

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**State of Montana's Administration of
the Fire Management Assistance Grant Program
for the Hobble Fire**



DS-08-07

September 2008

Office of Inspector General
Office of Emergency Management Oversight

U.S. Department of Homeland Security
300 Frank H. Ogawa Plaza, Ste. 275
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**Homeland
Security**


September 22, 2008

Preface

The U.S. 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 audits, inspections, and special reports published as part of our oversight responsibilities to promote economy, effectiveness, and efficiency within the department.

The attached report presents the results of the audit of the State of Montana's Administration of the Fire Management Assistance Grant Program awarded by the Federal Emergency Management Agency for the Hobble Fire. We contracted with the independent public accounting firm of Brown & Company CPAs, PLLC to perform the audit. The contract required that Brown & Company CPAs, PLLC perform its audit according to generally accepted government auditing standards and guidance from the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Title 44 of the Code of Federal Regulations, and the Office of Management and Budget. Brown & Company CPAs, PLLC reported three areas in which the State of Montana's administration of the Fire Management Assistance Grant Program could be improved. The report contains three recommendations addressed to the Regional Administrator, Federal Emergency Management Agency, Region VIII.

Brown & Company CPAs, PLLC is responsible for the attached auditor's report dated August 29, 2008, and the conclusions expressed in the report. The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.


Robert J. Lastrico
Western Regional Director



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

August 29, 2008

Western Regional Director
Office of Emergency Management Oversight
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U.S. Department of Homeland Security
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Brown & Company CPAs, PLLC performed an audit of the State of Montana's management of the Federal Emergency Management Agency's funds awarded under the Fire Management Assistance Grant Program. The audit was performed in accordance with our Task Order TPD-ARC-BPA-08-0001 dated 11/27/2007.

This report presents the results of the audit and includes recommendations to help improve management of the audited Fire Management Assistance Grant Program.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, July 2007 revision. Although the audit report comments on costs claimed by the State of Montana, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the State of Montana's financial statements or the funds claimed in the financial status reports submitted to the Federal Emergency Management Agency.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of further assistance, please call me on (240) 492-1403.

Sincerely,

Brown & Company CPAs, PLLC

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Abbreviations

CFR	Code of Federal Regulations
DHS	U.S. Department of Homeland Security
DMA/DES	Department of Military Affairs/Disaster & Emergency Services Division
DNRC	Department of Natural Resources and Conservation
FEMA	Federal Emergency Management Agency
FMAG	Fire Management Assistance Grant
GAR	Governor's Authorized Representative
OIG	Office of Inspector General
USFS	United States Forest Service

Executive Summary

Brown & Company CPAs, PLLC audited the State of Montana's (the state's) administration of the Fire Management Assistance Grant (FMAG) Program for the Hobble Fire (FMAG Declaration 2488). The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with Federal Emergency Management Agency (FEMA) and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds. See Appendix A for additional details on the objectives, scope, and methodology of this audit.

On August 11, 2003, FEMA Region VIII awarded \$2,548,114 under FMAG Declaration 2488 to the Montana Department of Natural Resources and Conservation (DNRC). FEMA programmatically closed this declaration on July 24, 2006. Although the audit scope included a review of costs reimbursed under the grant, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the state's financial statements or the funds claimed in the financial status reports submitted to FEMA.

DNRC administered the FMAG Program effectively and efficiently but did not always comply with federal laws and FEMA guidelines. Specifically, the state: (1) claimed reimbursement for \$6,619 in unsupported costs, (2) did not have written FMAG policy and procedures for grant application, financial management, and financial reporting requirements, and (3) did not record all costs identifiable with a specific incident to that incident's organization code in the state's financial management system.

We recommend that the Regional Administrator, FEMA Region VIII: (1) disallow the \$6,919 in unsupported costs, (2) work with the state to develop and issue complete written procedures for the FMAG Program, and (3) require the state to comply with the financial administration requirements of federal regulations and the state's own accounting policies and procedures.

We held exit conferences with FEMA Region VIII and the DNRC on March 7, 2008 and May 1, 2008, respectively. FEMA and the DNRC verbally concurred with our findings and recommendations but subsequently reserved their right to formally respond in writing once the final report is issued. A synopsis of the verbal comments we received is included in the Results of Audit section of this report.

Background

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, (Stafford Act), signed into law November 23, 1988, authorizes the President to provide federal funds to state and local governments under the FMAG Program for mitigation, management, and control of any fire burning on public or private forestland or grassland. The FMAG Program replaced the Fire Suppression Assistance Program on October 30, 2001. Title 44, Code of Federal Regulations (44 CFR), Part 204 provides the procedures for the declaration and grants management processes for the FMAG Program and details applicant eligibility and the eligibility of costs to be considered under the program.

Declaration Process

A declaration request must be submitted while a fire is burning uncontrolled and threatens such destruction as would constitute a major disaster. The Governor or the Governor's Authorized Representative (GAR) is authorized to submit requests to the FEMA Regional Administrator or Regional Fire Duty Liaison for fire management declarations. Due to the magnitude and impact of a fire, the Governor or GAR can expedite the process by verbally requesting the declaration but must follow-up promptly after the date of an initial telephone request with all official forms and written information

Upon declaration approval by FEMA, the Governor or GAR will enter into a standing FEMA/State Agreement (the Agreement) for the declared fire and for future declared fires in that calendar year.¹ The state must have a current and signed Agreement before receiving federal funding under the FMAG Program. The Agreement states the understandings, commitments, and conditions under which FEMA will provide federal assistance, including the 75% federal and 25% non-federal cost share provision and articles of agreement necessary for the administration of the grants. The Agreement must identify the state legislative authority for firefighting, as well as the state's compliance with the laws, regulations, and other provisions applicable to the FMAG Program.

Grant Application and Reimbursement Process

Following a declaration, the state is required to submit a grant application package to the FEMA Regional Administrator within 9 months of the declaration. The Regional Administrator may grant an extension of up to 3 months upon receipt of a written request from the state that includes the

¹ The State of Montana executes the Agreement with FEMA at the beginning of each calendar year so that the Agreement is in place before the start of the fire season. An amendment to the Agreement (Exhibit E) is executed for each FMAG declaration occurring during the year.

justification for an extension. The grantee must document the total eligible costs for a declared fire on Project Worksheets, which are submitted with the grant application. The Regional Administrator has 45 days from the receipt of the state's initial grant application, or an amendment to the state's grant application, to approve or deny the application package or amendment, or to notify the state of a delay.

By submitting Project Worksheets, the grantee certifies that all reported costs were incurred for work that was performed in compliance with laws, federal regulations and FMAG Program policy and guidance, as well as the terms and conditions outlined in the FMAG Program FEMA/State Agreement. Upon approval of the grant application, FEMA obligates funds after determining that: (1) the state's eligible costs meet or exceed the individual or cumulative fire cost thresholds; and (2) the state has up-to-date State Administrative and Hazard Mitigation Plans approved by the Regional Administrator.

Subgrantee requests for FMAG Program funding are submitted on a Request for Fire Management Assistance Subgrant (FEMA Form 90-133) to the grantee according to state procedures and within timelines set by the grantee. This request must be submitted not longer than 30 days after the close of the incident period. The grantee will review and forward the request to the Regional Administrator for final review and determination.

Results of Audit

DNRC administered the FMAG program in an efficient and effective manner. DNRC properly coordinated and communicated with FEMA and subgrantees. However, DNRC did not properly account for \$6,619 of the \$2,548,114 in FMAG Program expenditures and did not always comply with federal laws and FEMA guidelines. The following exceptions were noted:

Support for Costs Claimed on a Project Worksheet

DNRC claimed reimbursement for \$6,919 in unsupported costs on a Project Worksheet for work that was invoiced by the United States Forest Service (USFS). DNRC reimbursed the USFS without obtaining and reviewing supporting documentation. According to 44 CFR 204.3, the Project Worksheet identifies actual costs incurred by eligible applicants as a result of firefighting activities. Section 204.53 states that by submitting an applicant's Project Worksheet, the grantee is certifying that all costs reported were incurred for work that was performed according to FEMA laws, regulations, policy, and guidance applicable to the FMAG Program.

Recommendation

We recommend that the Regional Administrator, FEMA Region VIII:

Recommendation #1. Disallow the \$6,919 for unsupported costs claimed for reimbursements made to USFS.

Management Comments

During fieldwork exit conferences, FEMA and state officials verbally agreed to the findings presented. Since these findings were not in writing or in a draft report, these officials subsequently reserved their right to comment at a later date. Once the final report is issued to FEMA Region VIII, state officials will have an opportunity to provide input to the Region and the Region will submit written comments to the OIG. Therefore, at this time, FEMA and state officials neither concur nor non-concur with the finding and recommendation.

FMAG Program Administration

DNRC and the Department of Military Affairs/Disaster & Emergency Services Division (DMA/DES) could benefit from having written procedures for grant application, financial management, and financial reporting requirements for the FMAG Program. Written procedures would help ensure that the specific requirements of 44 CFR 204 regarding FMAG declaration, application, and grant administration processes are efficiently and effectively accomplished. Without these procedures, internal controls are not in place to ensure that all required actions are consistently and correctly applied in administering the FMAG Program. As a condition of receiving federal awards, non-federal entities agree to comply with applicable laws, regulations, and the provisions of contract and grant agreements, and to maintain internal controls to provide reasonable assurance of compliance with these requirements.

Recommendation

We recommend that the Regional Administrator, FEMA Region VIII:

Recommendation #2. Work with the state to develop written policy and procedures for grant application, financial management, and financial reporting requirements processes.

Management Comments

During fieldwork exit conferences, FEMA and state officials verbally agreed to the findings presented. Since these findings were not in writing or in a draft report, these officials subsequently reserved their right to comment at a later date. Once the final report is issued to FEMA Region VIII, state officials will have an opportunity to provide input to the Region and the Region will submit written comments to the OIG. Therefore, at this time, FEMA and state officials neither concur nor non-concur with the finding and recommendation.

Compliance with FMAG Program Requirements

DNRC did not fully comply with grant accounting policies requirements. These requirements are established within the regulatory guidance referenced in the FMAG agreement between FEMA and the state. Specifically, DNRC did not comply with 44 CFR 13.20-standards for financial management systems. DNRC records identified FMAG fire costs to general organization codes that included costs for more than one fire.

USFS submitted an invoice for \$25,639,418 to DNRC for emergency fire suppression support costs for the year 2003. The USFS invoice represented charges for several fires in Montana in 2003 of which \$1,156,875 was allocated to FMAG Hobbie Fire. DNRC paid the total invoice and recorded the total amount in the financial reporting system under general organization code 51999 that accumulates costs for several fires, instead of recording the \$1,156,875 to the fire specific organization code 89008 for FMAG Hobbie Fire.

DNRC recorded amounts invoiced by USFS for fire suppression costs in a general organization code, even when costs for specific fires can be recorded. However, according to 44 CFR 13.20(a)(1)-(2), "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State ... must be sufficient to - (1) Permit preparation of reports ... , and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." The Montana Operations Manual Volume II, Chapter 8300 states, "...that in all instances, agencies are required to maintain appropriate accounting records to support expenses caused by disaster situations. These files are used by the lead agency to request reimbursement following the prescribed procedures." By recording costs that can be assigned to an identifiable incident to a general organization code used for multiple fires, DNRC cannot easily prepare a detailed transaction report that lists all FMAG Hobbie Fire costs.

Recommendation

We recommend that the Regional Administrator, FEMA Region VIII:

Recommendation #3. Require the state to comply with the financial administration requirements as required by federal regulations and state accounting policy and procedures.

Management Comments

During fieldwork exit conferences, FEMA and state officials verbally agreed to the findings presented. Since these findings were not in writing or in a draft report, these officials subsequently reserved their right to comment at a later date. Once the final report is issued to FEMA Region VIII, state officials will have an opportunity to provide input to the Region and the Region will submit written comments to the OIG. Therefore, at this time, FEMA and state officials neither concur nor non-concur with the finding and recommendation.

Objectives

The objective of the audit was to determine whether the state administered the FMAG Program in an efficient and effective manner. To accomplish the objective, we considered the overall impact of material deficiencies on grant program administration. Specifically, we determined how well the state (1) coordinated and communicated with FEMA and subgrant applicants, (2) ensured compliance with federal laws and FEMA guidelines, and (3) accounted for and expended FMAG Program funds.

We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to nor expressed an opinion on the costs claimed for the grant programs included in the scope of the audit. Had we been required and performed additional procedures or conducted an audit of the financial statements according to generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the state.

Scope

We audited Hobbie Fire (FMAG Declaration 2488) that was awarded by FEMA to the state on August 11, 2003. The grant, totaling \$2,548,113.66, was programmatically closed on July 24, 2006.² This FEMA grant award was selected for review because the award was significantly higher than other fire declarations within the same FEMA Region. DNRC administered the FMAG Program. DNRC subgrantees included DMA/DES, and Sweetgrass and Stillwater Counties.

Methodology

We performed fieldwork at FEMA Region VIII, DNRC, and DMA/DES. To obtain an understanding of the grant procedures, we reviewed FEMA regulations, the Stafford Act as amended, pertinent sections of Title 44 of the CFR, and Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

To achieve the objective of this audit, we:

² FMAG Programs are considered programmatically closed if all work has been completed and final costs submitted to FEMA have been obligated.


Appendix A
Objectives, Scope, and Methodology

- 1) Interviewed FEMA, state, and subgrantee personnel to obtain an understanding of policies and procedures followed and to identify potential internal control weaknesses and their causes;
- 2) Reviewed grant files to determine whether sufficient documentation was present to support proper administration of the grant;
- 3) Reviewed the state's internal controls over accounting for grants to ensure that the State properly recorded and reported grant expenditures;
- 4) Reviewed a statistical sample of project worksheets to determine whether grant monies were spent according to laws and regulations. We used appropriate formulas to develop a variable sampling approach coupled with the risk model promulgated by the American Institute of Certified Public Accountants.
- 5) Reviewed prior audit reports to determine whether deficiencies had been noted in the reports with respect to the state's administration of the FMAG Program or internal controls over grant fund accounting.

We conducted a performance audit by executing tests, conducting interviews, making observations and performed examinations in the following areas:

1. Applicant Eligibility
2. Cost Eligibility
3. Procurement
4. Grantee's Accounting System and Internal Controls
5. Project Worksheet Review
6. Grant Reporting

We conducted our on-site fieldwork between February 11-15, 2008 and March 4-7, 2008 and performed our work according to the *Government Auditing Standards* prescribed by the Comptroller General of the United States (July 2007 Revision).



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