management Agency's Office. In 2005, the Pennsylvania Emergency Management Agency began maintaining only the purchase and receiving documentation and the Comptroller's Office began maintaining only the vendor invoice. Thus, it became more difficult to ensure that the supporting documentation was complete and sufficient.

The lack of adequate documentation hampers the Pennsylvania Emergency Management Agency's ability to support the allowability of grant expenditures. An ineffective retention policy and execution increase the risk that improper expenditures and payments could occur without detection and supporting documentation may be misplaced or lost.

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### **Recommendations:**

We recommend that the Assistant Administrator, Grant Programs Directorate within the Federal Emergency Management Agency, advise the Director, Pennsylvania Emergency Management Agency, to:

1. collaborate with the Comptroller's Office to institute a more effective system to ensure that adequate documentation, supporting the allowability of grant expenditures, is available when requested.
2. collaborate with the Comptroller's Office to perform periodic inspections of the expenditure documentation, such as purchase orders, receiving documents, and invoices, to ensure that the Commonwealth retention policy is followed effectively.

### **Management Comments:**

We received verbal concurrences on the recommendations from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that it is exploring the possibility of using a new addition to the accounting system that may allow a more automated purchasing process beginning at the requisitioner level. This would facilitate a more efficient auditing process for purchases.

### **Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendations adequately, except for the timeframe for completion of the system analysis. In the exit conference, the State officials verbally agreed to the recommendations, but this area was not included specifically in writing in the attached response.

The Grant Programs Directorate needs to provide corrective actions for each recommendation and a plan to implement those actions within 90 days.

### **Unauthorized Expenditures Were Charged to Federal Funds**

The Pennsylvania Emergency Management Agency acquired unallowable equipment-related items totaling \$721,317. The Pennsylvania Emergency Management Agency did not review sufficiently those items acquired to ensure compliance with the grant terms. This increased the risk that improper expenditures were incurred that may require funds to be returned to the federal government.

We statistically selected a sample of expenditures for each grant year for which we tested the nature, extent, allocability, allowability, and reasonableness of the expenditures. As a result of our testing, we determined that the cost for various warranties, maintenance agreements, spare parts, and other unauthorized expenses charged to the grants for FYs 2002, 2003 Part I, and 2004 were not included on the authorized equipment listing, included in the sustainment sub-category, or associated with equipment acquired under the Homeland Defense Equipment Reuse Program. We therefore question \$721,317 in expenditures as shown in Table 2.

**Table 2**

Grant	Unauthorized Expenditures			Totals
	Maintenance	Spare Parts	Other Expenses	
FY 2002	\$25,000	\$7,999	\$3,000	\$35,999
FY 2003 Part I	219,396	450	18,350	238,196
FY 2004	407,042	-	40,080	447,122
Totals	\$651,438	\$8,449	\$61,430	\$721,317

The DHS Program Guidelines and Application for the FY 2002 - Authorized Equipment Purchase List contains a complete listing of allowable equipment items. The listing does not include maintenance agreements or spare parts.

Allocated equipment acquisition funds for the State Domestic Preparedness Program FY 2003 Part I may be used for sustainment of first responder equipment that would be used in a jurisdiction's response to a terrorist threat or event. This would include repair and replacement parts, equipment warranties, and maintenance agreements for equipment purchased under any DHS state equipment grant. Applicants that choose to use funds for this purpose should include a sustainment sub-category for each equipment category on the Equipment Budget Detail Worksheet as required by the DHS Program Guidelines and Application for the FY 2003 Part I.

The DHS Program Guidelines and Application for FY 2004 state that funding may be used in any of five categories: (1) planning; (2) equipment acquisitions; (3) training; (4) exercise; and (5) management and administrative. As established in the State Domestic Preparedness Program for FY 2004, under Other Authorized Equipment and Related Costs, maintenance contracts were allowable for authorized equipment purchased through DHS grants and acquired through the DHS' Homeland Defense Equipment Reuse Program.



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The Commonwealth had \$721,317 in unauthorized expenditures because the purchases were not on the approved listing and the Pennsylvania Emergency Management Agency did not receive approval for those expenditures from its assigned Preparedness Officer. Although the list provided in the State Domestic Preparedness Program Guidelines and Application is intended as a guide, if grantees have any questions about eligibility of equipment not specifically addressed, they can contact DHS for clarification. The Pennsylvania Emergency Management Agency did not contact its assigned DHS Preparedness Officer or other DHS officials to verify the allowability of those expenditures.

The lack of procedures to review the acquisition of maintenance agreements, spare parts, and other expenses as well as the lack of required communication with the assigned Preparedness Officer resulted in unauthorized expenditures.

**Recommendations:**

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

1. require the Director, Pennsylvania Emergency Management Agency, to return to DHS the unauthorized amount totaling \$721,317.
2. advise the Director, Pennsylvania Emergency Management Agency, to institute a system to ensure that all equipment acquisitions are included in the provided guidelines, and that in case of ambiguity, uncertainty, or doubt, a consultation with its Preparedness Officer must be requested and documented.
3. advise the Director, Pennsylvania Emergency Management Agency, to work with the Comptroller's Office to ensure that the Comptroller's Office verifies the invoice description and compares it with the authorized lists included in the State Domestic Preparedness Program Guidelines and Application to ensure that payments are made only for allowable expenses.

**Management Comments:**

We received verbal concurrences on the recommendations from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that the Pennsylvania Emergency Management Agency is currently mapping the entire DHS grant program, which will determine the grant flow process and identify gaps. The Pennsylvania Emergency Management Agency will develop a gap closure plan. The Pennsylvania Emergency Management

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Agency fully expects that the conditions listed in this finding will be identified as a gap and the process will be modified to correct this condition.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendations adequately, except for the return to DHS of the unauthorized amounts expended. In the exit conference, the State officials verbally agreed to the recommendations given additional research, but this area is not included specifically in writing in the attached response.

The Grant Programs Directorate needs to provide corrective actions for each recommendation and a plan to implement those actions within 90 days.

**Categorical Assistance Progress Reports Were Not Submitted or Not Submitted Timely**

The Pennsylvania Emergency Management Agency did not submit 1 and was not timely in the submission of an additional 16 of 25 semiannual Categorical Assistance Progress Reports. This occurred because the grant manager did not effectively manage the submission of the data necessary to complete the Categorical Assistance Progress Reports. As a result, the grant will not be closed if the grantee has not submitted the Categorical Assistance Progress Reports for each required period for the life of the grant.

The Pennsylvania Emergency Management Agency is responsible for the submission of the semiannual Categorical Assistance Progress Reports that are designed to provide DHS officials with information that they can use to monitor the implementation of the Homeland Security Grant Programs. DHS used the Categorical Assistance Progress Reports to learn about and stay abreast of the progress and results of the grant.

For each grant program and the periods of performance listed below, either the Pennsylvania Emergency Management Agency did not submit the Categorical Assistance Progress Report or did not submit the Categorical Assistance Progress Report within the required 30 days after the end of the reporting period. From the inception of the FY 2002 grant program, a total of 25 Categorical Assistance Progress Reports should have been submitted. Of the 25 Categorical Assistance Progress Reports to be submitted, 1 was not submitted and 16 were submitted late, with a time span ranging from 4 to 873 days late.

Table 3 presents the Categorical Assistance Progress Reports that were not submitted or were submitted late.

**Table 3**

		Categorical Assistance Progress Report Submissions					
	Grant	Reporting Period			Due Date	Date Submitted	Days Late
1	FY 2002	7/1/2003	to	12/31/2003	1/30/2004	6/22/2006	873
		7/1/2004	to	12/31/2004	1/30/2005	6/22/2006	507
		1/1/2005	to	4/1/2005	8/28/2005	6/22/2006	298
2	FY 2003 Part I	1/1/2003	to	6/30/2003	7/30/2003	Not Submitted	
		7/1/2003	to	12/31/2003	1/30/2004	2/9/2004	10
		1/1/2005	to	6/30/2005	7/30/2005	3/27/2006	240
		7/1/2005	to	12/31/2005	1/30/2006	3/27/2006	56
		1/1/2006	to	6/30/2006	7/30/2006	9/25/2006	57
3	FY 2003 Part II	1/1/2003	to	6/30/2003	7/30/2003	2/4/2004	188
		7/1/2003	to	12/31/2003	1/30/2004	2/4/2004	4
		1/1/2005	to	6/30/2005	7/30/2005	3/26/2006	239
		7/1/2005	to	12/31/2005	1/30/2006	3/27/2006	56
		1/1/2006	to	6/30/2006	7/30/2006	9/25/2006	57
4	FY 2004	7/1/2004	to	12/31/2004	1/30/2005	4/24/2006	449
		1/1/2005	to	6/30/2005	7/30/2005	4/24/2006	268
		7/1/2005	to	12/31/2005	1/30/2006	4/24/2006	84
		1/1/2006	to	6/30/2006	7/30/2006	9/25/2006	57

According to the Code of Federal Regulations Title 28 § 66.40 *Monitoring and reporting program performance* – Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Quarterly or semi-annual reports shall be due 30 days after the reporting period. The final performance report will be due 90 days after the expiration or termination of grant support.

According to the grant adjustment notices awarding the State Homeland Security Grant Program for FYs 2002, 2003 Part I, 2003 Part II, and 2004, the Special Conditions require that the recipient agree to comply with the financial and administrative requirements set forth in the current edition of the Financial Guides.

The FY 2002 and FY 2005 Financial Guides Part III: Chapter 11 Reporting Requirements – require that a Categorical Assistance Progress Report be prepared twice a year and used to describe the performance of activities or the accomplishment of objectives as set forth in the approved award application. Progress reports must be submitted within 30 days after the end of the reporting periods, which are June 30 and December 31, for the life of the award. The awarding agency may opt, by special condition to the award, to combine the first report into the subsequent reporting period. For example, if

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the start date on the award is June 1, the awarding agency may opt to receive the first report 30 days after the December 31 reporting period.

The Pennsylvania Emergency Management Agency did not have sufficient internal controls or management oversight to ensure the timely submission of the Categorical Assistance Progress Reports. The grant manager did not effectively manage the receipt of the data from the Regional Task Forces necessary to compile and submit the Categorical Assistance Progress Reports timely.

Not filing a Categorical Assistance Progress Report is a violation of the grant agreement. Grantees are still required to submit the Categorical Assistance Progress Reports for grants awarded prior to FY 2004. In FY 2004, the DHS started using the Categorical Assistance Progress Report in conjunction with the Bi-annual Strategy Implementation Report to monitor grant program progress and implemented the Grants Reporting tool for program years 2004 and later. This monitoring tool requires grantees to submit the Initial Spending Implementation Plan and the Bi-annual Strategy Implementation Report to monitor program process. The untimely submission of the Categorical Assistance Progress Report does not prevent the drawdown of federal funds. However, the grant cannot be closed if the grantee has not submitted a Categorical Assistance Progress Report for each required period for the life of the grant.

**Recommendations:**

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

1. advise the Director, Pennsylvania Emergency Management Agency, to develop policies and procedures that ensure the proper and timely submission of the Categorical Assistance Progress Reports.
2. require the Director, Pennsylvania Emergency Management Agency, to submit the one Categorical Assistance Progress Report that was not filed.

**Management Comments:**

We received verbal concurrences on the recommendations from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that the Pennsylvania Emergency Management Agency is currently mapping the entire DHS grant program, which will determine the grant flow process and identify gaps. The Pennsylvania Emergency Management Agency will develop a gap closure plan. The final process map will include a list of

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reports due, who is responsible, and the task force responsibility in this reporting.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendations adequately, except for the specific timeframe for completion of the gap analysis and a determination that they would submit the report identified. In the exit conference, the Commonwealth officials verbally agreed to the recommendations, but these areas are not included specifically in writing in the attached response.

The Grant Programs Directorate needs to provide corrective actions for each recommendation and a plan to implement those actions within 90 days.

**Final Financial Status Report for FY 2002 Was Not Submitted Timely**

The Pennsylvania Emergency Management Agency did not submit the final Financial Status Report as required within 120 days after the closing period of the FY 2002 grant. The grant manager did not effectively manage the submission of the invoices necessary to complete the final Financial Status Report. Also, the Commonwealth wanted to ensure that all invoices had been received prior to submitting the report. The late submission of the final Financial Status Report by the Pennsylvania Emergency Management Agency hampered the ability of the DHS to monitor the closing of the grant.

The Pennsylvania Emergency Management Agency did not submit the final Financial Status Report within 120 days after the closing period of the FY 2002 grant. The Commonwealth's final report indicated that it had spent \$9,847,517 of \$10,512,000 granted in the FY 2002 program. The unobligated amount of \$664,483 was never drawn down by the Commonwealth of Pennsylvania, and not disbursed by DHS. The grant award would be reduced by \$664,483.

According to Code of Federal Regulations Title 28 § 66.41(b) *Financial Status Report*, grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all non-construction grants and for construction grants when required in accordance with § 66.41(e)(2)(iii). Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. The federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly.

The grantee is required to submit a Financial Status Report on a quarterly basis 45 days after March 31, June 30, September 30, and December 31 for

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the life of the grant as required in the Office of Domestic Preparedness FY 2002 Grant Program, FY 2003 Grant Program Part I, and FY 2003 Grant Program Part II Program Guidelines and Application, and Instructions for Financial Status Reporting (SF 269) May 2005. The final financial report is due 120 days after the end date of the award period.

For the FY 2002 Grant, the Pennsylvania Emergency Management Agency did not enforce timely submission of invoices to the Comptroller's Office by the Regional Task Forces and commodities personnel. Therefore, the Comptroller's Office did not submit the Financial Status Reports until it determined all the expenses for the period had been received.

DHS ability to effectively and efficiently monitor the FY 2002 closing procedures of the State Homeland Security Grant Program expenditures, for the Commonwealth of Pennsylvania, was hampered by the untimely submission of the final Financial Status Report.

**Recommendation:**

We recommend that the Assistant Administrator, Grant Programs Directorate within the Federal Emergency Management Agency, advise the Director, Pennsylvania Emergency Management Agency, in conjunction with the Comptroller's Office, to revise its policies and procedures to ensure the timely submission of future Financial Status Reports.

**Management Comments:**

We received verbal concurrences on the recommendation from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that it held the final report awaiting a final invoice from Allegheny County. All Financial Status Reports are now due in 30 days and are being filed timely.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendation adequately.

The Grant Programs Directorate needs to provide corrective actions for the recommendation and a plan to implement those actions within 90 days.

## Information Reported on the Financial Status Reports Did Not Agree with the Commonwealth's Accounting System

The unliquidated obligations data reported on the Financial Status Reports did not agree with the Commonwealth's accounting system. According to the Comptroller's Office, the Grant Status Report from the accounting system does not take into account any advances of funds given to Regional Task Forces nor purchase orders or invoices received within the last 5 days of the month. Those items, along with clerical errors and postings, or liquidations to erroneous accounts, could cause the grant accounts to be overstated in the Commonwealth's accounting system.

To acquire the information to report on the Financial Status Report, the Comptroller's Office used the Grant Status Report from its accounting system. It is the Comptroller's Office's practice to enter on the Financial Status Report the actual expenditure total from the accounting system and to adjust the unliquidated obligations total entered to ensure that the cumulative expenditures combined with total unliquidated obligations equals the total federal funds authorized for the funding period per the grant.

To verify the information provided on the Financial Status Reports, we selected eight Financial Status Reports to test for accuracy and agreement with the accounting system. From our sample, six Financial Status Reports contained financial data that did not agree with the accounting system, and the reasons for the adjustments were not annotated in the supporting documentation.

See Table 4 for the unliquidated obligations data reported on the Financial Status Reports that did not agree with the Commonwealth's accounting system.

**Table 4**

<b>Comparing the Financial Status Reports to the Accounting System</b>							
					<b>Financial Status Report</b>	<b>Accounting System</b>	
<b>No</b>	<b>Grant</b>	<b>Reporting Period</b>			<b>Total Expenditures and Unliquidated obligations</b>	<b>Total Expenditures and Unliquidated obligations</b>	<b>Difference</b>
1	FY 2003 Part I	1/1/2004	to	3/31/2004	\$ 18,570,000	\$ 18,071,292	\$ 498,708
2	FY 2003 Part II	7/1/2004	to	9/30/2004	\$ 49,189,000	\$ 51,939,091	\$ (2,750,091)
3	FY 2003 Part II	4/1/2005	to	6/30/2005	\$ 49,189,000	\$ 51,580,823	\$ (2,391,823)
4	FY 2004	10/1/2005	to	12/31/2005	\$ 72,370,500	\$ 73,963,887	\$ (1,593,387)
5	FY 2004	1/1/2006	to	3/31/2006	\$ 72,370,500	\$ 74,971,027	\$ (2,600,527)
6	FY 2004	4/1/2006	to	6/30/2006	\$ 72,370,500	\$ 75,166,610	\$ (2,796,110)

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The 2002 Financial Management Guide Part II Chapter 3: Standards for Financial Management Systems requires that all recipients establish and maintain accounting systems and financial records to accurately account for funds awarded to them. The recipient is responsible for establishing and maintaining an adequate system of accounting and internal controls for itself, and for ensuring that an adequate system exists for each of its subrecipients.

Additionally, the 2002 Financial Management Guide Part III Chapter 11: Reporting Requirements also requires grantees to maintain adequate documentation to provide an audit trail that substantiates the amounts reported on each Financial Status Report as submitted.

The Financial Status Report is designed to provide DHS with financial information about the activities (expenditures and unliquidated obligations) of the grant program as incurred for the reporting period.

According to the Comptroller's Office, any advance of funds given to Regional Task Forces or purchase orders or invoices received within the last 5 days of the month along with clerical errors and postings or liquidations to erroneous accounts could cause the grant account's obligations to be overstated in the Commonwealth's accounting system. Because of these conditions, the Comptroller's Office unilaterally adjusts the financial status report without investigating and documenting the differences noted. Also, no supervisory review is performed prior to the Financial Status Reports submissions. The unliquidated obligation data reported on the Financial Status Reports are not substantiated by the Commonwealth's accounting system records. Therefore, the potential exists for the Commonwealth to obligate and expend funds that it does not have.

### **Recommendations:**

We recommend that the Assistant Administrator, Grant Programs Directorate within the Federal Emergency Management Agency, advise the Director, Pennsylvania Emergency Management Agency, in collaboration with the Comptroller's Office to:

1. perform an investigative review of the financial data from the accounting system to determine the reconciling items that would cause a variance in the identified Financial Status Reports. The items should be explained and documented in the accounting records.
2. implement procedures to ensure that a sufficient audit trail is maintained and that appropriate reviews are performed prior to submission of future Financial Status Reports.



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**Management Comments:**

We received verbal concurrences on the recommendations from the Grant Programs Directorate officials and the Commonwealth of Pennsylvania officials. Additionally, the Commonwealth of Pennsylvania has commented that it has identified the cause and has implemented various procedures and reconciliations to ensure that the obligations are properly liquidated. The evaluation of the obligations was scheduled to be completed prior to July 30, 2007, and all variances will be documented for future questions.

**Auditor Analysis:**

We believe that the Commonwealth of Pennsylvania has addressed the recommendations adequately.

The Grant Programs Directorate needs to provide corrective actions for each recommendation and a plan to implement those actions within 90 days.

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

The audit further enabled us to answer the following researchable questions:

- Did the Commonwealth use reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs?
- Did the Commonwealth appropriately allocate funding based on threats, vulnerabilities, capabilities, and priorities?
- Has the Commonwealth developed and implemented plans to measure improvements in preparedness as a result of the grants and have such measurement efforts been effective?
- Are the Commonwealth's procurement methodologies (centralized, local, or combination) reasonable and in conformance with its homeland security strategies?
- Does the State Administrative Agency have procedures in place to monitor the funds and activities at the local level to ensure that grant funds are spent according to grant requirements and the Commonwealth-established priorities? Have these monitoring procedures been implemented and are they effective?
- Did the Commonwealth comply with cash management requirements and the DHS financial and status reporting requirements for the grant programs and did local jurisdictions spend grant funds advanced by the Commonwealth in a timely manner and, if not, what caused the delays?
- Were grant funds used according to grant requirements and Commonwealth-established priorities?
- Is the time it takes the Commonwealth to get funds/equipment to first responders (from the time the funds/equipment were available to the State until they were disbursed/provided to the jurisdiction) reasonable (auditor judgment), and if not, what caused the delays?

- Are there best practices that can be identified and shared with other States and the DHS?

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

- FY 2002 State Domestic Preparedness Program
- FY 2003 State Homeland Security Grant Program Part I
- FY 2003 State Homeland Security Grant Program Part II
- FY 2004 State Homeland Security Grant Program

The audit **methodology** included work at Department of Homeland Security Headquarters, the Commonwealth of Pennsylvania's offices responsible for the management of the grants, and various subgrantee locations. In order to achieve our audit objective we analyzed data, reviewed documentation, and interviewed the key state and local officials directly involved in the management and administration of the Commonwealth of Pennsylvania's Homeland Security Grant Programs. We conducted site visits and held discussions with appropriate officials from five of the nine Regional Task Forces and four first responders in order to determine if program grant funds were expended according to grant requirements and Commonwealth-established priorities. The following five Regional Task Forces were visited.

- South Central
- South East
- South West
- North East
- East Central

We also conducted site visits at the following four first responders:

- Bomb Squad - (Pittsburgh)
- Police Special Weapons And Tactical Team (Allegheny County)
- Stroud Area Regional Police
- Emergency Medical Services Hazardous Material (Dauphin County)

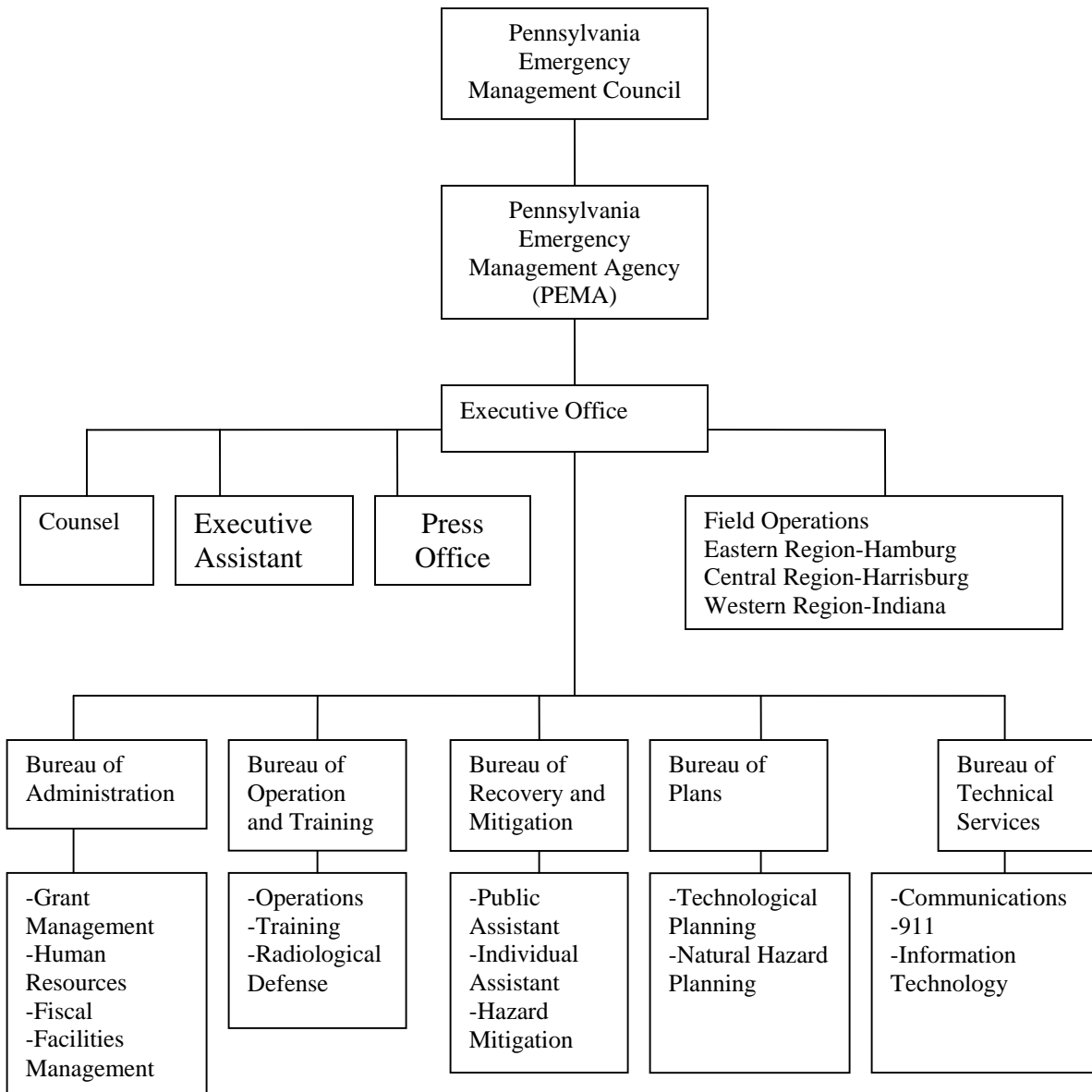
At each location visited, we interviewed responsible officials, reviewed documentation supporting the Commonwealth and subgrantees management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds.

We reviewed prior audit reports and coordinated our work with the Pennsylvania Emergency Management Agency. We conducted the audit between September and December 2006 and performed the work in accordance with 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 the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the Commonwealth of Pennsylvania.

While the audit work was performed and the report was prepared under contract, the audit results are being reported by the Department of Homeland Security, Office of Inspector General, to appropriate DHS Grant Programs Directorate officials and Commonwealth of Pennsylvania officials.

Organization Chart  
 October 6, 2004



Note: The Comptroller's Office is a separate agency of the Commonwealth and is not under the purview of the Pennsylvania Emergency Management Council.



PENNSYLVANIA EMERGENCY  
MANAGEMENT AGENCY  
2605 Interstate Drive  
Harrisburg, Pennsylvania 17110-9364



August 1, 2007

In response to the Department of Homeland Security draft audit report for fiscal years 2002, 2003 and 2004, following is our response:

**Finding: Submission Timeliness of the Categorical Assistance Progress Report  
DHS Program: 2002 -2004 FIRST RESPONDER GRANT PROGRAMS**

**Condition:**

*For the each of the grant programs and the periods of performance listed below either PEMA did not submit the CAPRs or did not submit the CAPR within the 30 day period. From the inception of the 2002 SHSGP until December 12, 2006 (our completion of testwork) a total of 25 CAPRs should have been submitted. Of the 25 CAPRs to be submitted, 6 CAPR were not submitted as of December 12, 2006 and 15 CAPRs were submitted late with a time span ranging from 4 to 873 days late.*

**Agency Response:**

PEMA is currently mapping the entire DHS grant program which will determine the grant flow process and identify gaps. PEMA will then develop a gap closure plan. The final process map will include a list of reports due, who is responsible, and the task force responsibility in this reporting.

**Finding: Submission Timeliness of the SF 269 Financial Status Report  
DHS Program: 2002 -2004 STATE HOMELAND SECURITY GRANT PROGRAMS**

**Condition:**

*For each of the grant programs and the periods of performance listed below, PEMA did not submit the FSR within 45 days after the period end. We noted that prior to March 31, 2005 PEMA facilitated by the Comptroller's Office submitted the FSRs by the dates required and experienced a period of late submission for FY 2005-2006 FSRs listed below. It appears that PEMA has made efforts to submit the FSRs timely made evident by the cessation of subsequent late submissions. From the inception of the 2002 SHSGP 9/24/2002 until 6/30/2006 a total of 53 FSRs should have been submitted. Of those 53 required submissions, 5 FSRs were late within a range of 1 to 241 days.*

**Agency Response:**

We concur that the final FSR for the 2002 grant was delayed. We held the final report awaiting the final invoice for Allegheny County. At the time, we thought we had to wait until all issues were resolved to file the final FSR. We are now aware that interim reports should

have been filed regardless of reasons for the delay of the final FSR. The other reports listed as being submitted late, were filed one day late. We filed the reports on the 15th of the month which was the normal due date but because the period ended June 30, the 45 day requirement made them due August 14th instead of August 15th. All Financial Status Reports are now due in 30 days and are being filed timely.

**Finding: Agreement of Information Reported on the FSR with State's Accounting System  
DHS Program: 2002-2004 STATE HOMELAND SECURITY GRANT PROGRAMS**

**Condition:**

*For each of the grants and periods of performance listed below, the unliquidated obligations data reported on the FSR did not agree with the Commonwealth's accounting system. To acquire the information to report on the FSR, the Comptroller's Office uses the Grant Status Report from their SAP accounting system. It is the Comptroller Office's practice to enter on the FSR the actual expenditure total from the accounting system and to adjust the Unliquidated Obligations total entered to ensure that Cumulative Expenditures combined with Total Unliquidated Obligations equals the Total Federal Funds Authorized for this Funding Period per the grant. From our sample of 8 FSRs tested for accuracy and agreement with the accounting system 6 contained financial data that did not agree to the accounting system nor were the reasons for the adjustments annotated in the FSR supporting documentation.*

**Agency Response:**

**Advances:** It is correct that the Grant Status Report's expenditures do not include advances paid to task forces. These advances cannot be drawn down as true expenditures made by the task forces however, they may be reported as grant expenditures. Therefore, the Comptroller tracks those advances separately and adds the advances back into the obligations of the grant on the FSR until documentation is received from the task force as to how those funds were spent.

**Purchase Orders:** Purchase orders immediately post as encumbrances in the SAP accounting system when they are entered by the agency. However, purchase orders were not liquidated from the task force document until the Comptroller's Contracts Section actually approved the purchase order to be released to the vendor. This resulted in double encumbrances at the end of the month/quarter on the SAP accounting system for those purchase orders that were not approved by the Comptroller's Office. Also, purchase orders less than established thresholds, (currently \$5,000) do not get approved by the Comptroller's Contracts staff. In the past, these items were not liquidated from the task force documents in a timely manner. They were liquidated periodically after receiving notification from PEMA. The Comptroller has recently implemented procedures to liquidate the task force document as soon as a purchase order is work flowed to their office for review. This eliminates the potential for double encumbrances. PEMA will implement procedures that when all purchase orders are entered, including those less than the established threshold, the Comptroller will receive written notification (email) to liquidate the task force document.

**Clerical Issues or erroneous liquidations:** We are now reconciling all the open Homeland Security task force documents to ensure that all Purchase Orders have been liquidated correctly. This evaluation will be completed prior to July 30 to ensure that FSRs submitted

for the time frame ending June 30, 2007 are correct and all variances can be documented for future questions.

**Finding: Insufficient Programming and Sub-recipient Monitoring**  
**DHS Program: 2002 -2004 STATE HOMELAND SECURITY GRANT PROGRAMS**

**Condition:**

*For the FY 2002 through FY 2004 State Homeland Security Grant Programs (SHSGP) the Commonwealth of Pennsylvania through its representative agency the Pennsylvania Emergency Management Agency (PEMA) did not establish a written plan to monitor nor did they monitor financial or programmatic performance or effectiveness against its agency's strategic goals. Currently PEMA's monitoring activities lack the following:*

- *Individual(s) responsible for performing and coordinating monitoring activities*
- *Written guidance or procedures for performing monitoring activities*
- *Written plan or schedule for monitoring*
- *Documented quantifiable goals or criteria to determine the effectiveness of each grant specific to each grant year*
- *Sub-recipient monitoring or financial or programmatic performance or effectiveness*

*Although PEMA has submitted semi annual Categorical Assistance Progress Reports (CAPR) to the Office of Justice Programs (OJP) and the Office of Grants and Training (OGT), the information reported therein is not based on the goals and objectives of the Commonwealths Domestic Preparedness Strategy and is not a tool that can be used to gauge enhanced preparedness. Various PEMA staff attend the monthly meetings of the regional task forces to provide technical assistance. However, no report or memorandum is prepared to document their participation nor the monitoring performed.*

*In the fiscal year 2005 single audit report, the auditors noted the lack of site visits and monitoring of the task forces. As a result in 2006 PEMA began performing site visits.*

**Agency Response:**

PEMA is currently mapping the entire DHS grant program which will determine the grant flow process and identify gaps. PEMA will then develop a gap closure plan. The final process map will include the following:

1. Individual(s) responsible for performing and coordinating monitoring activities
2. Written guidance or procedures for performing monitoring activities
3. Written plan or schedule for monitoring
4. Documented quantifiable goals or criteria to determine the effectiveness of each grant specific to each grant year
5. Sub-recipient monitoring or financial or programmatic performance or effectiveness



**Finding: PEMA Grant Allocation Process Improvements**  
**DHS Program: 2002 -2004 STATE HOMELAND SECURITY GRANT PROGRAMS**

**Condition:**

*We noted that the average time from grant award to the signed subgrant award averaged 261 days. The process for awarding obligation authority to the subgrantee involves:*

*PEMA instructing the regional Task Forces (TF) to develop an equipment list, and a training, exercise and administrative budget. PEMA does not provide instructions or estimated amount until after the award has been granted by ODP.*

*The Task Force, a group of volunteers representing all of the emergency response disciplines, adding the grant award and formulation of the equipment listing and training and exercise budget to the agenda of their next monthly meeting. The Task Force submitting the equipment listing and budget and the signed grant agreement to PEMA. This step may take from 30 to 90 days on average.*

*PEMA reviewing the listing and budget. PEMA's Director of Administration signing and approving the grant award.*

*PEMA forwarding the grant award, listing, and budget to the Comptroller's Office.*

*Lastly, PEMA providing the grant award, listing and budget to the Office of the General Counsel and Office of the Attorney General for final approval.*

**Agency Response:**

PEMA is currently mapping the entire DHS grant program which will determine the grant flow process and identify gaps. PEMA will then develop a gap closure plan. The final process map will include a list of reports due dates, who is responsible, and the task forces responsibility in this reporting. It is anticipated that the mapping process will reduce the time frames associated with the grant signature processes and facilitate the timely expenditure of grant funds

**Finding: 2002-07 Lack of Access to Adequate Supporting Documentation for Expenditures Charged to Federal Funds**  
**DHS Program: FY 2002 -2004 FIRST RESPONDER GRANT PROGRAMS**

**Condition:**

*PEMA uses the United States Department of Homeland Security's Office of Domestic Preparedness (ODP) grant funds to pay for or reimburse to the nine task forces for counter-terrorism training, planning, minor equipment and exercises. In addition, PEMA purchases equipment for domestic preparedness for the task forces. Also, personnel and benefit costs are may be paid for directly or reimbursed to the task forces.*

*In order to test the nature, extent, allocability, allowability and reasonableness of those expenditures, we statistically selected a sample of equipment; training and exercises reimbursed, ordered or paid for by PEMA on behalf of the nine local task forces (subrecipients) for the fiscal*

years ended 2002 to 2004. We requested documentation such as purchase orders, invoices, receiving documentation and any other supporting documentation for the performance of our test. During the performance of our testing we were not provided with supporting documentation for various expenditures charged to the grants for fiscal years 2002-2004.

**Agency Response:**

All supporting documentation was provided to the auditor on Thursday, July 19, 2007. PEMA administration has coordinated with its comptroller office and providing supporting documentation to auditors will not be an issue in the future.

PEMA is exploring the possibility of using a new addition to the SAP system that may allow a more automated purchasing process beginning at the requisitioner level. This would facilitate a more efficient auditing process for purchases.

**Finding: Unauthorized Expenditures Charged to Federal Funds  
DHs Program: FY 2002 -2004 FIRST RESPONDER GRANT PROGRAMS**

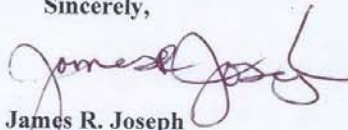
**Condition:**

We selected a sample of subgrant award expenditures for testing for each grant year. We requested documentation such as purchase orders, invoices, receiving documentation and/or any other supporting documentation to substantiate the nature, extent, allocability, allowability and reasonableness of the expenditures. As a result of our testing we noted various warranties and maintenance agreements and spare parts charged to the grants for fiscal years 2002, 2003 Part I and 2004. We noted in Fiscal year 2003 that PEMA did not include a sustainment sub-category on the Equipment Budget Detail Worksheet. For the Fiscal year 2004, we noted that the maintenance contracts purchased were not for equipment acquired by the Homeland Defense Equipment Reuse (HDER) Program. PEMA could not document that they had received authorization from ODP for these expenditures. Neither ODP could provide us with such documentation. The following table represents the unauthorized amounts. The total of \$721,317 is questioned.

**Agency Response:**

PEMA is currently mapping the entire DHS grant program which will determine the grant flow process and identify gaps. PEMA will then develop a gap closure plan. PEMA fully expects that the conditions listed in this finding will be identified as a gap and the process will be modified to correct this condition.

Sincerely,

  
James R. Joseph  
Director

**Department of Homeland Security**

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Deputy Secretary  
Chief of Staff  
Deputy Chief of Staff  
General Counsel  
Executive Secretary  
Assistant Secretary, Public Affairs  
Assistant Secretary, Policy  
Assistant Secretary, Legislative Affairs  
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**Grant Programs Directorate within the  
Federal Emergency Management Agency**

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Deputy Administrator, National Preparedness Directorate  
Federal Emergency Management Agency Audit Liaison  
Grant Programs Directorate Audit Liaison  
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**Office of Management and Budget**

Chief, Homeland Security Branch  
DHS Program Examiner

**Congress**

Congressional Oversight and Appropriations Committee, as appropriate

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