

Department of Homeland Security **Office of Inspector General**

The U.S. Virgin Islands Management of State Homeland
Security Program Grants Awarded During Fiscal Years
2007 through 2009





**Homeland
Security**

JAN 30 2012

Preface

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

This report addresses The U.S. Virgin Islands' management of State Homeland Security Program grants. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company's report identifies eight areas where management of the grant funds could be improved, resulting in 22 recommendations addressed to the Assistant Administrator, Grant Programs Directorate. Foxx & Company is responsible for the attached auditor's report dated January 9, 2012, 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. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



January 9, 2012

Ms. Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of Homeland Security
245 Murray Drive, S.W. Building 410
Washington, D.C. 20528

Dear Ms. Richards:

Foxx & Company performed an audit of the U.S. Virgin Islands management of the Department of Homeland Security's State Homeland Security Program grants for Fiscal Years 2007 through 2009. The audit was performed in accordance with our Task Order No. 0012 under TPD-FIG-BPA-07-0007 dated September 27, 2010. This report presents the results of the audit and includes recommendations to help improve the Territory's management of the audited State Homeland Security Program grants.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2007 revision. The audit was a performance audit as defined by Chapter 1 of the *Standards* and included a review and report on program activities with a compliance element. Although the audit report comments on costs claimed by the U.S. Virgin Islands, we did not perform a financial audit, the purpose of which would be to render an opinion on the U.S. Virgin Islands financial statements or the funds claimed in the Financial Status Reports/Federal Financial 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 (513) 639-8843.

Sincerely,
Foxx & Company

Martin W. O'Neill
Partner

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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	fiscal year
OIG	Office of Inspector General

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security, Office of Inspector General, to audit individual states' and territories' management of State Homeland Security Program and Urban Areas Security Initiative grants. This report responds to the reporting requirement for the U.S. Virgin Islands.

The objectives of the audit were to determine if the U.S. Virgin Islands distributed and spent State Homeland Security Program grant funds (1) effectively and efficiently and (2) in compliance with applicable federal laws and regulations. We were to also address the extent to which grant funds enhanced the U.S. Virgin Islands' ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters. The audit included a review of approximately \$4.6 million in State Homeland Security Program grants awarded to the U.S. Virgin Islands during fiscal years 2007 through 2009.

The U.S. Virgin Islands did not do an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. We identified eight areas for improvement: strategic goals and objectives, sole source procurement and management of contract deliverables, financial management documentation, property management controls and accountability, use of purchased equipment, procurement of training, personnel time charges, and filing financial reports. As a result, we questioned \$1,291,486 for specific items claimed and consider the entire \$3,429,214 drawn down for fiscal years 2007, 2008, and 2009 as potential questioned costs until the U.S. Virgin Islands provides adequate support for the funds. We concluded that the Federal Emergency Management Agency (FEMA) should consider classifying the U.S. Virgin Islands as a high risk grantee because of the numerous problems noted in our audit.

FEMA concurred with our 22 recommendations to initiate improvements which, when implemented, should help strengthen program management, performance, and oversight. Written comments to the draft report are incorporated as appropriate and included in their entirety in appendix B.

Background

The Homeland Security Grant Program provides federal funding to help state, territory, and local agencies enhance capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies. Appendix C provides background on the Homeland Security Grant Program

The U.S. Virgin Islands (Territory) received \$5.6 million in Homeland Security Grant Program funds during fiscal years (FYs) 2007, 2008, and 2009. This included \$4.6 million in State Homeland Security Program funds, which were managed by the State Administrative Agency.

Prior to June 2009, the Adjutant General of the Virgin Islands National Guard was the executive head of the Virgin Islands Territorial Emergency Management Agency, the State Administrative Agency. The Director of Virgin Islands Territorial Emergency Management Agency and the Director of the Virgin Islands Office of Homeland Security coordinated activities through the Adjutant General.

On June 22, 2009, the U.S. Virgin Islands legislature passed Act No. 7074 which reorganized responsibility for emergency management. The Virgin Islands Territorial Emergency Management Agency was designated as the lead agency for emergency response with responsibilities as the State Administrative Agency. The Office of Homeland Security was merged into the Virgin Islands Territorial Emergency Management Agency. The Virgin Islands Territorial Emergency Management Agency Director is responsible for coordinating the entire emergency management program for the Territory.

The Homeland Security Grant Program grants included in our audit scope were administered under the prior organizational structure until September 2009 when the reorganization was completed. The organization as restructured is depicted in appendix E. None of the funds were awarded to subgrantees over the 3-year audit period. Appendix A provides details on the purpose, scope, and methodology for this audit.

Results of Audit

Territory Grants Management Practices Need Improvement

The Territory did not do an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The Territory needs improvement in several areas to enhance the Territory's management of the grants including:

- Strategic goals and objectives
- Sole source procurement and management of contract deliverables
- Financial management documentation
- Property management controls and accountability
- Use of purchased equipment
- Procurement of training
- Personnel time charges and
- Filing financial reports

As a result, we questioned a total of \$1,291,486 for specific items claimed by the Territory identified during the audit. In addition, we considered the entire \$3,429,214 drawn down for FYs 2007, 2008, and 2009 awards as "at risk" as potential questioned costs until the Territory provides adequate support for the funds.

In recognition of the significance of improvements needed in the areas listed above, Foxx & Company concluded that FEMA should consider classifying the Territory as a high risk grantee until the Territory implements program controls for safeguarding funds, and reasonably ensures that the grant funds are used for their intended purpose.

Our 22 recommendations call for FEMA to initiate improvements which, when implemented, should help strengthen program management, performance, and oversight. These improvements will enhance the effectiveness of the Territory's overall use of the grant funds to improve preparedness and response capabilities and reduce the risk associated with the Territory's management of FEMA grant funds.

Strategic Goals and Objectives

The U.S. Virgin Islands Homeland Security strategies for FYs 2007 through 2009 grant periods were not current and contained inaccurate information. The strategies were identical for each year and contained goals and objectives with target completion dates that had already passed. The strategies were copied from previous strategies and contained

information that was no longer pertinent. In addition, the FY 2009 grant application was based on a June 2007 draft strategy which was not submitted to or approved by FEMA.

Code of Federal Regulations Title 44 §13.40(a)(b), *monitoring and reporting program performance*, requires grantees to report grant program performance, comparing actual accomplishments to established objectives. In addition, Department of Homeland Security (DHS) State and Urban Area Homeland Security Strategy Guidance on Aligning Strategies with the National Preparedness Goal, dated July 22, 2005, states that an objective sets a tangible and measurable target level of performance over time against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. Therefore, an objective should be:

- Specific, detailed, particular, and focused — helping to identify what is to be achieved and accomplished;
- Measurable — quantifiable, providing a standard for comparison, and identifying a specific achievable result;
- Achievable — the objective is not beyond a state, region, jurisdiction, or locality's ability;
- Results-oriented — identifies a specific outcome; and
- Time-limited — a target date exists to identify when the objective will be achieved.

With respect to updating state strategies, the Strategy Guidance recognized the value of each state having an ongoing process of review and refinement as new lessons are learned, new priorities are realized, and new homeland security guidance is issued. The Strategy Guidance stated that updated State and Urban Area Homeland Security Strategies will then provide a context for performing the strategic exercise of asking “How are we organized?” and “How are we managing our homeland security programs?”

The FY 2009 Homeland Security Grant Program Guidance and Application Kit states that use of State Homeland Security Program funds must be consistent with and supportive of implementation of the state homeland security strategy and state preparedness report. Linkages between specific projects undertaken with State Homeland Security Program funds and strategic goals and objectives will be highlighted through regular required reporting mechanisms, including the Biannual Strategy Implementation Report.

The following events led to a condition of questionable usefulness of the U.S. Virgin Islands' strategy:

- The individual strategies for FYs 2007 through 2009 were approved by FEMA but did not include the date of FEMA's approval. The strategies were identical, including 10 goals and 43 objectives that were identical for each year.
- The application packages (investment justifications) for FYs 2007 and 2008 contained different dates for goals and objectives than the dates contained in the strategies. The grant application packages for FYs 2007 and 2008 contained goals and objectives that referenced and aligned with the strategies approved by FEMA. As shown below, all of the milestone completion dates were in 2006, which was before the grant award dates for FYs 2007 through 2009:
 - Strategic Goal 3 for all three years had a target completion date of July 2006;
 - Goals 6, 7, 8, and 10 for all three years had target completion dates of December 2006; and
 - Objectives under goals 2, 3, 4, 6, and 9 for each of the three years had target completion dates of February, April, May, June, July, August, October, and December 2006.
- Although the U.S. Virgin Islands contracted to have a revised strategy developed for FY 2009 at a cost of \$77,000, Virgin Islands Territorial Emergency Management Agency officials could not provide evidence that the revised strategy was prepared and submitted to FEMA. Additionally, the FEMA Program Analyst for the Virgin Islands did not receive the revised strategy for approval.
- The State Administrative Agency Director said that the FEMA approved strategy for FY 2009 was used to prepare the application for the FY 2009 award. However, our review of the FY 2009 application indicated that the application was aligned with the draft revised strategy and not the FEMA approved strategy.

This draft revised strategy used to prepare the FY 2009 grant application, contained different goals and objectives than the FEMA approved strategies for FY 2007 through 2009. Examples are included in table 1.

Table 1: Comparison of Draft Revised Strategy to FEMA Approved Strategy

Draft Revised Strategy	FEMA Approved Strategies FYs 2007-2009
Goal #1: Enhance Weapons of Mass Destruction & Hazardous Materials Response and Decontamination Capability.	Goal #1: Develop and Institute an Aggressive Infrastructure Protection Plan.
Goal #2: Improve the interoperability of territorial communications functions for “all-hazards” responses, enhance the communication capability among all first responder agencies in a multi-disciplinary environment, and enhance the territory’s 911 system.	Goal #2: Develop/enhance Territorial Quick Response Teams, EOD, and SWAT capabilities to respond to the consequences of a Weapons of Mass Destruction (WMD) incident where local resources are not available, or are inadequate; 1 team on each island (size may vary), for response to all WMD incidents.
Goal #3: Develop a territory-wide medical surge capability to rapidly expand the capacity of the existing healthcare system in order to handle a catastrophic event or major incident.	Goal #3: Identify training requirements by discipline, for WMD response levels. Identify all potential candidates for each level of WMD training by July 2006.
Goal #4: Develop an Intelligence Information Sharing Fusion Center to produce up-to-date threat, vulnerability, and risk information.	Goal #4: Ensure Jurisdictions conduct/participate in WMD exercises to ensure a maximum level of readiness for all response agencies and disciplines.
Goal #5: Ensure that “All-Hazards” Emergency Management and Critical Infrastructure Protection planning and programs are maintained and enhanced territory-wide.	Goal #5: Continue to improve the interoperability of territorial communications functions for WMD response providing for interoperable capability among all first responder agencies in a multi-disciplinary environment and the enhancement of the Territory's 9-1-1 system.

The draft revised strategy also contained different milestones. U.S. Virgin Islands officials could not explain why the outdated strategies were used for FY 2007 and 2008 grant applications. The State Administrative Director told us that he thought the draft revised strategy was submitted to FEMA but could not provide specific information regarding when or who submitted the strategy. He also told us that he was uncertain whether the draft revised strategy was used to prepare the application for FY 2009 grant funds. The statements by the State Administrative Agency Director indicates a lack of knowledge of how the applications were prepared and if the draft revised strategy was submitted to FEMA for approval.

The grant applications for FY 2007 and FY 2008 did not reflect an updated strategy as required by the strategic guidance but instead used an

out of date strategy which contained target completion dates that occurred prior to the date of the grant awards. The FY 2009 application was based on an updated strategy but the strategy was not approved by FEMA. By basing requested funds contained in each of the fiscal year applications on either an outdated strategy or a strategy not approved by FEMA, the grantee requested funds based on goals and objectives unknown to FEMA and without assurance that the goals and objectives aligned with national priorities.

The use of outdated strategies and a strategy not approved by FEMA created an environment that made it difficult to measure improvements in preparedness and response. The basis for measuring improvements was unclear. It further made it difficult to provide a context for performing the strategic exercise of asking “How are we organized?” and “How are we managing our homeland security programs?” as set forth in the DHS State and Urban Area Homeland Security Strategy Guidance on Aligning Strategies with the National Preparedness Goal.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #1: Prepare a revised strategy that includes: (a) the Territory’s current goals and objectives for enhancing its ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters, and (b) goals and objectives that are specific, measurable, achievable, results-oriented, and time-limited.

Recommendation #2: Submit the strategy for FEMA’s approval and use the revised, approved strategy to prepare future grant applications (investment justifications).

Management Comments and Auditors’ Analysis

FEMA concurred with recommendations 1 and 2 and stated that the Virgin Islands Territorial Emergency Management Agency revised the Territory’s Homeland Security Strategy in July 2011 prior to submitting its FY 2011 Homeland Security Grant Program application. FEMA stated that the strategy includes current goals and objectives that enhance the Territory’s ability to prevent, prepare for, and respond to natural and man-made disasters and acts of terrorism. FEMA stated that the strategy goals and

objectives are specific, measurable, achievable, results oriented, and time limited. FEMA will continue to assist the Virgin Islands Territorial Emergency Management Agency Director with strategy updates as needed. FEMA requested that recommendations 1 and 2 be resolved and closed.

Virgin Islands officials did not agree with recommendations 1 and 2. The officials said that an updated plan already has been approved by the federal grantor agency. However, they also said that there is no evidence that the plan for the period in question had been updated or submitted in the Grants Reporting Tool. The officials provided documents which indicated the plan had been provided to them by a contractor. The officials claimed that the Territory would not have had its investment justification and award approved without FEMA's knowledge of the updated plan as this is a regulatory prerequisite. Initially in their comments, the Virgin Islands officials said they do not have evidence of the approval. However, later in their comments, the Virgin Islands officials said they have received written approval from FEMA as required. The officials provided a copy of the strategic plan for 2011-2014 and documentation that the plan was approved by FEMA.

We reviewed the new strategy and concluded that although some of the goals and objectives could be improved, most of the goals and objectives are in accordance with the criteria. The Virgin Islands officials also included an annual evaluation process as part of the strategic plan. Annual evaluations are intended to ensure that improvements are being made and that the progress towards the goals and objectives is being tracked and measured. This annual evaluation is an important addition to the plan. The actions taken by FEMA and Virgin Islands officials are responsive to address the recommendations. These recommendations are resolved and closed.

Sole Source Procurement and Management of Contract Deliverables

The U.S. Virgin Islands spent \$472,167 for professional services without competition. The sole source justification for the procurement award was based on the reputation of the contractor, and that the State Administrative Agency had worked with the contractor previously. The Virgin Islands State Administrative Agency did not receive a cost proposal from the contractor, nor did the Virgin Islands State Administrative Agency perform a cost analysis before funds totaling \$472,167 were spent on the procurements.

According to the current Director, the former State Administrative Agency Director verbally directed the contract scope of work to focus on the development of a reorganization plan. Documentation supporting the direction of the contractor's work and other activities relating to the contract were not maintained by the State Administrative Agency. As a result, the procurement was not in compliance with federal requirements, and the State Administrative Agency may have paid more than necessary. With the exception of a reorganization plan, which was not specifically set forth in the deliverables, documentation was not provided to support if any of the deliverables were provided. Accordingly, we consider the \$472,167 expended for this procurement to be a questioned cost.

The contract scope of work included six deliverables. The Director of the State Administrative Agency said that two of the six deliverables involved analysis and development of documents that were not completed by the contractor. The first deliverable was to develop standard operating procedures for response in keeping with the National Response Framework. Specifically, the contractor was to use a gap analysis to determine baseline Territorial capabilities and complete a territorial and federal validation capabilities assessment. The second deliverable was to assist and guide the Territory through the process of developing a detailed detection response and decontamination document, to review and help re-write Standard Operating Procedures, and to develop a pre-scripted mission check list for Chemical, Biological, Radiological, Nuclear, and Explosive events. The other four deliverables were intangible, immeasurable activities. One of these deliverables provided for consultation on management planning and protocol matters, including organizational assessments of agencies, review of organizational structural effectiveness, staffing analysis, and general support. This deliverable did not call for a detailed assessment that resulted in a reorganization plan.

Code of Federal Regulations Title 44 §13.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition. When competition is not used, Code of Federal Regulations Title 44 §13.36(f)(1) requires that a cost analysis be conducted when adequate price competition is lacking and for sole source procurements.

In addition, Code of Federal Regulations Title 44 §13.42(a) requires that grantees maintain all financial and programmatic records, supporting documents, statistical records, and other records which are required to be maintained by program regulations or the grant agreement, or otherwise reasonably considered as pertinent to program regulations or the grant agreement. Records must be retained for 3 years from the day the grantee or subgrantee submits to the awarding agency its single or last expenditure

report for that period. Code of Federal Regulations Title 44 §13.36(9) states that grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement.

Department of Homeland Security's Financial Management Guide dated January 2006, Page 41, under *Procurement, Adequate Competition*, states that "All sole-source procurements in excess of \$100,000 must receive prior written approval of the awarding agency." The Guide further states that a "Justification must be provided for non-competitive procurement and should include a description of the program and what is being contracted for, an explanation of why it is necessary to contract noncompetitively, time constraints and any other pertinent information. G&T [Grants and Training – a former DHS agency whose functions have since been transferred to FEMA] will approve sole-source procurements for direct recipients only."

On May 28, 2008, the U.S. Virgin Islands entered into a procurement that eventually cost \$472,167. The contractor was selected without competition and justified on prior experience with the contractor. The State Administrative Agency Director prepared a justification letter to the Virgin Islands Department of Property and Procurement for approval of the sole source procurement. The letter stated that the contractor was vetted and approved by DHS to enter into federally funded contracts and that the State Administrative Agency had contracted with the firm previously. The letter further stated that based on the contractor's references, capabilities, knowledge, and prior deliverables to the State Administrative Agency, it was chosen for the sole source procurement. On the basis of this letter the sole source procurement was approved by the Virgin Islands Department of Property and Procurement. FEMA did not approve this sole source procurement. Also, a cost analysis was not performed for the sole source procurement as required by regulations.

According to the current Director, the former State Administrative Agency Director directed the contractor to develop a reorganization plan for the State Administrative Agency. The redirection of the contractor to develop a reorganization plan was not documented in contract records maintained by the State Administrative Agency. This effort involved gathering information about the existing structure and developing a proposed reorganizational structure. Although the scope of work provided for consultation services including the review of organizational structure effectiveness, staffing analysis, and general support, the scope did not specifically state that the contractor was to develop a reorganizational plan for the State Administrative Agency. Other than invoices submitted by the contractor, there were no records to document the history of the procurement as required by Code of Federal Regulations Title 44

§13.36(9). However, the contractor was paid \$472,167, the full amount of the contract award.

The State Administrative Agency did not have policies and procedures for maintaining contract documentation, including information such as redirecting the focus of the scope of work. The State Administrative Agency also did not maintain a contract file that contained the history of the procurement or evidence of the State Administrative Agency oversight. For example, the basis and justification for redirecting the scope of work to focus on developing a reorganization plan was not documented.

Without FEMA approval as required by the DHS Financial Management Guide, the State Administrative Agency should not have awarded the contract without competition, without an adequate justification for sole source procurement, and without a cost analysis being performed. As a result, the State Administrative Agency did not have assurance that the cost paid was justified or whether the contract could have been awarded to an equally competent contractor at a lesser cost. Accordingly, we consider the \$472,167 awarded to the contractor to be a questioned cost.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #3: Establish policies and procedures to adequately justify sole source procurements, ensure that cost analyses are performed in accordance with federal regulations, and obtain FEMA approval, as necessary, for sole source procurements.

Recommendation #4: Establish policies and procedures to ensure that documentation regarding contract activities is maintained.

Recommendation #5: Disallow the amount paid under the contract and recover the \$472,167 in State Homeland Security Program grant funds for return to FEMA.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 3, 4, and 5. FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop sole source procurement Standard

Operating Procedures that includes policies and procedures that adhere to federal regulations and Territorial government policies and procedures. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing this corrective action within 90 days of the date of the grantee notification letter. FEMA will disallow the amount paid to the contract in question and consider options to recover the funds and provide initial determinations on possible collection options to the Virgin Islands Territorial Emergency Management Agency within 90 days of the date of the grantee notification letter. FEMA requested that recommendations 3 through 5 be resolved and open pending implementation of the stated corrective actions.

The Virgin Islands officials did not agree with recommendations 3 through 5. The officials said that the procurement discussed in the report was an open market procurement but the bidder selected was disapproved by the Virgin Islands Governor which is allowable under law. While this may be allowable under Virgin Islands law it does not comply with federal requirements. The officials acknowledged that this type of procurement requires approval from FEMA, and that such approval was not obtained. The officials did not address recommendation 3 that policies and procedures be established to adequately justify sole source procurements, ensure that cost analyses are performed in accordance with federal regulations, and obtain FEMA approval, as necessary, for sole source procurements.

For recommendation 4, the officials said that the Virgin Islands Department of Property and Procurement retains information relative to every procurement and copies of the award and documentation are forwarded to the user agency. They also said that they will utilize the Homeland Security Information Network to maintain documentation effective in 2012. This response did not address recommendation 4 to establish policies and procedures to ensure that documentation regarding contract activities is maintained. For recommendation 5 the officials said that all the deliverables in the contract were not met due to the unforeseen event of Hurricane Omar. They further said that the Virgin Islands procurement process was followed, monies were disbursed, and that the work performed was in line with the contract terms and conditions.

If properly implemented, the corrective actions proposed by FEMA will resolve the condition reported in this finding.

However, until firm timetables are provided for implementing recommendations 3 and 4, the recommendations will remain unresolved and open. Recommendation 5 is considered resolved, and will remain open until such time that corrective actions have been implemented.

Financial Management Documentation

The State Administrative Agency did not maintain adequate internal controls over the management of the FY 2007 through 2009 awards because records and supporting documentation were not maintained as required by federal regulations. According to the State Administrative Agency director, the documents were not maintained because the records were either lost or destroyed as a result of, or subsequent to, the September 2009 reorganization of the Virgin Islands Territorial Emergency Management Agency. As a result, there was no assurance that all grant funds were expended for awarded purposes, and the Territory was not in compliance with record keeping requirements.

Code of Federal Regulations Title 44 §13.42, *Retention and access requirements for records*, requires that grantees maintain all financial and programmatic records, supporting documents, statistical records, and other records which are required to be maintained by program regulations or the grant agreement, or otherwise reasonably considered as pertinent to program regulations or the grant agreement. Records must be retained for 3 years from the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Required documentation in support of the procurement of equipment with FY 2007, 2008, and 2009 grant funds was not complete. The State Administrative Agency had basic information, such as purchase orders for equipment, to support drawdowns of grant funds from the federal account. However, other records which documented the purchase justification, delivery, and installation of equipment were not available.

Documentation also was not available to support the accomplishments for U.S. Virgin Islands personnel costs expended from grant funds for planning activities. There were no records to support \$275,979 claimed for planning activities. Similarly, for personnel costs charged for training activities there was no documentation to support the training that was performed.

This deficiency was corroborated by a FEMA monitoring visit in September 2010 that found Homeland Security Grant Program files were either missing or incomplete. In a letter to the State Administrative

Agency Director, FEMA stated “a corrective action plan was needed to comply with federal requirements. Failure to comply may result in federal funds being placed on hold or having the organization designated as a high risk which may affect funding from other federal agencies.”

In a November 2010 memorandum for the record, the State Administrative Agency acknowledged that records were missing. Specifically, the Agency acknowledged that the missing records included:

1. All grant extension requests prior to October 2, 2009,
2. All personnel listings attached to applications prior to October 2, 2009,
3. National Environmental Policy Act compliance checklists for exercises and trainings conducted prior to October 2, 2009,
4. Inventory lists of equipment purchased,
5. Custody receipts for equipment distributed to other U.S. Virgin Islands agencies,
6. Any requests for budget modifications made to FEMA prior to October 2, 2009,
7. After action reports for exercises that were conducted,
8. Time verification sheets for grant funded employees,
9. Semi-annual certification forms from employees prior to October 2, 2009, and
10. Quarterly reports (Financial and Programmatic) prior to October 2, 2009. (Note: We obtained all but one of the quarterly financial reports as of December 2010 for the FY 2007 through 2009 Homeland Security Grant Program awards.)

During the period March 22-26, 2010, FEMA provided a technical assistance workshop in the U.S. Virgin Islands for Virgin Islands Territorial Emergency Management Agency employees. One of the main issues addressed in the workshop was the need to improve records retention. FEMA’s after action report for the workshop stated that records retention is a requirement which must be complied with in order to avoid future problems with accessing grant files, documents, etc. This requirement, and the processes to address it, were discussed in detail with the State Administrative Agency staff during the workshop. It was recommended in the after action report that FEMA also address this problem, as it is one with potential legal implications having long-term impact on the Territory and its grant administration. The State Administrative Agency officials at the time of our audit were unable to locate and obtain the majority of the grant files and award information for the FY 2007 through 2009 grants to the Virgin Islands.

The State Administrative Agency Director said that the reorganization of the State Administrative Agency in September 2009 resulted in documents being lost during the transfer from one office location to a different location. The Director stated that not all documents were transferred.

The Virgin Islands Territorial Emergency Management Agency received Homeland Security Grant Program grants totaling \$3,429,214 during FYs 2007, 2008, and 2009. As a result of the missing documentation, there was no assurance that these grant funds were used as intended or in accordance with federal requirements. For example:

- Without inventory lists of equipment purchased and custody receipts of equipment disbursed to other U.S. Virgin Islands' agencies, the State Administrative Agency did not have information to identify, safeguard, maintain, or control the custody of equipment purchased with grant funds.
- Without after action reports for exercises that were conducted, the State Administrative Agency did not know how many or what type of exercises were conducted and what was learned from the exercises that could enhance preparedness or response time.
- Without proper documentation for claimed personnel costs, the State Administrative Agency could not support that the costs claimed were for approved activities or that the activities claimed were actually performed.

Taken as a whole, without proper documentation, the State Administrative Agency could not support that the funds received were appropriately used or the level of improved preparedness and security that had been achieved. As a result, the entire \$3,429,214 drawn down during FYs 2007, 2008, and 2009 to the U.S. Virgin Islands is considered "at risk" and should be considered questioned until the amount of funds that can be adequately supported is identified. Details of the questioned costs are provided in appendix D.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #6: Develop a system to maintain required records to assure compliance with grant requirements.

Recommendation #7: Reconstruct the records supporting the \$3,429,214 drawn down for the FY 2007, 2008, and 2009 grant awards.

Recommendation #8: Refund to FEMA any funds for expenditures that cannot be supported by appropriate documentation.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 6, 7, and 8. For recommendation 6, FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop records management Standard Operating Procedures that include procedures for maintaining grant records and associated documents. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing this requirement within 90 days of the date of the grantee notification letter.

For recommendations 7 and 8 FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop and implement a Corrective Action Plan to reconstruct grant files and all associated records for FYs 2007, 2008, and 2009 in support of the \$3,429,214 drawdown. Within 90 days of the receipt of the files FEMA will review the grant files received for unallowable costs and consider options to recover the full or partial amount of unallowable costs or costs not supported with appropriate documentation. Within 90 days of receiving the grant files FEMA will provide initial determinations on possible collection options to the Virgin Islands Territorial Emergency Management Agency.

FEMA requested that recommendations 6 through 8 be resolved and remain open pending implementation of the corrective actions.

The Virgin Islands officials did not agree with recommendations 6 through 8. They said that a system to maintain records has already been implemented. The system is the Virgin Islands government financial management system. According to the Virgin Islands officials, this system has been the official custodian of revenue and financial transaction records since 2007. The officials further said that they will use the Homeland Security Information Network as an additional repository for documentation and records related to grant awards from DHS effective January 2012.

For recommendation 7, the officials said that they have reconstructed records maintained at other locations and the Virgin Islands automated system for grant awards for FYs 2007, 2008, and 2009 grant awards. The officials shipped the reconstructed records to Foxx & Company subsequent to the completion of the audit. However, many of these records did not relate to the FYs 2007, 2008, and 2009 grant awards and were not identified in a manner to conclude that they fully supported the awards.

The Virgin Islands officials also did not agree with recommendation 8. The officials said that all funds can be accounted for by photos of equipment purchased, inventory documentation, or other means to prove that the intended purpose of the grants were adhered to even though there were inadequate records management controls. They also said that corrective action has been taken under the new organization to ensure compliance. However, the Virgin Islands officials did not provide documentation to support that all funds were accounted for or that corrective action had been taken to ensure compliance.

If appropriately supported and properly implemented, the corrective actions proposed by FEMA will resolve the condition identified during the audit. However, until firm timetables for fully implementing the recommendations are provided, the recommendations will remain unresolved and open.

Property Management Controls and Accountability

The Virgin Islands Territorial Emergency Management Agency did not comply with federal requirements for maintaining property records or performing required physical inventories. The Virgin Islands Territorial Emergency Management Agency property records did not include all information required under federal regulations. Also, the process used to inventory property relied on the actions of individual government agencies without any independent verification from the Virgin Islands Territorial Emergency Management Agency. As a result, there was no assurance that property was effectively managed by the grantee.

Code of Federal Regulations Title 44 §13.32(d) *Management requirements* sets forth procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place. Grant recipients will, at a minimum, meet the following requirements:

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- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
 - A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
 - A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Code of Federal Regulations Title 44 §13.3, *Definitions*, defines equipment as tangible, non-expendable, personal property having a useful life of more than 1 year and an acquisition cost of \$5,000 or more per unit.

The Virgin Islands Territorial Emergency Management Agency property records did not include the source of the property, acquisition date, cost of the property, percentage of federal participation in the cost of the property, or use and condition of the property. The records included a description of the property, location, property tag number, serial number, and comment box. We also noted that the records did not include equipment that had been disposed of or the ultimate disposition data such as the date of disposal and sale price of the property. Although the equipment selected for review during the audit included property tags by color code that identified the type of funds used to procure the equipment, i.e., territorial or federal, the tags did not identify which federal agency provided the funds to procure the equipment.

In addition, Virgin Islands Territorial Emergency Management Agency did not include software costing \$5,000 or more as accountable property in its property records. We identified five purchases of software costing more than \$5,000 not included in the property records. Because software was not included in the inventory records nor were all procurement records available, we could not determine the full extent that software was included in property records.

Virgin Islands Territorial Emergency Management Agency did not perform the required physical inventories, which provide visual assurances concerning the location, use, and condition of property. According to Virgin Islands Territorial Emergency Management Agency officials, all procurements are made by the Virgin Islands Department of Property and

Procurement, which had responsibility for conducting physical inventories for the Territory. Physical inventories of equipment by the Department of Property and Procurement had to be approved by individual agencies. If an agency did not approve inventories to be conducted, the inventories were not done. The Department of Property and Procurement Commissioner told us that at least one agency had not agreed to have a physical inventory of equipment. However, the Commissioner did not know the total number of agencies that had not agreed to have physical inventories.

The Department of Property and Procurement procedures for managing fixed assets defined fixed assets as machinery, equipment, and other items having a value of \$5,000 or more, but did not define software as a fixed asset. The procedures described how to conduct a physical inventory but did not specify that an inventory be conducted at least once every 2 years as required under federal regulations.

Without the required physical control and accountability over items purchased with federal grant funds, the Virgin Islands Territorial Emergency Management Agency did not have reasonable assurance that the property procured with State Homeland Security Program funding was being adequately safeguarded to prevent loss, damage, or theft of the property. Without satisfactory controls, the grantee did not have an effective way to ensure that the property was adequately safeguarded or used solely for authorized purposes.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #9: Develop and implement procedures to ensure that property records comply with inventory requirements for equipment purchased with federal funds.

Recommendation #10: Withhold federal grant fund awards until the grantee is in compliance with the property records and inventory requirements.

Recommendation #11: Conduct physical inventory and reconcile to property records.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 9, 10, and 11. FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop property management and inventory Standard Operating Procedures. The procedures should adhere to federal regulations and Territorial government policies and procedures and must include systematic procedures for property management and inventory.

FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing these requirements within 90 days of the date of the grantee notification letter for this required corrective action. FEMA will also consider options to withhold funding until the Standard Operating Procedures are developed and approved as part of an overall Corrective Action Plan. FEMA will advise the Virgin Islands Territorial Emergency Management Agency of its determination to withhold funds within 45 days of the date of the grantee notification letter.

Within 90 days of the date of the grantee notification letter FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop, implement, and submit to FEMA for approval a Corrective Action Plan to conduct a physical inventory of all equipment purchased with FYs 2007, 2008, and 2009 funds and reconcile all associated property records. Upon completion, an inventory report will be required to be provided to FEMA. FEMA will require an update report on progress of this corrective action from the Virgin Islands Territorial Emergency Management Agency within 90 days of the date of the grantee notification letter on the corrective action.

FEMA requested that recommendations 9 through 11 be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials agreed with recommendation 9. They said that the Virgin Islands Department of Property and Procurement is responsible for maintaining inventory but that the inventory system of this organization is inadequate for meeting federal requirements. Therefore the officials said that they are in the process of creating an in-house inventory tracking system.

The officials did not agree with recommendation 10. The officials said that they have taken steps to comply with inventory

requirements. This involves using automated spreadsheets to capture information and solicitation of specialized software from various vendors to achieve compliance with the recommendation. The due date for completion of this process is May 30, 2012. The officials said that withholding federal grant funds would inhibit completion of the project.

For recommendation 11, Virgin Islands officials agreed, and said that an inventory has been conducted and property records are being reconciled and the inventory will be updated bi-annually. Guidance is also being provided to program managers on accounting for acquisitions utilizing federal and local funds.

If properly implemented, the corrective actions proposed by FEMA and the Virgin Islands will resolve the condition identified during the audit. Until a firm timetable for implementing recommendation 9 is provided, the recommendation will remain unresolved and open. Recommendations 10 and 11 are considered resolved, and will remain open until such time that corrective actions have been implemented.

Use of Purchased Equipment

The State Administrative Agency purchased communications equipment that could not be used. The equipment, purchased at a cost of more than \$200,000, were radio encryption modules to increase security for law enforcement and first responder radios. However, the modules were not compatible with all of the Territory's first responder radios. According to Virgin Islands Territorial Emergency Management Agency officials, the encryption modules were left with the installation contractor and the agency did not know the specific physical location of the modules. As a result, grant funds were spent for equipment that could not be used and the State Administrative Agency did not maintain control over the purchased equipment.

Code of Federal Regulations Title 44 §13.32(c) requires that equipment be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. Code of Federal Regulations Title 44 §13.20(a)(3) requires that effective control and accountability be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Also, Code of Federal Regulations Title 2 §215.34(f)(4) requires that a

control system be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment.

In September 2009 the State Administrative Agency purchased 575 radio encryption modules at a cost of \$201,250 for installation into law enforcement and first responder radios. The Virgin Islands justified the purchase of these modules as being critical to: (1) ensure communication security for sensitive interdepartmental communications, (2) bypass the ability of criminals and others for monitoring communications, (3) increase the efficiency of the 9-1-1 system, and (4) improve law enforcement in the Territory.

Five encryption modules were initially installed and were found not to work because the first responders had radios from two different manufacturers. When the modules were installed in one manufacturer's radio, the radio signal could not be heard on the other manufacturer's radio. The purchase of the incompatible encryption modules was due to poor procurement planning. The Virgin Islands Territorial Emergency Management Agency did not have information to support the actions taken during the procurement of the encryption modules to ensure that the modules were compatible with all first responder radios.

In February 2011, we observed the encryption modules in the original shipping boxes from the manufacturer. The module boxes were located in a storage area of the module installation contractor. The State Administrative Agency could not provide us a location for the modules. We visited the contractor to observe the modules and provided the location to agency officials. The State Administrative Agency director said that the modules will eventually be used when additional radios are purchased from one of the two radio manufacturers to ensure that all radios would be from the same manufacturer. The State Administrative Agency director said it is uncertain when the purchase of the additional radios will occur.

Because the modules did not work, the law enforcement and first responder radios were not secured and protected as planned. In addition, because the State Administrative Agency did not know where the modules were being stored, the State Administrative Agency had no assurance that the modules were in a secure location or were still available. As a result of the modules not being able to be used, we consider the \$201,250 to be a questioned cost.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #12: Expedite the procurement of radios that are compatible with the modules, and install the modules as intended.

Recommendation #13: If compatible radios are not procured, return the \$201,250 to FEMA.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 12 and 13. FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to provide documentation and written certification that radios compatible with encryption modules are procured and modules are installed as intended. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing this requirement within 90 days of the date of the grantee notification letter for this required corrective action.

FEMA will consider options to recover the associated costs if documentation to support the procurement of radios and installation of encryption modules is not provided by the Virgin Islands Territorial Emergency Management Agency Director. FEMA will advise the Virgin Islands Territorial Emergency Management Agency of this determination within 45 days of the receipt of the documentation, or, if documentation is not received or insufficient, within 90 days of the date of the grantee notification letter. FEMA requested that recommendations 12 and 13 be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials did not agree with recommendations 12 and 13. The officials said that prior to the audit they had identified the physical location of the encryption cards and the inventory location has been included in an automated spreadsheet. (However, during the audit when the audit team asked for the location of the encryption cards, Virgin Islands officials did not know the location.) The officials further stated that the vendor for the encryption cards has been contacted and the cards will be

installed in those radios that can be encrypted which will meet the specified justification of purchase. The officials did not say how many of the radios on-hand might not be capable of being encrypted. The officials also did not address the need to expeditiously procure radios to replace the radios that cannot be encrypted. For future purchases the officials said they are committed to ensuring that all purchases will be interoperable. The officials also said that training will be provided to ensure future maintenance.

For recommendation 13, the officials said that efforts are underway to install the encryption cards into those radios that can be encrypted. The officials did not address the recommendation that the cost of encryption cards that are not compatible be refunded to FEMA.

If properly implemented, the corrective actions proposed by FEMA will resolve the condition identified during the audit. However, until a firm timetable for fully implementing recommendation 12 is provided, the recommendation will remain unresolved and open. Recommendation 13 is considered resolved, and will remain open until such time that corrective actions have been implemented.

Procurement of Training

The State Administrative Agency utilized a Memorandum of Understanding to procure training for first responders and other Virgin Islands officials from the University of Virgin Islands Community Engagement and Lifelong Learning Center. However, the agreement included a 25% service fee (\$50,000) that was subsequently claimed as undocumented indirect costs. As a result, we consider the \$50,000 to be a questioned cost because of a lack of supporting documentation.

The University of Virgin Islands Community Engagement and Lifelong Learning Center is an organization within the University of Virgin Islands that provides training for professionals and organizations. According to Territorial personnel, the Memorandum of Understanding was made by the State Administrative Agency to avoid the Virgin Islands administrative processes of entering into contracts.

Code of Federal Regulations Title 2 Appendix A to Part 220, §K.2.a.(1) states that no proposal to establish facilities and administrative (indirect) costs shall be acceptable unless such costs have been certified by the educational institution. Section K.2.b. (4) requires that the institution's

certification state that all costs included are properly allocable to federal agreements on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements.

The State Administrative Agency entered into a Memorandum of Understanding on December 31, 2008, with the University of Virgin Islands for \$200,000. Under the agreement, the University of Virgin Islands was to manage, coordinate, and implement training programs. The agreement stated that the State Administrative Agency outsourced the management and delivery of training in compliance with the 2007 Homeland Security Guidance.

The Memorandum of Understanding included a service fee of 25% (\$50,000), which was subsequently identified as indirect costs. The State Administrative Agency could not provide documentation to support that an indirect cost allocation plan in support of the \$50,000 service fee had been prepared and approved. As a result, the makeup of the \$50,000 professional service fee could not be determined.

During a FEMA technical assistance workshop provided to State Administrative Agency officials in March 2010, the Memorandum of Understanding with the University of Virgin Islands was reviewed. The after-action report following the workshop stated that it was agreed that the State Administrative Agency needed to either (1) terminate the Memorandum of Understanding and re-establish the relationship with the University of Virgin Islands as a subrecipient, or (2) subaward the funding to the Virgin Islands Territorial Emergency Management Agency Training Division and let it administer the project with the University of Virgin Islands as a contractor. The report concluded that the current Memorandum of Understanding did not establish the correct relationship nor did it include a termination clause. According to a Virgin Islands official, because the use of the Memorandum of Understanding was questioned by FEMA, a contract or subgrantee agreement will be used instead of a Memorandum of Understanding for future agreements with the University of Virgin Islands to provide training.

In addition to the December 2008 Memorandum of Understanding for \$200,000, the State Administrative Agency entered into two prior Memoranda of Understandings with the University of Virgin Islands to provide training, one for \$150,000 with a service fee of \$37,500, and another for \$200,000 with a service fee of \$50,000. Because these agreements were outside the scope of our audit, we did not review these service fees.

The State Administrative Agency Director said that a Memorandum of Understanding was used with University of Virgin Islands to avoid Virgin Islands contract requirements. There were no Virgin Islands procurement policies or procedures that restricted the State Administrative Agency from using a Memorandum of Understanding to procure training services from the University of Virgin Islands. The University of Virgin Islands official that managed the memorandum of understanding stated that memorandums of understanding were also used with other Virgin Islands government agencies.

The procurement of training using a Memorandum of Understanding with the University of Virgin Islands did not include an approved indirect cost allocation plan in support of the \$50,000 service fee. In addition, FEMA determined that the Memorandum of Understanding with the University of the Virgin Islands was not a proper procurement method. As a result, we question the \$50,000 paid to the University of Virgin Islands.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #14: Recover the \$50,000 paid to the University of the Virgin Islands as a professional service fee and return it to FEMA.

Recommendation #15: Require that future agreements with the University of Virgin Islands be made through contractual agreements or through subgrantee agreements.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 14 and 15. FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to submit justification that supports the service fee paid the University of Virgin Islands. FEMA will require an update report on progress from the Director within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will review the justification submitted and, if necessary, take action to recover all or part of the fee paid to the University of Virgin Islands. If FEMA decides to take this action, FEMA will advise the Virgin Islands Territorial Emergency Management Agency of the determination within 60 days of the receipt of the documentation.

FEMA also will require the Virgin Islands Territorial Emergency Management Agency Director to submit written certification that all future fiduciary agreements for FEMA preparedness grants with the University of Virgin Islands are made through contractual or subgrantee agreements. FEMA will also require the Director to develop grants management Standard Operating Procedures that will include procedures for subgranting funds. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress to implement the corrective actions within 90 days of the date of the grantee notification letter. FEMA requested that these recommendations be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials did not agree with recommendations 14 and 15. The officials said that the University of Virgin Islands has an approved indirect cost rate of 65% for on-campus activities and a rate of 25% for off-campus activities that applies to the training agreement. The officials said that the \$50,000 cited in the recommendation as a professional service fee constitutes the equivalent of the indirect cost. While the Virgin Islands officials said that the \$50,000 was for indirect costs, identification of the \$50,000 as an indirect cost was not established at the time of the agreement. We also note that a \$50,000 fee included in a \$200,000 total cost equates to a rate of 33%, not 25%.

For recommendation 15 the officials said that they now have adequate training facilities and it is not anticipated that the services procured will be required in the future other than rental of a larger facility for specialized training. If it becomes necessary to use the services of the University of Virgin Islands again the officials will use the Virgin Islands Attorney General's Office to craft an acceptable agreement.

If properly implemented, the corrective actions proposed by FEMA will resolve the condition identified during the audit. However, until firm timetables for fully implementing the recommendations are provided, the recommendations will remain unresolved and open.

Personnel Time Charges

The U.S. Virgin Islands did not adequately document personnel charges to the FYs 2007 and 2008 awards. Personnel time charges for State Homeland Security Program funds were not supported by activity reports or time sheets indicating that personnel had worked on grant projects or

activities as required by regulations. As a result, there was no assurance that the time charged was spent on allowable grant activities. In addition, the Territory charged personnel costs to the FY 2007 award in excess of the allowable award percentage. The U.S. Virgin Islands personnel were unaware of the 15% ceiling on personnel costs. Because the State Administrative Agency did not comply with the 15% award requirement and did not adequately document personnel time charges, we consider personnel costs charged of \$568,069 to be a questioned cost.

According to Code of Federal Regulations Title 2 §225, *Cost Principles for State, Local, and Indian Tribal Governments*, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or time sheets. Personnel activity reports must reflect an after-the-fact distribution of the actual activity, must account for the total activity for each employee, must be prepared at least monthly, and must be signed by the employee. According to the FY 2007 Homeland Security Grant Program Guidance and application kit, up to 15% of the program funds may be used to support the hiring of full or part-time personnel to conduct program activities that are allowable under the FY 2007 Homeland Security Grant Program guidance. Allowable activities include planning, training, program management, and exercise program management.

Unsupported Personnel Time Charges

According to current Virgin Islands employees, personnel expenses charged to State Homeland Security Program grants for FYs 2007 and 2008 were based on a percentage determined by the former State Administrative Agency director. The current State Administrative Agency director could not provide documentation to support how the percentages were determined.

Employee time sheets were not supported by personnel activity reports or records that detailed specific hours worked on grant activities. The time sheets simply showed calculated hours worked by an employee on each day. For five employees, a total salary amount of \$210,600 was charged to the FY 2007 State Homeland Security Program funds. For FY 2008, the amount calculated for these five employees totaled \$357,469. These salary amounts totaling \$568,069 for FYs 2007 and 2008 were documented in the State Administrative Agency's justifications for drawdown amounts for FYs 2007 and 2008. No salary amounts were charged in FY 2009. Virgin Islands officials stated that supporting activity reports for time charges are now required. However, documentation was not provided to support this statement.

According to Virgin Islands officials, the Territory personnel approving the time sheets were not aware that supporting documentation was required. The State Administrative Agency did not have documented policies and procedures that specified the requirement for supporting documentation. The Territory personnel stated that they were first made aware of the requirement for supporting documents when it was identified in a single audit report. Without documentation indicating which grant activities employees worked on, there is no assurance that the time spent by employees was actually spent to further the purposes of the awarded grant. Accordingly, the \$568,069 charged for FYs 2007 and 2008 are considered questionable costs.

The single audit report for FY 2007 also found that personnel time charges for State Homeland Security Program funds were not supported. The report stated that the Office of Management and Budget Circular A-87, Attachment B, item #8(h)(3), requires support for salaries and wages, where employees are expected to work solely on a single federal award or cost objective. Charges for salaries and wages should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. The report concluded that the Virgin Islands Office of the Adjutant General was unable to provide the semi-annual certifications for sampled employees paid with federal grant funds. This occurred because policies were not in place to require certifications or time cards. As a result, the report questioned \$63,042 of payroll costs for sampled time charges. These time charges were for the five employees that had total salary amounts of \$210,600 for FY 2007. The \$63,042 identified from the single audit is included in the \$568,069 questioned from our audit.

Personnel Costs Exceeded the Authorized Amount

The State Homeland Security Program grant amount was \$1,270,000 for FY 2007 and \$1,850,000 for FY 2008, resulting in personnel cost ceilings (15% of the awards) of \$190,500 and \$277,500 for FYs 2007 and 2008, respectively. However, the Virgin Islands claimed personnel costs of \$210,600 for FY 2007 and \$357,469 for FY 2008. Therefore, the allowable amount was exceeded by \$20,100 for FY 2007 and by \$79,969 for FY 2008. At the time of our audit, the FY 2009 personnel charges to the grants were within the respective ceilings. Virgin Islands Territorial Emergency Management Agency officials said that they

thought the allowable amount was 50% rather than 15% for the FY 2007 and FY 2008 grants.

The failure of the State Administrative Agency employees to support time charges to the FYs 2007 and 2008 awards with adequate documentation and exceeding the 15% ceiling imposed by FEMA requirements has resulted in \$568,069 of time charges questioned.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #16: Provide documentation that supports the questioned salary costs of \$568,069, including the amounts that exceeded the 15% limit, or recover the amount not supported.

Recommendation #17: Establish controls to ensure compliance with federal requirements concerning the limitations of grant funds used for personnel costs.

Recommendation #18: Ensure that employees prepare activity reports that identify the specific grant to which the hours claimed are being charged.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 16, 17, and 18. FEMA will require the Virgin Islands Territorial Emergency Management Agency Director to develop time and attendance standard operating procedures and establish policies requiring certification of timecards for all personnel paid with FEMA preparedness grant funds. FEMA will also require the Director to submit documentation that supports the questioned salary costs including the \$21,100 that exceeded the 15% limit. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing this requirement within 90 days of the date of the grantee notification letter. FEMA will analyze the documentation to determine if the costs did exceed the 15% limit and take appropriate steps to recover the questioned funds. FEMA will apprise the Agency of its determination to recover funds within 90 days of the receipt of the subject documentation. FEMA requested that recommendations 16

through 18 be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials did not agree with recommendations 16 through 18. For recommendation 16, the officials said that they are working on compiling the information regarding the questioned salary costs but they have not completed the effort and it will take six months to complete. The officials' efforts to compile this information will not ensure that the actual time spent will be determined, because of the time span since salary costs were claimed as well as turnover of staff for which amounts were claimed. It is not likely the amounts arrived at from the after the fact effort will adequately represent time expended on the FEMA awards. In addition, the officials did not address the return of the \$20,100 that exceeded the 15% grant limit.

For recommendation 17, the Virgin Islands officials said that the Government of Virgin Islands has established standard operating procedures and best practices relative to all grant personnel costs. The automated system has controls disallowing transactions that would exceed the grant performance period and they are conducting monthly reconciliations of personnel costs to ensure timely adjustments for payroll allocation. These actions, however, do not address the need for controls to ensure compliance in the future with federal percentage limitations on the use of grant funds. Accordingly the need for controls will remain unresolved.

For recommendation 18, the Virgin Islands officials said that they have initiated steps to create internal coding on time sheets delineating grant tasks with personnel cost allocation. Also, Virgin Islands officials said a grants management manual has been established that documents internal controls to ensure that employees provide monthly reports detailing activities for each grant period.

Although the corrective actions proposed by FEMA, if properly implemented, may resolve the recommendations, the Virgin Islands' disagreement with the recommendations could hamper the successful resolution of the recommendations. Until firm timetables for implementing these recommendations are provided, the recommendations will remain unresolved and open.

Filing Financial Reports

The State Administrative Agency did not submit required federal quarterly financial status reports in a timely manner. Of the 29 financial reports that were required to be submitted for the FYs 2007 through 2009 Homeland Security Grant Program between the date-of-award and December 31, 2010, 22 were submitted late and 1 was not submitted. As a result, because the Territory was not in compliance with federal regulations, FEMA officials did not have timely information on the State's financial activities in managing the grant funds.

According to Code of Federal Regulations Title 44 §13.41, *Financial reporting*, grantees are required to submit financial status reports within 30 days after the end of each quarter. These reports are critical tools for FEMA to carry out its financial stewardship duties for the Homeland Security Grant Program. The reports serve as a check to determine if grantees are expending federal funds on a timely basis.

Table 2 shows the Virgin Islands' history of compliance with the federal financial reporting requirements for the FYs 2007 through 2009 Homeland Security Grant Program from award date through December 31, 2010.

Table 2: Financial Status Reports

FY	Date Awarded	Quarterly Financial Reports				
		Required	Submitted on Time	Submitted Late	Average Days Late*	Not Submitted
2007	08/13/07	14	2	11	49	1
2008	08/25/08	9	3	6	24	0
2009	08/21/09	6	1	5	22	0
Total		29	6	22	36	1

* Code of Federal Regulations Title 44 §13.41 requires financial status reports to be filed within 30 days from the end of each quarter. The above Average Days Late begins on the 31st day.

As the table shows, 22 of the 29 required status reports were filed after the required 30-day period following the end of each quarter. Of the 22 late reports, 13 were filed more than 10 days late. Although FEMA sponsored a training session on grant management for Virgin Islands Territorial Emergency Management Agency personnel in response to this condition, Virgin Islands Territorial Emergency Management Agency continued to file late reports. The State Administrative Agency Director said that he did not know why the financial reports were filed late or not filed at all.

Financial reports are critical components of grant management process, providing visibility of the volume and timeliness of grantee use of funds. Without these reports being filed in a timely manner, FEMA was not provided information concerning the financial activities as required by the grant agreement. Noncompliance with filing financial reports is another example of the overall problems with grants management by the State Administrative Agency as identified in several FEMA programmatic and financial reviews and as reported in single audit reports.

Recommendation

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director of the Virgin Islands Territorial Emergency Management Agency to:

Recommendation #19: Establish and comply with procedures to ensure that financial status reports are prepared and submitted in a timely manner in accordance with federal requirements.

Management Comments and Auditors' Analysis

FEMA concurred with recommendation 19 and will require the Virgin Islands Territorial Emergency Management Agency Director to establish grants management Standard Operating Procedures. The Standard Operating Procedures must address the preparation and timely submission of financial status and any other reports required by FEMA. FEMA will require an update from the Virgin Islands Territorial Emergency Management Agency on the progress to implement the corrective action within 90 days of the date of the grantee notification letter. FEMA requested that recommendation 19 be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials agreed with recommendation 19. The officials said that policies and procedures have been instituted and outlined in the grants management manual. Our review of this manual indicated that these policies and procedures consisted of federal financial reporting instructions and instructions for completing Homeland Security Quarterly progress reports. The officials said that there has been a marked improvement in reporting but changes and modifications in the DHS/FEMA electronic reporting system have been problematic resulting in instances of late reporting.

If properly implemented, the corrective actions proposed by FEMA and the Virgin Islands will resolve the condition identified during the audit. However, until a firm timetable is provided for fully implementing the recommendation, the recommendation will remain unresolved and open.

High Risk Grantee

The State Administrative Agency should be considered a high risk grantee because it has a history of noncompliance with the terms and conditions of grant awards and federal regulations. The State Administrative Agency's lack of compliance has been independently documented by various oversight organizations in single audit reports and FEMA monitoring reports. In addition, the results of this audit have further documented the State Administrative Agency's noncompliance with the requirements of the FYs 2007 through 2009 State Homeland Security Program grants. State Administrative Agency officials were unaware of federal requirements, did not maintain grant expenditure and procurement records, did not maintain an up to date strategy, and generally did not comply with the federal grant requirements. As a result, unless additional oversight or grant restrictions are placed on the State Administrative Agency, the noncompliance documented by this audit and other reviews will likely continue into the future.

Code of Federal Regulations Title 44 §13.12(a) sets forth conditions for "high-risk" grantees. A grantee or subgrantee may be considered "high risk" if an awarding agency determines that a grantee or subgrantee:

- (1) has a history of unsatisfactory performance, or
- (2) is not financially stable, or
- (3) has a management system which does not meet the management standards set forth in this part, or
- (4) has not conformed to terms and conditions of previous awards, or
- (5) is otherwise not responsible.

If the awarding agency determines that an award will be made, special conditions or restrictions shall correspond to the high risk condition and shall be included in the award.

We along with other independent organizations have determined that the State Administrative Agency was not in compliance with federal regulations in several areas. The State Administrative Agency was not in compliance in the areas of personnel time charged, financial reports filed, property management, preparation of applications, property management, supporting documentation maintained, and contracted services.

The State Administrative Agency has had a history of not complying with the terms and conditions of grant awards as reported by FEMA monitoring visits and single audit reports. The findings of noncompliance identified in these reports, listed below, clearly indicate that the State Administrative Agency meets the conditions of a high risk grantee. In the single audit report for FYs 2007 and 2008 (the latest available at the conclusion of our field work), the findings shown in table 3 applied to the Homeland Security Grant Program grants. The State Administrative Agency Director at that time was the Adjutant General.

Table 3: Single Audit Report Findings

FY 2007 Report Findings

- The Office of the Adjutant General was unable to provide semi-annual certifications for employees paid with Federal Award funds.
- The Office of the Adjutant General does not have adequate procedures to ensure expenditures reimbursed are adequately supported.
- The Office of the Adjutant General does not have adequate controls in place to ensure that records are properly maintained.
- The Office of the Adjutant General did not follow procedures in place to maintain appropriate records for acquisition and control of property acquired with Federal funds.
- Processes were not in place to provide for the proper reconciliation of accounting records/information.

FY 2008 Report Findings

- Internal controls to ensure reported program expenditures were incurred during the grant award period are not operating effectively.
- Internal controls to ensure property records are readily available for inspection were not operating effectively.
- Internal controls to ensure financial reports are submitted to the federal grantor and readily available are not operating effectively.
- Internal controls related to record retention to ensure supporting documentation for cash drawdowns are readily accessible are not operating effectively.

Our audit of the Virgin Islands' management of the State Homeland Security Program grants for FYs 2007 through 2009 further supports that the Territory should be considered a high risk grantee. The eight findings discussed in this report show that the Territory continues to demonstrate weak management, inappropriate oversight of federal grant funds, and lack of compliance with federal requirements concerning grants management.

In March 2010, in response to the findings contained in the FYs 2007 and 2008 single audit reports, as well as FEMA's observations during

monitoring visits, FEMA provided a technical assistance workshop for Virgin Islands Territorial Emergency Management Agency employees. The workshop provided the State Administrative Agency staff with needed assistance regarding the compliance requirements for the administration of all FEMA programs, as well as methods and approaches to standardize the internal and external grants management responsibilities.

According to an after action report on the workshop, FEMA officials, in preparation for the workshop, reviewed monitoring reports and the results of the single audits. FEMA officials also conducted conference calls with Virgin Islands employees. Based on this preparatory work, FEMA officials identified the following areas of deficiencies regarding the Virgin Islands' management of FEMA grant funds:

- Overdue federal financial reports and progress reports
- Expenditures in excess of the federal award amount incurred beyond the performance period
- Lack of cash management procedures and practices
- Funds being drawn down without proper documentation of obligation or expenditure
- Slow rate of fund drawdowns for current awards
- Time and attendance maintenance and reporting for grant-funded activities
- Missing travel documentation
- Missing subrecipient applications, progress reports, correspondence, and procurement documentation
- No standard operation procedures for grants management
- Missed deadlines for grant applications during FY 2010
- No access to online electronic grants payment and reporting systems (e.g., Grants Management System, Payment and Reporting System, Grants Reporting Tool, or Homeland Security Information Network)

After the technical assistance workshop, a letter from FEMA was sent to the Virgin Islands Territorial Emergency Management Agency on July 27, 2010, with recommendations to address the above issues. These recommendations included Virgin Islands Territorial Emergency Management Agency developing a grants management policy and procedures manual.

On March 14, 2011, we requested information from Virgin Islands Territorial Emergency Management Agency officials on the status of implementing the FEMA recommendations. The Virgin Islands Territorial Emergency Management Agency responded to our request by

sending a letter dated April 8, 2011, to FEMA regarding the status of implementing the recommendations. In this letter, the Virgin Islands Territorial Emergency Management Agency stated that they were still working on developing a grants management policy and procedures manual and taking actions to address other recommendations. However, the Virgin Islands Territorial Emergency Management Agency did not provide information on specifically what was being done to implement the recommendations. Eight months had passed since the Virgin Islands Territorial Emergency Management Agency received the recommendations letter from FEMA, and the agency was still working on implementing the recommendations. The Virgin Islands Territorial Emergency Management Agency did not respond to the recommendations until we inquired about the status of implementing the recommendations.

According to the current State Administrative Agency Director, the Virgin Islands Territorial Emergency Management Agency has not had the staff resources needed to fully comply with the federal regulations. It was further stated that staff turnover has contributed significantly to the noncompliance with federal requirements, the lack of response to FEMA recommendations, and the numerous reported deficiencies in grants management. The Director also attributed the loss of documentation and unawareness of the requirements to the reorganization and relocation of the State Administrative Agency, along with the realignment of staff responsibilities.

Conclusion

The history of noncompliance, loss of documentation, and overall unawareness of the importance of complying with federal requirements has created a high-risk environment for the management of grant funds within the Virgin Islands. With this type of environment, FEMA cannot be certain that the grant funds will be appropriately administered consistent with the goals of the programs. FEMA also cannot be assured that the funds are adequately protected from fraud, waste, abuse, and mismanagement. Without FEMA taking the necessary action, such as declaring the Virgin Islands Territorial Emergency Management Agency a high-risk grantee, future grant funds likely will continue to be treated in the same fashion as previous awards and the Territory will not be better prepared to respond to incidents.

The lack of compliance by the State Administrative Agency in the administration of grants as discussed in our findings and those of other independent reviewers indicates that action needs to be taken to force the State Administrative Agency to comply with grant requirements. We believe that designating the State Administrative Agency as high risk

would be an effective way to force compliance by the State Administrative Agency. As a high-risk grantee, the State Administrative Agency would be under greater oversight by FEMA to comply with federal requirements.

In regard to declaring the State Administrative Agency a high-risk grantee, we noted that the U.S. Department of Education had designated the Virgin Islands Department of Education as a high-risk grantee. In an U.S. Department of Education, Office of Inspector General (OIG) Audit report dated January 2010, *Audit Report No. ED-OIG/L04J0015*, the report outlines the financial management problems the U.S. Department of Education has had with the Government of the Virgin Islands and the Virgin Islands Department of Education. The report details audit issues from FYs 2003 to 2009 that have not been sufficiently resolved. Although the Virgin Islands Territorial Emergency Management Agency is a different agency than the Department of Education, many of the audit findings at the State Administrative Agency are very similar to the findings in the U.S. Department of Education OIG report, and show an inability or unwillingness of the Territory government to comply with federal requirements. The U.S. Department of Education has required the Virgin Islands Department of Education to enter into a compliance agreement and hire a third party fiduciary to manage its grant funds and to assist in resolving its financial management issues.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate:

Recommendation #20: Assess the Virgin Islands grant performance and based on that assessment determine if the State Administrative Agency should be declared a high-risk grantee.

Recommendation #21: Develop and implement procedures with special conditions and restrictions to ensure that future grants to the Virgin Islands are managed in accordance with federal requirements and that the funds are adequately safeguarded against fraud, waste, abuse, and mismanagement.

Recommendation #22: Consider requiring the State Administrative Agency to hire a third party fiduciary to manage its grant funds and assist in resolving the financial management issues.

Management Comments and Auditors' Analysis

FEMA concurred with recommendations 20, 21, and 22. In response to recommendations 20 and 21, FEMA will conduct an assessment to determine if the grantee should be given a high-risk designation. The assessment will include progress towards implementing a Corrective Action Plan and progress towards correcting findings identified in FEMA Financial Monitoring Reports and FEMA Programmatic Monitoring Reports. FEMA will require an update report from the Virgin Islands Territorial Emergency Management Agency on the progress of implementing this requirement within 90 days of the date of the grantee notification letter for this required corrective action. FEMA will advise the Agency of its determination regarding high risk designation within 90 days of the receipt of update report.

FEMA will explore options to limit or restrict access to future and current grant funds until the Virgin Islands Territorial Emergency Management Agency Director can demonstrate that procedures are in place to safeguard federal funds against fraud, waste, abuse, and mismanagement. FEMA will make an initial determination regarding the information obtained and advise the Virgin Islands Territorial Emergency Management Agency of its findings within 90 days of the date of the grantee notification letter.

With respect to recommendation 22, although FEMA concurred with the recommendation, it stated that it is not in a position to require the Virgin Islands Territorial Emergency Management Agency to hire a third party fiduciary to manage its grant funds. FEMA stated it will discuss various options with the Virgin Islands Territorial Emergency Management Agency Director and include viable options as part of the Corrective Action Plan. FEMA will require an update report from the Virgin Islands Territorial Emergency Management Agency within 90 days of the date of the grantee notification letter stating their determinations with supporting justification for hiring a third party fiduciary.

FEMA requested that recommendations 20 through 22 be resolved and remain open pending implementation of the corrective actions.

Virgin Islands officials did not agree with recommendation 20. The officials said that since the inception of the new organization, personnel have reached out to the grantor agency to introduce new personnel and sought guidance as to corrective remedial actions needed. The officials also said that significant changes and

improvements have occurred since the reorganization with improvements in timely reporting, establishing internal controls, documentation of protocols, and overhauling grants management. The findings in the report, according to the officials, were from years prior to the reorganization and do not accurately reflect the new organization. The officials agreed that there are areas that require staff training to improve further compliance but disagreed that the organization should be considered a high-risk agency.

For recommendation 21, the officials said that improvements have been realized during the 2009-2010 grant period. Staff have participated in training and the officials believe that grants with further restrictions and conditions would hamper the Territory's ability to utilize funds timely and effectively, and would have a negative effect on protecting the people of Virgin Islands during all hazard emergencies. Increased regulations would negatively impact the Territory's preparedness and ability to effectively meet core capabilities.

For recommendation 22, the Virgin Islands officials are opposed to a third party fiduciary to manage its grant funds. The officials said that hiring a third party would be the least cost effective method of achieving the desired results to improve compliance.

In view of the magnitude and span of time that the Virgin Islands Territorial Emergency Management Agency has experienced management problems, we continue to believe that a designation of high risk is appropriate. The recent improvements are clearly a positive beginning. However, continued attention is needed to reduce the risk that federal grants will be mismanaged.

Although the corrective actions proposed by FEMA, if properly implemented, may resolve the recommendations, the Virgin Islands' disagreement with the recommendations and its history of grant mismanagement could hamper the successful resolution of the recommendations. Recommendations 20 and 21 are considered resolved and will remain open until such time that corrective actions have been implemented. Until a firm timetable is provided for recommendation 22, the recommendation is considered unresolved and open.

Appendix A

Purpose, Scope, and Methodology

The objective of this audit was to determine whether the U.S. Virgin Islands spent State Homeland Security Program grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The goal of this audit is to identify problems and solutions in order to assist FEMA and the Territory to improve the nation's ability to prevent and respond to all hazards on a local as well as a statewide level.

The scope of this audit included the plans developed by the Territory to improve preparedness and all-hazards response, the goals set within those plans, the measurement of progress towards the goals, and the assessments of performance improvement that result from this activity. Further, the scope included the assessment of these activities within the context of risk to determine if the Territory's plans produced strategic performance improvements related to the highest areas of risk rather than merely producing improvements in a broader sense.

Together, the entire Homeland Security Grant Program and its five interrelated grant programs fund a range of preparedness activities, including planning, organization, equipment purchases, training, exercises, and management and administration costs. Because of the interrelationship of these grant programs, all were considered when evaluating the planning cycle and the effectiveness of the overall grant program. However, only the State Homeland Security Program funding, and equipment and programs supported by the grant funding, were reviewed for compliance.

In accordance with the audit guide provided by the DHS Office of Inspector General, Foxx & Company auditors visited the Territory's State Administrative Agency (Virgin Islands Territorial Emergency Management Agency) located in St. Thomas, Virgin Islands. Grant funds were not allocated to subgrantees, Territory agencies, or first responders. The expenditure of grant funds was made by the State Administrative Agency for first responders. The first responders in the Territory were the Police Department, Fire Department, and Emergency Medical Service. These first responders were visited to gather information for several steps in the audit guide.

The Homeland Security Grant Program awards to the Virgin Islands for FYs 2007 through 2009 included the following programs and awards:

Appendix A
Purpose, Scope, and Methodology

Homeland Security Grant Program FYs 2007 through 2009				
Funded Activity	FY 2007	FY 2008	FY 2009	Total
State Homeland Security Program	\$1,270,000	\$1,850,000	\$1,430,000	\$4,550,000
Law Enforcement Terrorism Prevention Program	\$910,000	Not Applicable	Not Applicable	\$910,000
Citizen Corps Program	\$39,528	\$39,556	\$39,570	\$118,654
Grand Total	\$2,219,528	\$1,889,556	\$1,469,570	\$5,578,654

Source: Federal Emergency Management Agency

At the State Administrative Agency, we interviewed responsible officials, reviewed documentation supporting management of the awarded grant funds (including expenditures for equipment, training, and exercises), and physically inspected some of the equipment procured with the grant funds. In addition, we met with representatives of first responder organizations, fire, police, and emergency medical services, to discuss the grant process and the benefits the grant funds have brought to their organization and communities. We also met with a representative of the University of Virgin Islands to discuss the training provided under the Memorandum of Understanding with the State Administrative Agency.

We also conducted interviews and reviewed documentation at FEMA headquarters and Territory offices. To determine the effectiveness of the Virgin Islands' grant program as well as compliance with applicable grant requirements, we reviewed the key management processes, interviewed Territory officials directly involved in the management and administration of the U.S. Virgin Islands Homeland Security Grant Program, and conducted inspections of equipment procured with federal grant funds. The team reviewed and analyzed data related to grant management and associated management processes as identified from discussions with Territory officials at the beginning of the audit. These key management processes included:

- Threat, capability, and needs assessment
- Grant application preparation and submission
- Grant expenditure and reporting
- Grant monitoring

Appendix A

Purpose, Scope, and Methodology

We conducted the audit between January 2011 and June 2011, in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (2007 Revision). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. This was a performance audit as defined by Chapter 1 of the *Standards*, and included a review and report of program activities with a compliance element. Foxx & Company was 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, Foxx & Company was neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had Foxx & Company been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to their attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the U.S. Virgin Islands.

While the audit was being performed and the report prepared under contract, the audit results are being reported by the DHS Office of Inspector General to appropriate Federal Emergency Management Agency and U.S. Virgin Islands officials.

Appendix B Management Comments to the Draft Report

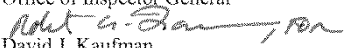
U.S. Department of Homeland Security
Washington, DC 20472



FEMA

NOV 23 2011

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: 
David J. Kaufman
Director
Office of Policy and Program Analysis

SUBJECT: Comments to OIG Draft Report, *The Virgin Islands' Management of State Homeland Security Programs (SHSP) Awarded during Fiscal Years 2007 through 2009*

Thank you for the opportunity to comment on the draft report. The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. Our responses to the recommendations are as follows:

OIG Recommendation #1: We recommend that the Assistant Administrator, Grant Programs Directorate (GPD), require the Director of the Virgin Islands Territorial Emergency Management Agency (VITEMA) to prepare a revised strategy that includes: (a) the Territory's current goals and objectives for enhancing its ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters, and (b) goals and objectives that are specific, measurable, achievable, results-oriented, and time-limited.

FEMA Response: Refer to FEMA response under response to recommendation #2 below.

OIG Recommendation #2: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to submit the strategy for FEMA's approval and use the revised, approved strategy to prepare future grant applications (investment justifications).

FEMA Response to Recommendations #1 and #2: FEMA concurs with these recommendations.

VITEMA revised the Territory's Homeland Security Strategy (HSS) in July 2011 prior to submitting its FY2011 Homeland Security Grant Program (HSGP) application. The HSS includes current goals and

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Management Comments to the Draft Report

objectives that enhance the Territory's ability to prevent, prepare for, and respond to natural disasters, acts of terrorism, and other man-made disasters. The goals and objectives are specific, measurable, achievable, results oriented, and time-limited. GPD will continue to assist the VITEMA Director with updates to the strategy as needed.

FEMA requests these recommendations be resolved and closed.

OIG Recommendation #3: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to establish policies and procedures to adequately justify sole source procurements, ensure that cost analyses are performed in accordance with federal regulations, and obtain FEMA approval, as necessary, for sole source procurements.

FEMA Response: Refer to FEMA response under response to recommendation #4 below.

OIG Recommendation #4: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to establish policies and procedures to ensure that documentation regarding contract activities is maintained.

FEMA Response to Recommendations #3 and #4: FEMA concurs with these recommendations.

FEMA will require the VITEMA Director to develop sole source procurement Standard Operating Procedure (SOP). The SOP will include policies and procedures that adhere to federal regulations as well as USVI Territorial governmental policies and procedures. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests these recommendations be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #5: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to disallow the amount paid under the contract and recover the \$472,167 in State Homeland Security Program (SHSP) grant funds for return to FEMA.

FEMA Response: FEMA concurs with this recommendation.

FEMA will disallow the amount paid to the contract in question and consider options to recover the funds. FEMA will provide initial determinations on possible collection options to VITEMA within 90 days of the date of the grantee notification letter. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

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FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #6: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to develop a system to maintain required records to assure compliance with grant requirements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to develop a records management SOP. The SOP will include procedures for maintaining grant records and associated documents. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #7: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to reconstruct the records supporting the \$3,429,214 drawn down for the FY 2007, 2008, and 2009 grant awards.

FEMA Response: Refer to FEMA response under response to recommendation #8 below.

OIG Recommendation #8: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to refund to FEMA any funds for expenditures that cannot be supported by appropriate documentation.

FEMA Response: FEMA concurs with recommendations #7 and #8

Within 90 days of the date of the grantee notification letter, FEMA will require the VITEMA Director to develop and implement a corrective action plan (CAP) to reconstruct grant files and all associated records for FYs 2007, 2008, and 2009 in support of the \$3,429,214 drawn down. Within 90 days of receipt of the reconstructed files for each respective year, FEMA will review the grant files to ensure there are no unallowable costs and consider options to recover partial or all funding for unallowable costs and/or costs not supported with appropriate documentation. Additionally, within the 90 days of receipt of a respective year's grant files, FEMA will provide initial determinations on possible collection options to VITEMA.

FEMA requests these recommendations be resolved and open pending implementation of the stated corrective actions.

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OIG Recommendation #9: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to develop and implement procedures to ensure that property records comply with inventory requirements for equipment purchased with federal funds.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to develop a property management and inventory SOP. The SOP will adhere to procedures set forth in Title 44, Code of Federal Regulations, section 13.32, as well as USVI Territorial government policies and procedures. The SOP must also include systematic procedures for property management and inventory. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #10: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to withhold Federal grant fund awards until the grantee is in compliance with the property records and inventory requirements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to develop a property records and inventory SOP. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will consider options to withhold funding until the SOP is developed and approved as part of an overall CAP. FEMA will apprise VITEMA of this determination within 45 days of the date of the grantee notification letter.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #11: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to conduct physical inventory and reconcile to property records.

FEMA Response: FEMA concurs with this recommendation.

Within 90 days of the date of the grantee notification letter, FEMA will require the VITEMA Director to develop and implement and submit to FEMA for approval a CAP to conduct a physical inventory of all equipment purchased with FYs 2007, 2008, and 2009 funds, reconcile all associated property records. Upon completion, VITEMA will be required to provide an inventory report-out to FEMA. Additionally, the VITEMA Director will be required to develop a property management and inventory SOP. In order to verify

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implementation. FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #12: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to expedite the procurement of radios that are compatible with the modules, and install the modules as intended.

FEMA Response: Refer to FEMA response under response to recommendation #13 below.

OIG Recommendation #13: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to return the \$201,250 to FEMA if compatible radios are not procured.

FEMA Response: FEMA concurs with recommendations #12 and #13.

FEMA will require the VITEMA Director to provide documentation and written certification that radios compatible with encryption modules are procured and the encryption modules are installed as intended. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will consider options to recover associated costs if the VITEMA Director cannot provide documentation to support procurement and installation of the aforementioned equipment. FEMA will apprise VITEMA of this determination within 45 days of the date of receipt of subject documentation from VITEMA or upon insufficient or no receipt of subject documentation from VITEMA within 90 days after the grantee notification letter.

FEMA requests these recommendations be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #14: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to recover the \$50,000 paid to the University of the Virgin Islands (UVI) as a professional service fee and return it to FEMA.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to submit justification that supports the service fee paid to UVI. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will review the justification to ensure the fee is allowable and reasonable and, if necessary, take appropriate action to recover

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all or part of the fee paid to UVI. FEMA will apprise VITEMA of this determination within 60 days of the date of receipt of subject documentation from VITEMA.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #15: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to require that future agreements with UVI be made through contractual agreements or through subgrantee agreements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to submit written certification that all future fiduciary agreements in regards to FEMA preparedness grants with UVI are made through contractual or subgrantee agreements. Additionally, FEMA will require the Director of VITEMA to develop a grants management SOP that will include procedures for subgranting funds. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #16: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to provide documentation that supports the questioned salary costs of \$568,069, including the \$20,100 that exceeded the 15% limit, or recover the amount not supported.

FEMA Response: Refer to FEMA response under response to recommendation #18 below.

OIG Recommendation #17: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to establish controls to ensure compliance with federal requirements concerning the limitations of grant funds used for personnel costs.

FEMA Response: Refer to FEMA response under response to recommendation #18 below.

OIG Recommendation #18: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to ensure that employees prepare activity reports that identify the specific grant to which the hours claimed are being charged.

FEMA Response: FEMA concurs with recommendations #16, #17, and #18.

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FEMA will require the VITEMA Director to develop a time and attendance SOP and establish policies that require certification of timecards for all personnel paid with FEMA preparedness grants. Additionally, FEMA will require the VITEMA Director to submit documentation that supports the questioned salary costs to include the \$21,100 that exceeded the 15% limit imposed by FEMA. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will analyze the documentation to determine if costs did indeed exceed the 15% limit and take appropriate steps to recover the funds in question. FEMA will apprise VITEMA of this determination within 90 days of the date of receipt of subject documentation from VITEMA.

FEMA requests these recommendations be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #19: We recommend that the Assistant Administrator, GPD, require the Director of VITEMA to establish and comply with procedures to ensure that financial status reports are prepared and submitted in a timely manner in accordance with federal requirements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will require the VITEMA Director to establish a grants management SOP. The SOP must establish procedures for preparation and timely submission of financial status reports as well as any other reports required by FEMA. In order to verify implementation, FEMA will require an update report on progress from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #20: We recommend that the Assistant Administrator, GPD, assess the Virgin Islands' grant performance and based on that assessment determine if the State Administrative Agency (SAA) should be declared a high risk grantee.

FEMA Response: FEMA concurs with this recommendation.

FEMA will conduct an assessment of the SAA to determine if the grantee should be given the "High Risk" designation. The assessment will include, progress made toward implementing the CAP, progress made towards correcting findings identified in FEMA Financial Monitoring Reports as well as FEMA Programmatic Monitoring Reports. In order to verify progress towards completion, FEMA will require an update report from VITEMA within 90 days of the date of the grantee notification letter on this required corrective action. FEMA will apprise the SAA and VITEMA of determinations of "High Risk" designation within 90 days of the VITEMA update report.

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FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #21: We recommend that the Assistant Administrator, GPD, develop and implement procedures with special conditions and restrictions to ensure that future grants to the Virgin Islands are managed in accordance with federal requirements and that the funds are adequately safeguarded against fraud, waste, abuse, and mismanagement.

FEMA Response: FEMA concurs with this recommendation.

FEMA will explore options to limit or restrict access to future and current grant funds until such a time that the VITEMA Director can demonstrate that proper procedures are established and in place to safeguard federal funds against fraud, waste, abuse, and mismanagement. FEMA will make an initial determination and apprise VITEMA of findings within 90 days of the date of the grantee notification letter.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

OIG Recommendation #22: We recommend that the Assistant Administrator, GPD, consider requiring the SAA to hire a third party fiduciary to manage its grant funds and assist in resolving the financial management issues.

FEMA Response: FEMA concurs with this recommendation.

FEMA is not in a position to require the VITEMA Director to hire a third party fiduciary to manage its grant funds. However, FEMA will discuss various options (e.g. utilizing contractors or interns to assist in resolving administrative and financial issues) with the VITEMA Director and include all viable options as part of the CAP. In order to verify progress towards completion, FEMA will require an update report from VITEMA within 90 days of the date of the grantee notification letter stating their determinations with supporting justification on hiring of third party fiduciary.

FEMA requests this recommendation be resolved and open pending implementation of the stated corrective actions.

We thank you, again, for the opportunity to provide our comments to your recommendations contained in your draft report. Should you have further questions regarding our response, please do not hesitate to call FEMA's Chief Audit Liaison, Brad Shefka, at 202-646-1308.

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VITEMA VIRGIN ISLANDS TERRITORIAL EMERGENCY MANAGEMENT AGENCY

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September 30, 2011

Mr. Martin W. O'Neill
Partner
Foxx & Company
Certified Public Accountants

Dear Mr. Martin:

Attached are the responses to the *Draft Report: The U.S. Virgin Islands Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009* that performed by Foxx & Company on behalf of the U.S. Department of Homeland Security Office of Inspector General (DHS/OIG).

Please note that the exit conference is scheduled for Friday, September 30, 2011 at the VITEMA Headquarters located at 1A & 1B Nisky, St. Thomas, Virgin Islands.

Sincerely,

BG Elton Lewis
Director

"ENVISIONING THE FUTURE AND SETTING THE AGENDA"

Appendix B

Management Comments to the Draft Report

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BACKGROUND

VITEMA was reorganized as outlined in Act No. 7074 with its implementation October 9, 2009. The reorganization entailed consolidation of all emergency management functions under one entity in compliance with Incident Command Structure (ICS). The functions are e-911 Call Center, the Public Assistance (PA) Program, and the VI Office of Homeland Security (VIOHS). The Virgin Islands Police Department (VIPD), the Office of Management and Budget (OMB) and the Office of the Adjutant General (OAG) had oversight responsibilities for these areas respectively. Consolidation of functions under the VITEMA umbrella was considered **Phase I** of the reorganization.

Phase II was the construction of a state-of-the-art facility that encompassed all of the consolidated components; office space; an Emergency Operations Center (EOC); video-conferencing capabilities; e-911 Call Center, SCIF; Fusion Center; as well as DHS and our other federal partners that provide support for both natural and man-made incidents. This undertaking transformed a former warehouse configuration to a facility on par with or better than most on the mainland with 95% local funding.

At the time of the US Department of Homeland Security (DHS) technical assistance visit in March, 2010, the staff had recently moved from its respective locations only two weeks prior. For clarification purposes, four of the key personnel of the VIOHS staff did not make the move due to resignations, transfers and retirement. Additionally, not all of the positions under the then Office of the Adjutant General moved over to the new organization. Further, as a measure to streamline and consolidate functions for consistency, several positions were reclassified and new position descriptions were crafted in order to align with the VI Division of Personnel standard policies as well as the Governor's vision for the "New VITEMA".

Moreover, since the DHS Technical Assistance Delivery in March, 2010 (2nd quarter FY 2010), the Virgin Islands has experienced tropical storms, hurricane close calls, explosions, and cruise-ship emergencies. However, we were subsequently struck with not one but three major disasters. On September 24, 2010 the President declared a disaster for Hurricane Earl; on November 4, 2010 for Tropical Storm Otto and November 24, 2010 for Tropical Storm Tomas. Both the Grants Management and the Administration and Finance staff were required to change focus to response and recovery activities for a period into the second quarter of FY 2011 in order to meet the requirements of the Stafford Act. Once situational stability was established, efforts resumed to routine Homeland Security grant endeavors as well as management of long-term recovery measures.

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Notwithstanding all of the above intermittent unforeseen circumstances, the "New VITEMA" has turned the corner on aligning grant activities with the designated investments; improved reporting; researched inventory tracking systems, moved towards consistent and reliable communications; upgrades to internal controls have promoted accountability and responsibility.

Staff trainings, first responder trainings and specialized intelligence trainings have been conducted routinely to maintain competency levels. Grants Management enhancements have been realized in the areas of internal procurement procedures consistent with Administration and Finance directives; correspondence tracking; grant systems authorizations; and definitive designation of drawdown responsibilities.

Further, routine programmatic and financial staff meetings are held in order to monitor and track adherence to grant terms and conditions so that improvements may be realized. In the crafting of Memorandum of Agreement/Understanding for various functions relative to trainings, exercise and outsourcing, the VI Department of Justice is providing technical assistance and guidance prior to any commitments.

Lastly, **Phase III** of the reorganization implementation entails acceptance of position descriptions that are both in tandem with standard grant functions, VI Division of Personnel, and the VI Office of Management and Budget's promotion of the Virgin Islands Economic Stability Act of 2011, which has resulted in drastic reductions in available support personnel.

In summary, VITEMA acknowledges that there were deficiencies in certain areas of grants management compliance for grant years prior to the consolidation. As a result, the "New VITEMA" embarked on establishing and executing corrective measures to improve grants management processes. The corrective measures were initiated prior to the commencement of this audit. These measures have addressed those conditions which would have warranted the Territory to be adversely classified. The processes that VITEMA have put in place will continue to protect the integrity of the organization and federal funds as well as enhance the Virgin Islands capabilities in promoting the security of our homeland.

FINDING: STRATEGIC GOALS AND OBJECTIVES

Do Not Concur.

Recommendation #1: Prepare a revised strategy that includes: (a) the Territory's current goals and objectives for enhancing its ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters, and (b) goals and objectives that are specific, measurable, achievable, results-oriented, and time-limited.

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The Virgin Islands already has an updated Strategic Plan from which the Investment Justifications and grant award were approved by the federal grantor agency. Although there is no evidence that the Plan had been updated and submitted in the Grants Reporting Tool, VITEMA has retrieved a copy of the final Strategic Plan for the period in question (See Attachment #1). The Territory would reason that the Investment Justifications and the award would not have been approved and funds released without DHS's knowledge of the updated Plan as this is a regulatory prerequisite. The updated Plan provides completion dates beyond this audit period. VITEMA has entered its new five-year Strategic Plan in the Grants Reporting Tool portal and have received written approval from the grantor agency as required.

Responsible Person: SAA-POC

Recommendation #2: Submit the strategy for FEMA's approval and use the revised, approved strategy to prepare future grant applications (investment justifications).

Completed See Above.

FINDING:

SOLE SOURCE PROCUREMENT AND MANAGEMENT OF CONTRACT DELIVERABLES

Do Not Concur.

Recommendation #3: Establish policies and procedures to adequately justify sole source procurements ensure that cost analyses are performed in accordance with federal regulations, and obtain FEMA approval, as necessary, for sole source procurements.

The initial steps taken for the Open-Market procurement was a protracted process that lasted nearly one year. The selected bidder was ultimately disapproved by the Governor of the Virgin Islands, which is allowable by law. This resulted in the decision to pursue an Open-Market Non-Competitive Negotiation procurement in order to meet the established deadline for submission of the Investment Justifications to DHS.

The Virgin Islands acknowledges that this type of procurement requires approval from the grantor agency but was not obtained.

This contract was reviewed and approved by the VI Department of Property and Procurement for procurement compliance; and vetted for

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legal sufficiency by the VI Department of Justice; and then signed by the Governor.

Recommendation #4: Establish policies and procedures to ensure that documentation regarding contract activities is maintained.

The Department of Property and Procurement (DP&P) retains all detailed information relative to every procurement from the Request for Procurement (RFP) to "Notice to Proceed". Copies of award and summary documentation are forwarded to the user agency for its records. VITEMA will utilize Homeland Security Information Network (HSIN) as an additional repository for in-house contract documentation and records related to grants awarded to the Virgin Islands from DHS effective 2012.

Recommendation #5: Disallow the amount paid under the contract recover the \$472,167 in State Homeland Security Program grant funds for return to FEMA.

The deliverables outlined in the contract were not all met due to the unforeseen event of Hurricane Omar, which became a declared disaster by the President of the United States. At that juncture, priorities were re-aligned to address the response and recovery efforts.

Additionally, VITEMA followed the GVI's procurement process; and monies disbursed and the work performed was in line with the contract terms and conditions.

FINDING:

FINANCIAL MANAGEMENT DOCUMENTATION

Do Not Concur.

Recommendation #6: Develop a system to maintain required records to assure compliance with grant requirements.

A system to maintain required records has already been implemented. The ERP (VI Government financial management system), is the official custodian of revenue and financial transaction records since 2007. All transaction records including invoices, contracts, leases, etc, are scanned into the system as a component of the payment process. The ERP is backed-up daily at a storage facility in the US mainland. Additionally, The ERP Grants Management Module has come online in recent months for the purposes of segregating awards, budgets, grant adjustment notifications; and grant revenues and expenditures.

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In addition to VITEMA's standard hard copy files, VITEMA will utilize Homeland Security Information Network (HSIN) as an additional repository of documentation and records related to grants awarded to the Virgin Islands from DHS effective January 2012. DHS staff provided a preliminary HSIN training of the portals and state usage authorizations for records management. It was highly recommended by DIIS staff to utilize this platform for redundant records storage and retention; and VITEMA concurs with this recommendation.

Recommendation #7: Reconstruct the records supporting the \$3,429,214 drawn down for the FY 2007, 2008, and 2009 grant awards.

VITEMA has reconstructed the records that were previously maintained at various other locations where the former Office of Homeland Security personnel had them stored as well as those records stored on the ERP since 2007. Considerable effort was made to retrieve and collate these records so as to be compliant with grant terms and this recommendation.

(See records shipped to Foxx & Company)

Recommendation #8: Refund to FEMA any funds for expenditures that cannot be supported by appropriate documentation.

VITEMA does not concur. See response to Recommendation #6. All funds expended by the Virgin Islands can be accounted for whether by photos of equipment purchased; inventory documentation or other means to prove that the grants' intended purposes were adhered to even if there were inadequate records management controls in place AT THAT TIME. Corrective action has been undertaken by the "New" VITEMA to ensure improved compliance with document management requirement of the grant.

FINDING:

PROPERTY MANAGEMENT CONTROLS AND ACCOUNTABILITY

Concur.

Recommendation #9: Develop and implement procedures to ensure that property records comply with inventory requirements for equipment purchased with federal funds.

Although the VI Department of Property and Procurement is the entity responsible for maintaining inventory, it is apparent that this system is inadequate to meet the requirements of the Federal Government. Therefore VITEMA is in the process of creating an in-house inventory tracking System by recreating property records and advising program managers of

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inventory requirements for all future purchases with grant funds.

Person Responsible: Deputy Director, Grants Management

Due Date: May 30, 2012.

Recommendation #10: Withhold Federal grant fund awards until the grantee is in compliance with the property records and inventory requirements.

VITEMA has taken steps to turnaround the collation of property records and to comply with inventory requirements. Currently, VITEMA is utilizing a Microsoft Office Excel spreadsheet to capture inventory information in the interim. Solicitations from various vendors for the procurement of specialized software to achieve compliance with the recommendation cited is underway. This process takes time to upload inventory data and requires sufficient time to complete. We have identified a realistic due date to complete this process as identified below. Withholding federal grant funds would severely inhibit completion of this project and would have a negative impact on achieving compliance, as well as, fulfilling the mandates of the grant.

Person Responsible: Acting Deputy Director, Logistics

Due Date: May 30, 2012.

Recommendation #11: Conduct physical inventory and reconcile to property records.

A physical inventory has been conducted and now VITEMA is in the process of reconciling property records. This physical inventory will be updated bi-annually. Guidance is being provided to program managers on accounting for current and future acquisitions utilizing federal and local funds.

Person Responsible: Acting Deputy Director, Logistics
Deputy Director, Grants Management

Due Date: May 30, 2012

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FINDING: USE OF PURCHASED EQUIPMENT

Do Not Concur.

Recommendation #12: Expedite the procurement of radios that are compatible with the modules, and install the modules as intended.

The Prior to the commencement of this audit, VITEMA had identified the physical location of the encryption cards and has updated the relevant information in the internal Microsoft Office Excel spreadsheet which is being used to capture inventory information.

Contact has been initiated with the vendor for the encryption cards to be installed in those radios that can be encrypted, which will meet the specified justification of the purchase. Training will be provided to the VI Bureau of Information Technology technicians to ensure future maintenance. The process for the installation of the encryption cards will begin on November 15, 2011. VITEMA is committed to ensuring that all future purchases will be interoperable.

Recommendation #13: If compatible radios are not procured, return the \$201,250 to FEMA.

All efforts are underway for the installation of the encryption cards. (See response to recommendation # 12)

FINDING: PROCUREMENT OF TRAINING

Do Not Concur.

Recommendation #14: Recover the \$50,000 paid to the University of the Virgin Islands as a professional service fee and return it to FEMA.

The University of the Virgin Islands has an approved Indirect Cost Rate Agreement. The approved rate of 65% for on-campus activities; and approved rate of 25% for off-campus activities that applies to VITEMA and this training agreement.

Since the total sub-grant was \$200,000 for this training agreement, the \$50,000 cited in this recommendation as a professional service fee constitutes the equivalent of the indirect cost.

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Recommendation #15: Require that future agreements with the University of Virgin Islands be made through contractual agreements or through subgrantee agreements.

VITEMA now has adequate available training facilities in each district and it is not anticipated that these services will be required in the future other than possible rental of a larger facility for specialized training. If it becomes necessary to utilize the services of the University again, VITEMA will enlist the expertise of the VI Attorney General's Office to craft an acceptable agreement to be used on an "As Needed Basis".

FINDING: UNSUPPORTED PERSONNEL TIME CHARGES

Do Not Concur.

Recommendation #16: Provide documentation that supports the questioned salary costs of \$568,069, including the \$20,100 that exceeded the 15% limit, or recover the amount not supported.

VITEMA is diligently working on compiling the requested information relative to this finding. However, due to limited personnel and the short turnaround, we have not completed this effort. It is expected to have the process completed within six (6) months.

Recommendation #17: Establish controls to ensure compliance with federal requirements concerning the limitations of grant funds used for personnel costs.

The GVI has established standard operating procedures and best practices relative to all grant personnel costs. Currently, the ERP system has controls installed that does not allow for any transactions to be executed beyond the grant performance period. Internally, VITEMA is conducting monthly reconciliations of personnel costs in compliance with the GVI's grants monitoring process to ensure timely adjustments for proper payroll allocation.

Recommendation #18: Ensure that employees prepare activity reports that identify the specific grant to which the hours claimed are being charged.

VITEMA has initiated steps to create an internal coding on Time Sheets delineating grant tasks to coincide with grant personnel cost allocation. Further, the Grants Management Manual has documented internal

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controls, which ensures that employees provide monthly reports detailing activities for each grant period.

(See documents shipped to Foxx & Company)

FINDING: FILING FINANCIAL REPORTS

Concur.

Recommendation #19: Establish and comply with procedures to ensure that financial status reports are prepared and submitted in a timely manner in accordance with federal requirements.

Since the inception of the “New” VITEMA policy and procedures have been instituted and outlined in the Grants Management Manual in order to report timely on grant activities. There has been a marked improvement in timely reporting. Changes and modifications in the DHS/FEMA electronic reporting systems have been problematic resulting in some instances with late reporting. VITEMA continues to partner with DHS/FEMA to resolve these issues.

Person Responsible: Deputy Director, Grants Management

FINDING: HIGH RISK GRANTEE

Do Not Concur.

Recommendation #20: Assess the Virgin Islands grant performance and based on that assessment determine if the State Administrative Agency should be declared a high risk grantee.

The “New VITEMA” since its inception, has reached out to the grantor agency to introduce the new agency personnel and to provide an overview of their professional grants experience and to present issues discovered once on-board. Moreover, past Homeland Security grant performance was discussed and the VITEMA staff sought guidance as to corrective remedial actions needed. DHS provided technical assistance and samples of grants management best practices from other states. Significant changes and improvements in Grants Management have occurred since the reorganization of VITEMA. Timely reporting has improved; internal controls have been established; documentation protocols have been established; and overall grants management has been overhauled.

The findings cited in this report were from years prior to the reorganization of the agency and does not accurately reflect the reality of

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the “New VITEMA”. VITEMA recognizes that there are still areas that require staff training to improve further compliance but this does not rise to the level that VITEMA should be considered a “high risk” agency. We do recommend that another performance audit of this nature be done in three years and that this recommendation is revisited at that time if sufficient improvement is not documented.

Recommendation #21: Develop and implement procedures with special conditions and restrictions to ensure that future grants to the Virgin Islands are managed in accordance with federal requirements and that the funds are adequately safeguarded against fraud, waste, abuse, and mismanagement.

During the 2009-2010 grant period, improvements have been realized and demonstrated in reporting, inventory and procurement. Staff has participated in T/A Delivery and GVI Grants Management Module training. Grants with further restrictions and conditions would hamper the territory’s ability to utilize the funds timely and effectively. Most importantly it may have a negative impact on the territory being able to comply with PPD-8 and protecting the people of the Virgin Islands during all hazard emergencies. Increased regulations, while they may incrementally improve compliance, they would negatively impact the territory’s preparedness and stymie the Territory’s ability to effectively meet the core capabilities.

Recommendation #22: Consider requiring the State Administrative Agency to hire a third party fiduciary to manage its grant funds and assist in resolving the financial management issues.

VITEMA is vehemently opposed to a third party fiduciary to manage its grant funds. Due to the economic crisis affecting both the Virgin Islands and the Federal Government at this time, hiring of a third party fiduciary would represent the least cost effective method of achieving the desired results to improve compliance.

Appendix C

Homeland Security Grant Program Background

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies. The Homeland Security Grant Program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administration costs. Programs include:

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

In addition, the Homeland Security Grant Program includes other interrelated grant programs with similar purposes. Depending on the fiscal year these include:

- Metropolitan Medical Response System
- Citizen Corps Program
- Law Enforcement Terrorism Prevention Program (through FY 2007)

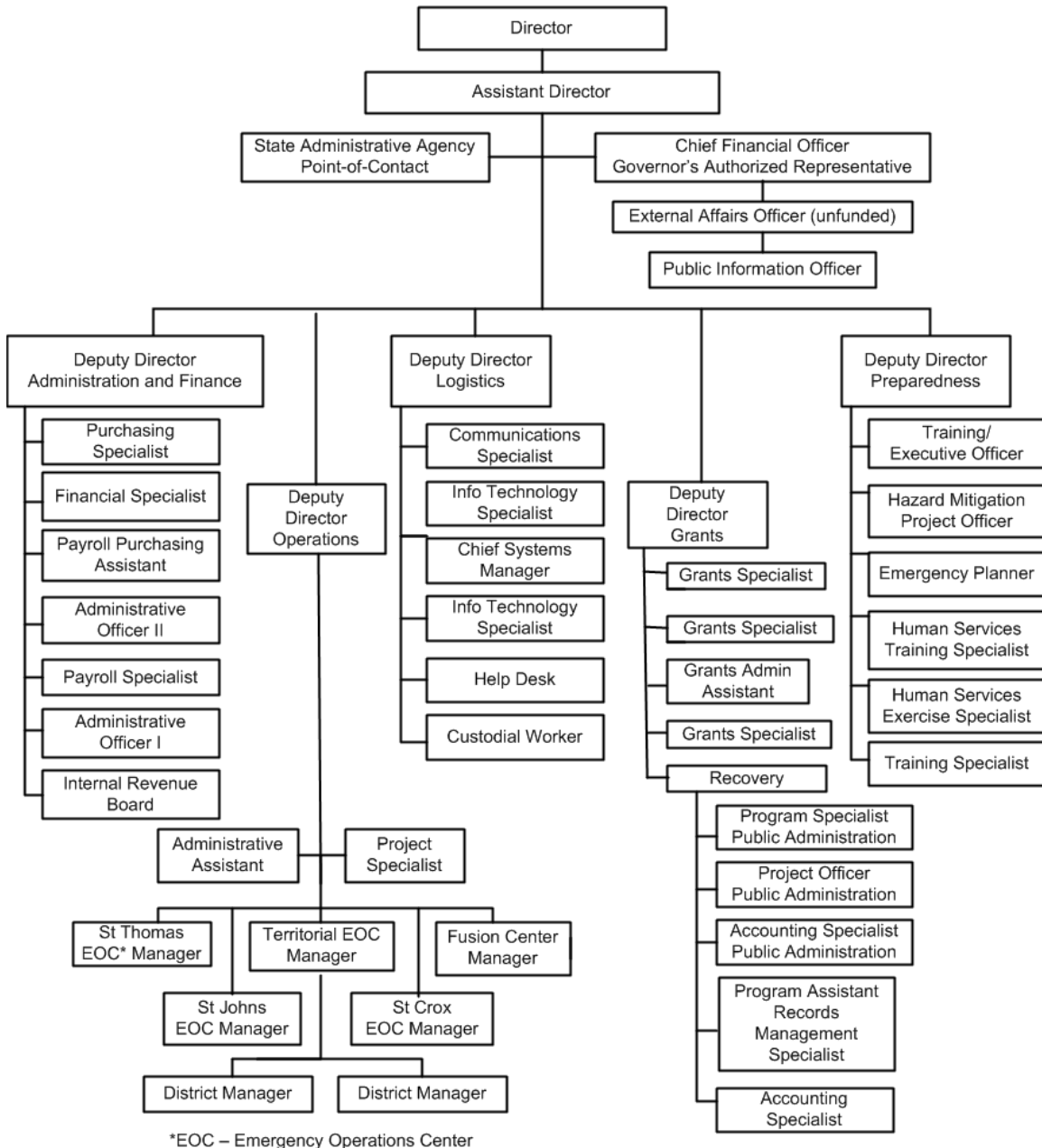
Appendix D
Potential Monetary Benefits

Classification of Monetary Benefits					
Finding	Rec. No.	Funds To Be Put to Better Use	Questioned Costs – Unsupported Costs	Questioned Costs – Other	Total
Contract Provisions	5			\$472,167	\$472,167
Supporting Documentation	8		\$2,137,728 *		\$2,137,728
Use of Purchased Equipment	13			\$201,250	\$201,250
Procurement of Training	14		\$50,000		\$50,000
Personnel Time Charges	16		\$468,000	\$100,069	\$568,069
Total			\$2,655,728	\$773,486	\$3,429,214

* We consider the entire \$3,429,214 drawn down by the State Administrative Agency for the FYs 2007, 2008, and 2009 awards as “at risk” because of the inadequate financial records. The \$2,137,728 listed above is the difference between the total \$3,429,214 and the other itemized amounts.

Appendix E
U.S. Virgin Islands Administrative Agency Organization Chart

**Virgin Island's Territorial Emergency Management Agency
 Organization as of September 15, 2010**



*EOC – Emergency Operations Center

Appendix F
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretary
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Assistant Administrator, Grant Programs Directorate
Federal Emergency Management Agency Audit Liaison
Grant Programs Directorate Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

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Congressional Oversight and Appropriations Committees, as appropriate

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