

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

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





Homeland
Security

February 28, 2008

Preface

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

The attached report presents the results of the audit of the State of Ohio's management of State Homeland Security Grants awarded during FYs 2002 through 2004. We contracted with the independent public accounting firm of Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. Foxx & Company's report identified 8 reportable conditions where State management of the grant funds could be improved, resulting in 21 recommendations addressed to the Administrator, Federal Emergency Management Agency. Foxx & Company is responsible for the attached auditor's report dated January 25, 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.

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

Richard L. Skinner
Inspector General



January 25, 2008

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

Dear Mr. Taylor:

Foxx & Company performed an audit of the State of Ohio's management of the Department of Homeland Security, Office of Grants and Training, State Homeland Security Grants for FYs 2002, 2003 and 2004. The audit was performed in accordance with our Task Order No. TPD ARC-06-K-00218 dated May 18, 2006.

This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Grant Programs. These programs are commonly referred to as first responder grant programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, June 2003 revision. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the audit report comments on costs claimed by the State, we did not perform a financial audit, the purpose of which would be to render an opinion on the agency's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of 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

Executive Summary

Foxx & Company completed an audit of Department of Homeland Security State Homeland Security Grants awarded to the State of Ohio. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The audit included a review of approximately \$142 million awarded to the State of Ohio from the Fiscal Year 2002 State Domestic Preparedness Program, from Parts I and II of the Fiscal Year 2003 State Homeland Security Grant Program, and the Fiscal Year 2004 Homeland Security Grant Program.

Overall, the State Administrative Agency did an adequate job of administering program requirements, distributing grant funds, ensuring that all of the available funds were used, and coordinating homeland security efforts among State agencies and departments. However, the State Administrative Agency did not have a documented analysis of how effective its efforts had been in preparing first responders for terrorist incidents. As a result, the State Administrative Agency did not have a valid basis for justifying future first responder grant funds and management decisions. Problems were identified with grant funds use, measurable goals and objectives, grant disbursements, subgrantee monitoring, procurement procedures, personal property controls, vehicle use, and commingling of grant funds.

The body of the report provides detailed discussions and recommendations for each of the findings. The recommendations call for the Administrator, Federal Emergency Management Agency, to require the Ohio Emergency Management Agency to: ensure that grant funds are used to fill first responder equipment shortfalls in accordance with the State's needs assessment, measure and report subgrantee progress in achieving goals and objectives, establish effective financial controls over grant disbursements, and implement an effective subgrantee monitoring program.

Federal Emergency Management Agency and Ohio State officials provided verbal concurrences with the recommendations contained in this report. Additionally, the State officials provided written comments on the recommendations dated January 17, 2008. The Administrator, Federal Emergency Management Agency, will provide corrective actions and a plan to implement those corrective actions within 90 days of the date of this report.

Background

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

Although the grant program was transferred to DHS, applicable Department of Justice grant regulations and legacy systems still were used as needed to administer the program. For example, the State Administrative Agency entered payment data into the Office of Justice Programs' Phone Activated Paperless Request System, which was a drawdown payment system for grant funds.

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

First Responder Grant Programs

Fiscal Year (FY) 2002 State Domestic Preparedness Program: This program provided financial assistance to each of the states, United States Territories, the District of Columbia, and the Commonwealth of Puerto Rico. DHS provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to respond to incidents of terrorism involving the use of weapons of mass destruction, (2) the protection of critical infrastructure, (3) the design, development, conduct, and evaluation of weapons of mass destruction exercises, and, (4) the

reimbursement for administrative costs associated with the implementation of the statewide domestic preparedness strategies.

FY 2003 State Homeland Security Grant Program -- Part I: This program provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear, or explosive weapons, (2) the protection of critical infrastructure and prevention of terrorist incidents, (3) the design, development, conduct, and evaluation of chemical, biological, radioactive, nuclear, or explosive weapons exercises, (4) the design, development, and conduct of state chemical, biological, radioactive, nuclear, or explosive weapons training programs, and, (5) the updating and implementing of each state's homeland security strategy.

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

FY 2004 Homeland Security Grant Program: This program integrated the Homeland Security Grant Program, the Law Enforcement Terrorism Prevention Program, and the Citizen Corps Program into a single grant program. Funding from this combined program was to enhance the ability of state and local agencies to prevent, deter, respond to, and recover from threats and incidents of terrorism.

The State of Ohio received approximately \$142 million from the FYs 2002, 2003, and 2004 grant programs. The funded activities and amounts for each program are shown in the following table.

Table 1					
Ohio Homeland Security Grants Awards FYs 2002 through 2004					
Funded Activity	Grant Program (‘000s)				Totals
	2002 State Domestic Preparedness Program	2003 State Homeland Security Grant Program, Part I	2003 State Homeland Security Grant Program, Part II	2004 Homeland Security Grant Program	
Equipment	\$9,458	\$12,287	N/A	N/A	\$21, 745
Exercise	\$439	\$3,072	N/A	N/A	\$3,511
Training	N/A	\$922	N/A	N/A	\$922
Planning and Administration	N/A	\$1,229	N/A	N/A	\$1,229
First Responder Preparedness	N/A	N/A	\$40,194	N/A	\$40,194
Critical Infrastructure Protection	N/A	N/A	\$6,184	N/A	\$6,184
State Homeland Security	N/A	N/A	N/A	\$51,791	\$51,791
Law Enforcement Terrorism Prevention	N/A	N/A	N/A	\$15,368	\$15,368
Citizen Corps	N/A	N/A	N/A	\$1,076	\$1,076
TOTALS	\$9,897	\$17,510	\$46,378	\$68,235	\$142,020

Ohio Emergency Management Agency

Ohio’s Governor designated the Ohio Emergency Management Agency, which is organizationally under the Ohio Department of Public Safety, to be the State Administrative Agency for the Homeland Security Grant Programs. The State Administrative Agency was responsible for:

- Assessing potential terrorist threats, risks, and vulnerabilities in the State of Ohio and developing the Statewide Homeland Security Strategies,
- Applying to DHS for first responder grants and using the grant funds in accordance with DHS guidelines, federal regulations, and the Statewide Homeland Security Strategies,

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- Awarding subgrants to local jurisdictions and State agencies and ensuring that subgrantees met State and federal administrative requirements, and,
 - Reporting to DHS on the financial and programmatic progress being made by the State Administrative Agency in accomplishing its Statewide Homeland Security Strategies.

During most of the FY 2002 through 2004 grant programs, the Ohio Emergency Management Agency was the coordinating agency for the State of Ohio on all Homeland Security matters. In September 2003, the State created a Division of Homeland Security to address new threats and challenges in the wake of the September 11, 2001 attacks. This Division since has taken over most responsibilities for homeland security strategic planning. It currently shares responsibility and collaborates with the Ohio Emergency Management Agency on many homeland security matters. However, the Ohio Emergency Management Agency has remained the State Administrative Agency for the first responder grant programs. It still is responsible for administering the grant programs and overseeing how grant funds are used throughout the State.

Results of Audit

DHS awarded a total of approximately \$142 million to the State of Ohio from the FY 2002 State Domestic Preparedness Program, from the FY 2003 Parts I and II State Homeland Security Grant Program, and from the FY 2004 Homeland Security Grant Program. The State Administrative Agency awarded subgrants totaling about \$117.1 million to the State's 88 counties and local organizations. The counties used the grant funds primarily to purchase equipment for individual first responders, including law enforcement, fire, medical emergency, and other personnel.

Foxx & Company completed an audit of the State of Ohio's management of the DHS FY 2002, FY 2003, and FY 2004 first responder grants. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of Ohio prepare for and respond to terrorist attacks. Nine "researchable questions," provided by the DHS Office of Inspector General (OIG), provided the framework for the audit. The "researchable questions" were related to the State Administrative Agency's planning, management, and results evaluations of grant activities. Appendix A provides additional details on the objectives, scope, and methodology of this audit, including the nine researchable questions.

Overall, the State Administrative Agency did an adequate job of administering certain program requirements, distributing grant funds, and ensuring that all of the available funds were used. It also should be commended for its coordination of homeland security efforts among State agencies and departments with statewide first responder responsibilities. State officials and others said that the degree of cooperation among the State agencies and departments was substantially greater than at any time in their past memories. However, as demonstrated by the findings in this report, the State Administrative Agency did not have a documented analysis of how effective its efforts had been in preparing first responders for terrorist incidents. As a result, the State Administrative Agency did not have a valid basis for justifying future first responder grant funds and management decisions. The Agency did not ensure that:

- Grant funds were used for assessed needs and established priorities,
- Measurable goals and objectives were established and progress was tracked,

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- Grant disbursements were accurately tracked and reported using an adequate financial system,
 - An effective subgrantee monitoring program was implemented,
 - Subgrantees followed federal non-competitive procurement regulations,
 - Local jurisdictions maintained effective controls and accountability systems for procured personal property,
 - Subgrantees used vehicles purchased with grant funds for approved purposes, and
 - Subgrantee accounting systems did not commingle grant funds.

We visited 6 counties, 1 State agency, 1 State association, and 21 first responders (law enforcement, fire, emergency services and other entities). The State Administrative Agency awarded approximately \$24.8 million to the entities we visited. Of this amount, the six counties received about \$15 million from the FYs 2002, 2003, and 2004 first responder grant programs.

Although this audit included a review of some of the costs claimed with grant funds, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on the State of Ohio's financial statements or the funds claimed in the Financial Status Reports submitted to FEMA.

Our findings warrant attention at local, State, and federal levels. Managers at all levels need to provide stronger leadership, more specific direction to local jurisdiction personnel who are being relied upon to be effective first responders, and improved evaluations of program results against measurable goals and objectives.

Needs Assessment Results Not Used

The State Administrative Agency did not use the results of its Needs Assessments as a basis for allocating grant funds to its counties. Also, the Agency did not determine if its counties were using grant funds to fill equipment shortfalls or "gaps" identified by the assessments. In addition, the Agency did not establish priorities for the types and quantities of equipment counties should buy with grant funds. Accordingly, the Agency had no assurance that local jurisdictions used grant funds to meet the most critical equipment needs of first responders or effectively directed grant funds to mitigate the State's most critical terrorism threats and vulnerabilities.

DHS Program Guidelines for the FY 2002 grant program required that the receipt of first responder grant funds would be contingent upon the submission and approval of a Statewide Domestic Preparedness Strategy. The guidelines stated that the Strategy must be directly linked to the results of a Needs Assessment in recognition of the threat of terrorist attacks using weapons of mass destruction. The Needs Assessment process, which began in FY 1999, required the State Administrative Agency and each of its local jurisdictions (Ohio's 88 counties) to prepare a jurisdictional risk assessment and determine the requirements for equipment, first responder training, and other resources.

Based on the results of the Needs Assessment, DHS required the State Administrative Agency to develop a Three-Year Statewide Strategy that would identify its current capabilities and provide a roadmap for fulfilling any gaps in service or unmet resource needs. As part of the Strategy, the State Administrative Agency was to (1) identify and prioritize all jurisdictions that would benefit from the first responder grant programs, (2) establish applicable goals and objectives that were directly linked to the response shortfalls identified in the Needs Assessment, and (3) set priorities for implementing the objectives and allocating resources. DHS initially required that the Three-Year Strategy cover FYs 1999, 2000, and 2001, but also linked the award of FY 2002 and FY 2003 grants to this Strategy.

The State of Ohio's participation in the FY 2004 first responder grant program was contingent on its completion of a Needs Assessment and Strategy update in 2003. This update process had many of the same characteristics and requirements as the initial effort. According to FEMA, this was done to provide State and local jurisdictions an opportunity to update their assessment data to reflect post-September 11, 2001 realities.

Allocations Not Based on Identified Vulnerabilities and Shortfalls

The State Administrative Agency's Needs Assessments identified statewide vulnerabilities and related equipment shortfalls needed to respond to terrorist attacks. The Needs Assessment, which was comprehensive and time consuming, resulted in equipment shortfall determinations totaling \$166 million in 2001 and \$6.6 billion in 2003. According to State Administrative Agency officials involved in the Needs Assessment process, the huge equipment shortfalls occurred for a number of reasons, including:

- The counties were not given any standards on which to base their equipment needs and shortfalls,

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- The counties wanted to be competitive for subgrant awards, so they tended to establish “wish lists” rather than prioritized needs, and
 - The counties included equipment needs for capabilities that might have been more applicable to a regional response capability (e.g., search and rescue teams or bomb teams).

Agency officials considered the results of the needs assessment processes to be unrealistic and decided not to use the results as a basis for allocating grant funds to the counties. During the FY 2002 through 2004 grant programs, the State Administrative Agency gave each county a subgrant that included a base (or flat) amount plus an additional amount based upon county population. According to State officials, the rationale was that population correlated to risk, i.e., the higher the population, the higher the risk. Once the State Administrative Agency awarded subgrants to the counties, it collected some statewide statistics on the types of equipment being purchased by the counties. However, it did not attempt to determine if individual counties were using grant funds to meet their identified risks and vulnerabilities to terrorist attacks, or to satisfy the equipment shortfalls each county identified during the Needs Assessment processes.

Priorities Not Established For Equipment

The State Administrative Agency’s initial Three-Year Domestic Preparedness Strategy stated that equipment for first responders was the primary emphasis of the grant programs. However, even though 83 % of the FY 2002 through FY 2004 grant funds was spent on equipment, the State Administrative Agency did not establish priorities for the type or quantities of equipment the counties should purchase.

According to State Administrative Agency officials, priorities were not established and the counties were not directed to purchase certain equipment with grant funds. Agency officials believed that the counties were in a better position to determine their needs. They also said that local jurisdictions were accustomed to making their own determinations on such matters because Ohio is a “home rule” state. The only State Administrative Agency requirement was that the equipment be consistent with the FEMA approved equipment list.

Conclusions

The State and counties expended a significant amount of time and resources on two Needs Assessments that did not provide realistic assessments of equipment needs based on the potential threats and risks of terrorist attacks. The State Administrative Agency did not use the results of the assessments to allocate grant funds to the 88 counties. Instead, the Agency relied on

population demographics for allocation purposes and assumed that risk was commensurate with population size. As a result, the Agency has no assurance that grant funds were distributed to the counties that faced the State's most critical threats or risks of terrorism involving weapons of mass destruction. The State Administrative Agency's Domestic Preparedness Strategy did not include priorities for the type of equipment the counties should purchase. Accordingly, the Agency had no assurance that county purchases appropriately addressed the most critical first responder needs or State priorities.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Link future homeland security subgrant awards to the State's most critical threats and risks,
2. Establish Statewide equipment standards and priorities for meeting first responders' most critical needs, and
3. Ensure that the counties use grant funds towards alleviating equipment shortfalls between the newly established standards and priorities, as compared with current capabilities of each county.

Management Comments

We received verbal comments on the recommendations from FEMA officials. The officials concurred with the first and second recommendations and non-concurred with the third recommendation, as presented in the draft report. The officials said the language in the third recommendation, as presented, was too specific and far reaching as to detail exactly where the grantee should be telling its subgrantees to use the grant funds. Further, the officials said that the grantee spending should be based on whatever parameters the State Administrative Agency sets as a grading point.

The State Administrative Agency officials concurred with the recommendations. In their written comments, State officials said that in 2006 the State Administrative Agency conducted a comprehensive needs assessment, identified current capabilities and gaps, and developed an enhancement plan that included investment justifications. Counties were required to focus grant fund expenditures on the state's highest priority, interoperable communications, unless the counties could justify using the funds for other purposes. The officials noted that new investment justifications were developed in 2007. The officials also anticipated that new

ones would be developed in 2008. The written comments stated that the State Administrative Agency would continue to identify equipment standards and focus grant funding on priorities. In addition, the State Administrative Agency would encourage subgrantees to adhere to the standards when using grant funds to purchase equipment.

Auditor's Analysis

If effectively implemented, the State Administrative Agency's actual and planned actions would be sufficient to satisfy the intent of the first two recommendations. With respect to the third recommendation, we continue to believe that the counties should use the newly established standards and priorities when deciding how to meet the most critical needs of first responders. We also believe that the State Administrative Agency is responsible for ensuring that the grant funds are effectively used to meet the most critical needs.

In recognition of the comments received from the FEMA officials, we have modified the third recommendation as presented in the draft report. As modified, the recommendation states that FEMA should require the State Administrative Agency to ensure that the grant funds are used towards alleviating equipment shortfalls between the newly established standards and priorities, as compared with current capabilities of each county.

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

Measurable Goals and Objectives Not Established

The State Administrative Agency's established list of statewide goals and objectives did not provide an adequate basis for measuring improvements in the capability of local first responders to respond to a terrorist attack involving weapons of mass destruction. The Agency never developed measurable goals and objectives or a systematic method to collect performance-related data. As a result, the Agency did not have a documented evaluation of the effect that grant funds had on the capability of first responders.

Code of Federal Regulations Title 44 § 13.40, *Monitoring and reporting program performance*, requires that grantees assure that performance goals are achieved. This section also requires that grantees adhere to these same standards in prescribing performance and reporting for subgrantees. The Program Guidance for the FY 2002 grant program required applicants to provide an overview of the State's implementation plan for the Statewide

Domestic Preparedness Strategy. The plan was to include measurable program objectives for equipment, exercises, and administrative allocations; a list of corresponding activities; and a description of the specific evaluation methods to be used. Examples of acceptable measures for the components of the program were provided in the guidance. The FY 2003 and FY 2004 Program Guidance packages required the applicants to report the progress made on achieving the State's overall goals and objectives as identified in the state homeland security strategy.

In 1999, DHS issued guidance to grantees for conducting risk, capability, and needs assessments to help prioritize the expenditure of grant funds within the State. Based on these assessments, grantees and subgrantees were required to identify shortfalls or "gaps" in equipment, training, and exercises and prepare a "Three-Year Statewide Domestic Preparedness Strategy" to remedy the gaps. To measure progress, the guidance required grantees to establish a formal plan to evaluate the effectiveness of the Strategy in improving the State's ability to respond to terrorism incidents involving weapons of mass destruction. A similar Needs Assessment process was mandated by DHS in 2003 as a prerequisite to receiving FY 2004 Homeland Security grant funds. DHS guidance for this 2003 Assessment required a formal evaluation plan and other requirements to "monitor progress, compile key management information, track trends, and keep the strategy on track." In addition, the 2003 Assessment guidance specified that the State's new or updated Strategy should include broad-based goals with objectives that were "specific, measurable, achievable, results-oriented, and time limited."

As required by FEMA, the State Administrative Agency developed a Three-Year Domestic Preparedness Strategy in 2001 and an updated Strategy in 2003. Both Strategies included broad-based strategic goals and implementing objectives, which were approved by FEMA. The initial Three-Year Strategy stated that the State of Ohio's primary goal was to "provide funding to meet the identified equipment needs of the State's jurisdictions and first responders." However, the State Administrative Agency did not develop measurable objectives for this goal or establish a mechanism to track and objectively measure the impact of the equipment grant program on first responder capabilities. The other goals and objectives in the Three-Year Strategy related primarily to activities that would be undertaken by the State Administrative Agency or other State agencies and departments. While important and necessary for a comprehensive assessment of statewide activities, funding to State agencies and departments was limited to 20 % of grant funds awarded each year. For FY 2002 and FY 2003 (Parts I and II), the State Administrative Agency was required to provide 80 % of the equipment grant funds to local units of government. For FY 2004, the 80 % distribution requirement was applied to the full amount of the grant.

The State Administrative Agency added some measurable equipment-related objectives to its 2003 Strategy update, but did not collect data from the counties to measure progress in achieving these objectives. Starting with the FY 2004 grant, FEMA provided the Biannual Strategy Implementation Report program as a mechanism to link equipment and other types of purchases to State goals and objectives. State Administrative Agency and county officials told us that this program had little applicability to their management, oversight, or evaluation of grant expenditures at the county level.

State Administrative Agency officials gave the following reasons for not developing measurable strategic objectives and collecting the information needed to assess the impact of the equipment grant program at the county (or subgrantee) level.

- The 2001 and 2003 Needs Assessments were flawed and did not provide a clearly defined, realistic snapshot of existing capabilities and the equipment gaps at the county (subgrantee) level,
- The State Administrative Agency did not assign the resources necessary to address the complexities involved in defining and measuring preparedness at the county level, and
- State Administrative Agency officials did not believe FEMA required the development of performance measures, nor did they feel that federal grant officials placed much emphasis on doing so.

State Administrative Agency officials said they have struggled, and continue to struggle, with how to identify applicable performance-based measurements and standards. In addition, Agency officials said that the metrics provided in the FEMA Biannual Strategy Implementation Report, while possibly helpful to FEMA, did not provide the State with the data it needed to measure subgrantee performance or assess the impact of the equipment grant programs.

Conclusions

Without measurable goals and objectives and a mechanism to collect objective, results-oriented data from its 88 counties, the State Administrative Agency did not have a basis to evaluate the effect of grant fund expenditures on the response capabilities of first responders to terrorist attacks involving weapons of mass destruction. Also, the State Administrative Agency could not consider progress toward goals and objectives in future funding and management decisions.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Develop strategic goals and objectives applicable to first responder capabilities that are specific, measurable, achievable, results-oriented, and time-limited,
2. Incorporate the goals and objectives into a statewide system for measuring local jurisdiction first responder progress toward achieving the goals and objectives, and
3. Use the progress achieved as a basis for future first responder grant funding decisions.

Management Comments

We received verbal comments on the recommendations from FEMA officials. The federal officials concurred with the first and second recommendations and concurred in concept with the third recommendation. The officials said that FEMA does not intend to specify to the grantee how they should evaluate proposals for award, only that there should be an evaluation method by which all aspects of the grantee as an entity and its needs are taken into consideration.

The State Administrative Agency officials concurred with the recommendations. In their written comments, the State officials said that the August 2007 Ohio Homeland Security Strategic Plan was developed using a large group of stakeholders, including local first responders, state officials, and private sector representatives. The officials said the Plan includes goals and objectives that are specific, measurable, achievable, results-oriented, and time limited. The written comments state that the Ohio Homeland Security Division is working with an independent contractor to develop a system for tracking progress toward achievement of goals and objectives. The State Administrative Agency officials said that these actions will provide the basis for the investment justifications and future grant applications.

Auditor's Analysis

The initiatives cited by the State Administrative Agency indicate that the State officials are aggressively pursuing important improvements in their management of Homeland Security Grant Programs. If effectively implemented, the planned initiatives should provide the groundwork for the

state, regional, and local officials to establish and use meaningful, specific, measurable goals and objectives.

The recommendations should remain open until FEMA considers the established goals and objectives as meeting the criteria in Code of Federal Regulations Title 44 § 13.40. FEMA should determine if the goals and objectives are being used in a statewide system for local jurisdictions to measure progress toward achieving the goals and objectives. The progress achieved toward the goals and objectives should be used by the State Administrative Agency as a basis for future first responder grant funding decisions.

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

Adequate Financial Controls Not Established

The State Administrative Agency did not properly account for grant disbursements or submit accurate Financial Status Reports to DHS. The Agency was unable to periodically reconcile drawdowns from the federal account with expenditures recorded in the State's accounting system. The cash outlays reported in the State Administrative Agency's Financial Status Reports could not be relied on by FEMA as an indicator of the State's actual expenditures. As a result, the State was not in compliance with federal grant accounting requirements.

Code of Federal Regulations Title 44 § 13.20 and the U.S. Department of Justice Financial Guide (which were applicable to the FY 2002 through FY 2004 Homeland Security Grant Programs), required all grantees to establish and maintain accounting systems and financial records to accurately account for the grant funds awarded. The criteria required grantees to:

- Prepare and submit quarterly Financial Status Reports to DHS that identified the actual grant expenditures and unliquidated obligations as recorded in the grantees' accounting system,
- Match actual expenditures with amounts budgeted for each grant or subgrant, and
- Support accounting records with source documentation, such as cancelled checks, paid bills, subgrant award documentation, etc.

Code of Federal Regulations Title 44 § 13.43, *Enforcement*, provides remedies for non-compliance if a grantee materially fails to comply with any

term of an award. The remedies include (1) temporarily withholding cash payments pending correction of the deficiency, (2) disallowing all or part of the cost of the activity not in compliance, and (3) withholding further awards for the program.

The following conditions contributed to the State Administrative Agency's inability to accurately account for the expenditure of Homeland Security Grant Program funds.

- When reporting cash outlays in the quarterly Financial Status Reports, the State Administrative Agency did not always use actual expenditures as recorded in the State's accounting system. According to Agency officials, the amounts reported were sometimes based upon the drawdowns from the federal account. In an August 2004 report, the DHS OIG stated that the State Administrative Agency used a similar process when it prepared Financial Status Reports for FEMA disaster assistance grants. At that time, FEMA concurred with the finding and said it would collaborate with the Agency to resolve the cited deficiencies.
- The State accounting system showed that the total grant expenditures for the FY 2004 State Homeland Security Grant Program exceeded the amount the State Administrative Agency reported on the Financial Status Reports by about \$11.4 million. As of June 30, 2006, the Agency had not been able to reconcile this difference.
- The State Administrative Agency initiated payments to subgrantees based upon the subgrantees "Request for Cash" without adequate supporting documentation. Specifically, throughout the FY 2002 through FY 2004 grant periods, the Agency did not require subgrantees to submit invoices or other documentation to support their requests for reimbursement.
- The State Administrative Agency's fiscal branch sometimes misclassified or made errors in recording subgrantee expenditures. For example, even though the purpose of an award was changed and approved by FEMA (e.g., funds awarded to a county for training were reallocated to equipment), the fiscal branch recorded the expenditure as originally allocated.

The State Administrative Agency did not have documentation to fully explain the reasons for the above four financial management issues. For example, one official said that the Agency's normal process was to use drawdown information obtained from the federal account to report grant disbursements in the quarterly Financial Status Reports to FEMA. Another official

acknowledged that the Agency used drawdown information for some unknown period of time but said that the normal process was to use the State's accounting system to report disbursements. However, from the documents provided to us by the Agency, it was not clear what information was used to complete the Financial Status Reports during the FY 2002 through FY 2004 grant periods. Our analysis showed that the disbursements reported in 27 of 42 Financial Status Reports did not agree with the expenditures recorded in the accounting system. State Administrative Agency officials acknowledged that they had not periodically reconciled or matched actual disbursements recorded in the State's accounting system with grant funds drawn down from the federal account. The lack of periodic reconciliations contributed to the financial reporting problems observed during our audit.

A State Administrative Agency official told us that the process of paying grantees without the required supporting documentation (e.g., paid bills or invoices) started early in the Homeland Security Grant Program when subgrantees could request cash up to 120 days in advance of actual expenditures. The State Administrative Agency did not require grantees to submit supporting documentation with requests for cash. This process continued even after the Agency stopped the practice of allowing advance payments. As a result, the Agency did not have supporting documentation for the payments made to subgrantees.

Conclusions

The State Administrative Agency did not ensure that grant disbursements were properly accounted for and supported in accordance with federal requirements, or have documentation to support Requests for Cash made by subgrantees. The State Administrative Agency also did not ensure that the cash outlays reported on the State's quarterly Financial Status Reports were accurate.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Ensure compliance with federal grant disbursement documentation and accounting requirements,
2. Reconcile the \$11.4 million difference between the FY 2004 grant program disbursements reported in the State's accounting system and the quarterly Financial Status Reports sent to DHS, and

-
3. Revise the State Administrative Agency's annual supplemental grant guidance to require subgrantees to submit appropriate documentation to support Requests for Cash.

Management Comments

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with the recommendations. In their written comments, the State officials said they now have a system in place to prepare Financial Status Reports using the state's accounting records. The officials said the system will ensure compliance with federal grant disbursement documentation and accounting requirements. The written comments also stated that the issues related to the FY 2004 grant would be resolved by March 31, 2008. According to the State Administrative Agency, it now requires subgrantees to submit invoices or documentation to support cash requests. Effective November 2006, cash requests are refused unless necessary supporting documentation is provided.

Auditor's Analysis

If properly implemented, the actions cited above would adequately address the recommendations.

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

Subgrantee Performance Not Adequately Monitored

The State Administrative Agency did not adequately monitor the activities of subgrantees. The Agency did not require local jurisdictions to report on progress achieved in improving their capability to respond to terrorist attacks. The Agency also did not conduct periodic site visits to observe the progress made by the subgrantees. Accordingly, the Agency was not aware of the extent that its subgrantees adhered to federal requirements and grant guidelines or achieved DHS and Agency programmatic goals and objectives. The lack of a periodic, on-site, subgrantee monitoring program prevented the Agency from obtaining first-hand knowledge of specific subgrantee administrative problems and issues.

Code of Federal Regulations Title 44 § 13.40, *Monitoring and reporting program performance*, establishes requirements for monitoring grant program performance. These regulations require grantees to (1) provide day-to-day management of all grant and subgrant supported activities and (2) assure that subgrantees comply with applicable federal requirements and achieve program

performance goals. The regulations also specify that the grantees' monitoring programs must cover each program, function, or activity, and require subgrantees to adhere to the same performance monitoring and reporting standards as required of grantees. The Department of Justice Financial Guide (which serves as a primary reference manual to assist grant recipients in fulfilling their fiduciary responsibilities) also applied in this situation. It stated that grant recipients "should be familiar with, and periodically monitor, their subrecipients' financial operations, records, system, and procedures." In addition, recipients should "pay particular attention to sub-recipients' maintenance of current financial data."

During the FY 2002 through FY 2004 grant periods, the State Administrative Agency had from one to three grant coordinators (the number changed from time to time) to oversee \$142 million in grant expenditures spread among 88 counties, several state agencies, and other subgrantees. Because the State Administrative Agency did not require subgrantees to report progress in achieving required capabilities and on-site visits were not made, the grant coordinators focused their time on reviewing Detailed Budget Worksheets and Requests for Cash (essentially desk audits) to ensure that subgrantees were purchasing approved equipment and services. The grant coordinators were able to identify questionable purchases and either disallow the expenditures or contact FEMA for guidance. However, during the FY 2002 through FY 2004 grant programs, the State Administrative Agency did not require subgrantees to submit invoices with their Requests for Cash. Therefore, the grant coordinators had no direct evidence to support the subgrantees' requests for cash or to document what, when, or even if particular pieces of equipment or services were purchased with grant funds. During this period of time, State Administrative Agency grant coordinators told us that time was not available to:

- Review equipment or other types of purchases to determine if the equipment purchases were addressing the needs established in the State Administrative Agency's preparedness strategies, or
- Conduct periodic, on-site monitoring visits at counties and other subgrantees to review programmatic and financial operations and assess the degree of progress and compliance with federal requirements and grant guidelines.

On-site monitoring visits would have provided the State Administrative Agency first-hand knowledge of specific subgrantee activities. For example, one county we visited was not complying with the federal and state guidance for administering the first responder grant programs. State Administrative Agency officials accidentally discovered problems during a June 2004 on-site visit to meet a new Acting Director of the county's Emergency Management

Agency. The Agency found that the county did not maintain grant-related records and documents during the FY 2002 and FY 2003 grant years. The county also had (1) requested cash from the State Administrative Agency and held the cash for long periods of time before purchasing grant related equipment and (2) purchased equipment not authorized by FEMA or approved by the county's Terrorism Advisory Committee. The State Administrative Agency took actions to freeze the county's accounts and require the county to reimburse the State for any funds unspent or used to purchase equipment not authorized by FEMA.

In this county, the State Administrative Agency also worked closely with a new County Emergency Management Agency Director and Deputy Director to reconstruct the County's grant transactions and establish an inventory of equipment purchased with grant funds. When this process was finished, unobligated funds previously returned to the State were made available to the County once again for grant-eligible expenditures. Although we commend the State Administrative Agency for taking immediate action to resolve the problems, the problems had been occurring for several years without the Agency's knowledge. A more formalized Agency monitoring program including periodic on-site visits might have prevented or reduced the severity of this problem.

In addition, because on-site monitoring visits were not conducted, the State Administrative Agency had not detected the following problems identified during our visits to selected counties:

- Sole source procurements did not follow prescribed federal guidelines (see finding on page 23),
- Personal property controls and accountability systems were not maintained for property purchased with grant funds (see finding on page 26),
- General use vehicles were improperly used for personal commuting (see finding on page 28), and
- Grant funds were inappropriately commingled (see finding on page 31).

Officials said that they were not prepared totally to handle the large increase in grant funds that occurred following the September 11, 2001, terrorist attacks on the World Trade Center. At that time, one person was assigned to monitor the grant program. Yet even with additional staff, officials said that the workload resulted in little time to do more than the required desk audits. The State Administrative Agency had the option to use Homeland Security

Grant Program administrative funds to hire additional personnel but put its priorities on providing as much grant money as possible to local jurisdictions and state agencies.

Conclusions

The State Administrative Agency did not provide sufficient oversight resources, nor establish a well-documented monitoring program that included periodic site visits to monitor the activities of subgrantees. The Agency did not monitor programmatic and fiscal matters, nor did it monitor the subgrantees' progress in meeting the State's goals and objectives for responding to terrorist attacks involving weapons of mass destruction. Although the Agency took immediate action to resolve problems of which it became aware in one county, it did not perform on-site visits to other counties to ensure that all its guidance and directives were being followed by all subgrantees.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Implement a monitoring program that includes periodic on-site visits to oversee the activities of subgrantees,
2. Establish a system of regular reporting by local jurisdictions documenting progress toward achieving acceptable levels of equipment, training, and exercises for first responders, and
3. Use the progress reported and the results of the site visits as factors in future management and funding decisions.

Management Comments

We received verbal comments on the recommendations from FEMA officials. The federal officials concurred with the first and second recommendations and concurred in concept with the third recommendation. The officials said that FEMA does not intend to specify to the grantee how they should evaluate proposals for award, only that there should be an evaluation method into which all aspects of the grantee as an entity and its needs are taken into consideration.

The State Administrative Agency officials concurred with all three recommendations. The State's written comments said that the State

Administrative Agency, in conjunction with the Ohio Department of Public Safety Internal Auditors, developed and implemented a comprehensive subgrantee monitoring program in July 2006. The program includes a goal to conduct on-site reviews of each county on an annual basis. The written comments also said that the State Administrative Agency was developing a system to track local jurisdictions' progress. The officials believe the action will help identify progress toward meeting required capabilities and future funding needs.

Auditor's Analysis

If properly implemented, the actions cited above would be sufficient to meet the intent of the recommendations.

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

Federal Procurement Requirements Not Followed

The State Administrative Agency did not ensure that federal procurement regulations were followed for non-competitive procurements. Agency and subgrantee officials did not perform required cost analyses for several non-competitive procurements that exceeded \$100,000. Also, the subgrantees did not notify the Agency prior to awarding non-competitive contracts. As a result, the Agency and its subgrantees might have paid more for equipment and services than was necessary and reasonable.

Code of Federal Regulations Title 44 § 13.36, *Procurement*, establishes applicable procurement requirements for grantees and subgrantees. Specifically, the Regulations require that:

Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

With respect to non-competitive procurements (or a competitive procurement in which there was inadequate competition) that exceeds the \$100,000 simplified acquisition threshold, federal regulations require grantees and subgrantees to perform a cost analysis (or in some circumstances a price analysis) to determine the reasonableness of the proposed contract price. A cost analysis would involve a review and analysis of various cost elements included in the contractor's proposed price, including specific elements of costs (e.g., overhead and profit). The analysis results could then be used to

help negotiate a reasonable contract price. The federal regulations also require that subgrantees notify the grantee (Ohio Emergency Management Agency) when such non-competitive procurements are being undertaken and give the grantee an opportunity to review pre-award documentation, such as requests for proposal, independent cost estimates, etc.

The State Administrative Agency officials and subgrantees did not adhere to the applicable requirements for non-competitive procurements over \$100,000. In one example, a county awarded a sole source, fixed price contract for \$1,360,015 to provide communications equipment for an existing communications tower. The county accepted the contractor's proposed contract price without performing a cost analysis. Also, the county did not notify the Ohio Emergency Management Agency of the pending sole source contract action. To determine the reasonableness of the contract price, the County relied on the technical expertise of its communications staff and some informal price comparisons with other counties that had made similar purchases.

In another example, the State Administrative Agency attempted a competitive procurement for contractor support in preparing and executing table-top, full-scale, and statewide terrorism exercises. When only one bid was received, the State Administrative Agency awarded a non-competitive contract for \$259,220. As with the first example, no formal cost analysis was prepared to determine the reasonableness of the proposed contract price. The \$259,220 contract was subsequently modified by the State Administrative Agency, without further competition, to a contract total of approximately \$3.6 million.

The State Administrative Agency referenced the applicable Code of Federal Regulations in its Notice of Award and other supplemental grant guidance to subgrantees. However, the requirements associated with high-value procurements were not detailed in the guidance. State procurement personnel and subgrantee officials said they had not read and were unaware of the applicable non-competitive guidance. Accordingly, the contracts were awarded without the required cost analysis being performed or the advance notification being given to the State Administrative Agency.

Conclusions

Non-compliance with federal requirements occurred when high-value, sole source contracts or contracts with inadequate competition were awarded by subgrantees and the State Administrative Agency. Required cost analyses were not performed and notifications were not given to the State Administrative Agency by subgrantees prior to award of the contracts. Also, with only one bidder, the State Administrative Agency awarded a contract without adequate competition that was amended from the original \$259,220 to

\$3.6 million without adequate cost or pricing data. As a result, the Agency and its subgrantees had no assurance that the costs paid were reasonable. In addition, the Agency did not have an opportunity to review pre-award documentation, such as requests for proposal, or independent cost estimates, prior to the contract award.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Highlight, emphasize, and transmit to applicable state agencies and subgrantees the federal requirements to:
 - a. Prepare a cost analysis for non-competitive procurements that are expected to exceed \$100,000, and
 - b. Notify the State Administrative Agency of any such procurements and give the State the opportunity to conduct pre-award reviews.
2. Establish and implement procedures to ensure that grant recipients follow federal requirements for non-competitive procurements exceeding \$100,000.

Management Comments

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with the recommendations. In their written comments, the State officials said that, in the future, cost analyses will be performed when high-value, sole source contracts, or contracts with inadequate competition are awarded. The grant guidance will highlight and emphasize these requirements and require that the subgrantees notify the State Administrative Agency prior to undertaking high-value, sole source procurements.

Auditor's Analysis

If properly implemented, the actions cited above would be sufficient to meet the intent of the recommendations.

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

Personal Property Controls and Accountability Not Maintained

Four of the six counties visited by our audit team had not maintained effective control and accountability systems to (1) safeguard personal property procured with first responder grant funds or (2) ensure that the property was used solely for authorized purposes. The other two counties developed control and accountability systems several years after the property was purchased. The condition existed because the State Administrative Agency did not provide clear guidance to subgrantees. The Agency also did not periodically visit subgrantees to verify that required safeguards were in place and that procured property was being used for authorized purposes. Accordingly, there was no assurance that millions of dollars of personal property procured with federal grant funds was adequately safeguarded or used for authorized purposes.

Code of Federal Regulations Title 44 § 13.20 *Standards for financial management* systems requires that effective control and accountability be maintained for all personal property procured with federal funds. Grantees and subgrantees must adequately safeguard all such property and assure that it is used solely for authorized purposes. Under Title 44 § 13.3, *Definitions*, equipment and supplies are considered to be personal property.

In addition, Code of Federal Regulations Title 44 § 13.32 *Equipment* requires that property records be maintained, including the property's cost, description, identification number, location, use, condition, and ultimate disposition. The Regulations also require that a control system be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Under Title 44 § 13.3, *Definitions*, equipment means 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 federal regulations were included by reference in the State Administrative Agency's Grant Agreements with subgrantees.

While four of the six counties visited had developed control and accountability systems, the system documentation was incomplete or missing key pieces of information. It was necessary for us to summarize Requests for Cash (documents used by the counties to seek reimbursement from the State Administrative Agency) or trace purchases to original invoices to verify the accuracy of the property records. In some cases, we had to rely on the recollections of county personnel to locate the equipment sample used for the audit.

The two other counties we visited had established control and accountability systems and the system documentation was reasonably complete. However, in one county, a new county Emergency Management Director had to

completely reconstruct the previous grant history to determine what had been purchased, where it was located, what it cost, and how it fit into the county's approach to using first responder grant funds. According to State Administrative Agency and county officials, the previous Director mismanaged the county's grant program and had not documented how the grant funds were used. In the other county, records of equipment purchases were allowed to accumulate for several years before property records were compiled. County personnel stated that previously there were problems in hiring competent administrative personnel.

Many of the equipment items, procured with the grant funds, exceeded the federal equipment thresholds of costing at least \$5,000 with a life of more than 1 year. Many of the items, while not exceeding the thresholds, cost several thousand dollars and were easily portable.

Grant agreements and other supporting documents between the State Administrative Agency and its subgrantees contained general references to the federal safeguarding and accountability requirements for personal property. However, subgrantee officials we interviewed said they had not read the regulations and were not aware of the requirements. Although the State provided supplemental guidance to subgrantees that identified the federal requirements, the guidance changed from year-to-year and did not include all the requirements. In addition, the State Administrative Agency did not conduct on-site visits to verify that required safeguards were in place and that procured property was being used for authorized purposes.

Conclusions

Ohio's subgrantees we visited did not maintain federally required safeguards and accountability controls for personal property procured with the first responder grant funds. Without satisfactory controls, the State Administrative Agency and its subgrantees had no way of ensuring that the property was adequately safeguarded or used solely for authorized purposes.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Develop guidance for subgrantees that clarifies the requirements for property controls and accountability of personal property purchased with first responder grant funds,

-
2. Direct subgrantees to maintain the required control and accountability systems for:
 - a. Equipment that meets the \$5,000 and 1-year life thresholds, and
 - b. All other personal property with special emphasis on sensitive and portable property, and
 3. Verify the adequacy of subgrantee control and accountability systems through on-site monitoring.

Management Comments

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with all the recommendations. In their written comments, the State officials said that the property control and accountability requirements are being included in various grant related guidance and in presentations being given to a variety of state and local partners. The officials said that personal property controls and accountability have been included in semi-annual emergency management directors conferences and at the last two annual County Auditor' Conferences. In addition, the officials said that during on-site monitoring visits they will verify that the counties are in compliance with personal property controls and accountability requirements.

Auditor's Analysis

If properly implemented, the actions cited above would be sufficient to meet the intent of the recommendations.

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

Vehicles Not Used for Intended Purposes

During our visits to six counties, we found three instances where counties had used vehicles for general purposes instead of purposes justified to the State Administrative Agency. While two of the counties stopped using the vehicles for general purposes after receiving guidance from the State Administrative Agency, one county was still doing so. The vehicle, which cost \$23,190, was used for daily commuting. As a result, the vehicle was not being used for the purpose justified by the county and might not be available during an emergency. Accordingly, we consider the \$23,190 to be a questioned cost.

DHS Program Guidelines for all grant programs included in the audit provide that equipment purchases are limited to items needed to respond to incidents of terrorism. The Guidelines specifically state that the purchase of general use vehicles is not authorized. A FEMA official advised us that using a tow vehicle for personal commuting between home and work is clearly a violation of the grant guidelines. Also, in its supplemental guidance to subgrantees for the FY 2002, FY 2003, and FY 2004 first responder grant programs, the State Administrative Agency made specific reference to the prohibition on purchasing general use vehicles with grant funds.

We identified a vehicle that was not being used as originally intended. The vehicle, costing \$23,190, was purchased with FY 2004 grant program funds. The four-wheel drive vehicle was justified to the State Administrative Agency as a “prime mover for equipment trailers.” However, at the time of our visit, the vehicle was being used to commute between home and work by the Director of the County Emergency Management Agency. The Director, who is also the County’s Hazardous Materials Team Leader, initially said the vehicle was being used as intended. However, after we observed that the vehicle did not have a trailer hitch, the Director said that she was on call 24 hours a day, 7 days a week and needed the vehicle to respond to emergencies.

Similar incidents occurred in two other counties visited. However, county officials stopped using the vehicles for general use after receiving guidance from the State Administrative Agency grant personnel.

Conclusions

The State Administrative Agency relied on subgrantees to appropriately report and classify equipment purchases. If the subgrantee used equipment for purposes other than was originally intended, such as a prime mover vehicle being used for general purposes, the Agency generally had no way of knowing. More importantly, if the County Emergency Management Director was using a prime mover vehicle for general purposes, there was a potential that the vehicle would not be immediately available to haul a trailer in time of an emergency, especially since the vehicle did not have a trailer hitch. This could delay first responders and their access to the equipment needed for a potentially hazardous situation. Because the vehicle was not being used as intended, we consider the \$23,190 cost of the vehicle to be a questioned cost.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Verify the County's need for the vehicle and direct the County to:
 - a. Terminate the use of the prime mover vehicle for personal commuting;
 - b. Install a trailer hitch if the county is to keep the vehicle; or
 - c. If appropriate, disallow the \$23,190 claimed for the cost of the vehicle; and
2. Clearly communicate to subgrantees in the future that vehicles and other equipment purchased with grant funds must be used for the purposes intended and not for general purposes, such as daily commuting.

Management Comments

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with the recommendations. In their written comments, the State officials said that the State Administrative Agency had verified the county's need for the vehicle and that it was no longer being used for daily commuting. The officials also said a hitch had been installed on the vehicle. In addition, the officials said they will reiterate to subgrantees that vehicles must be used for the purpose described in the detailed budget worksheet or the funds must be reimbursed.

Auditor's Analysis

The actions cited above are sufficient to meet the intent of the recommendations.

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

Grant Funds Inappropriately Commingled

One county visited had commingled the FY 2002, FY 2003, and FY 2004 first responder funds with funds from other federal agency grant programs. Although the non-compliance was reported in a July 2005 financial audit report, the county had not taken corrective action as of February 2007. As a result, the State Administrative Agency could not ensure that the first responder grant funds were being appropriately accounted for or used according to the grant requirements.

Code of Federal Regulations Title 44 § 13.20, *Standards for financial management systems*, requires that the fiscal control and accounting procedures of the State and its subgrantees must be sufficient to (1) permit the preparation of reports required by federal regulations and statutes authorizing the grant and (2) establish that grant funds have not been used in violation of applicable statutes.

The Department of Justice Financial Guide (which is the primary reference for financial management and grants administration for direct grant recipients and sub-recipients) requires that:

...the accounting systems of all recipients and sub-recipients must ensure that agency funds are not commingled with funds from other federal agencies. Each award must be accounted for separately. Recipients and sub-recipients are prohibited from commingling funds on either a program-by-program or project-by-project basis.

The Guide further states that direct grant recipients should be familiar with and periodically monitor sub-recipients' financial operations, records, system, and procedures, paying particular attention to the maintenance of current financial data.

A July 29, 2005, Ohio Auditor of State financial audit of a County Emergency Management Agency that we visited found that the County Auditor (who was the fiscal agent for the Agency) was not properly managing federal grants, including Homeland Security grants. The audit report stated that:

Several federal grants were placed within the same fund(s) without sub-accounts to track the activity of each individual grant. In addition, the grants were posted to the accounting system without any considerations as to the purpose of the funds (i.e., general operating funds or special purpose funds.)

The report labeled this situation "a reportable condition" and "a material weakness" and said that, as the fiscal agent for the County Emergency

Management Agency, the County Auditor should separate funds, or create sub-accounts within each fund, so that the grant revenue and expenditures can be related to the grant purpose, and a grant balance would be readily available.

Even though the July 2005 state audit reported that the county was inappropriately commingling grant funds, the problem had not been corrected as of February 2007, when we visited the county. The county's financial system continued to lack sub-accounts for each individual grant, making it impossible for us to independently examine grant activity and determine grant balances. When we asked about this situation, the County Auditor said that she did not consider her office to be the fiscal agent for the County Emergency Management Agency. Therefore, she did not separate sub-accounts as recommended by the Ohio Auditor of State. The County Auditor said it was the responsibility of the County Emergency Management Agency to keep track of grant expenditures and balances. However, for the FY 2002, FY 2003, and FY 2004 grant periods, the County Emergency Management Agency did not always accurately track grant funds received from the State.

Conclusions

Because the county was commingling grant funds, the State Administrative Agency had no assurance that the county in question was appropriately accounting for grant funds or that the funds were being used in accordance with grant requirements.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Ohio Emergency Management Agency to:

1. Suspend further grant expenditures until the County satisfies the State Administrative Agency that it has complied with federal accounting requirements and has established separate accounts for individual grant program fund activities, and
2. Require the State Administrative Agency to review subgrantee finance and accounting practices to ensure that first responder grant funds are not commingled with awards from other grant programs.

Management Comments

We received verbal concurrences on the recommendations from FEMA officials. The State Administrative Agency officials also concurred with the recommendations. In their written comments, the State officials said that the subgrantee county has been told to put all homeland security funds into separate accounts. The officials said a follow-up visit will be conducted to

ensure that the action has been taken. In addition, a bulletin will be sent out to all counties addressing this topic and funds accounting will be included in future on-site monitoring visits. If commingling is found, the officials said funds will be suspended until corrective action is taken.

Auditor's Analysis

If properly implemented, the actions cited above would be sufficient to meet the intent of the recommendations.

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

The **objectives** of the audit were to determine whether the State of Ohio effectively and efficiently implemented first responder grant programs, achieved the goals of the programs, and spent funds awarded according to grant requirements. The **goal** of the audit was to identify problems and solutions that would help the State of Ohio prevent and respond to terrorist attacks. Toward this goal, we considered the following nine “researchable” questions, from which we identified the reportable conditions included in the findings section of this report.

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

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

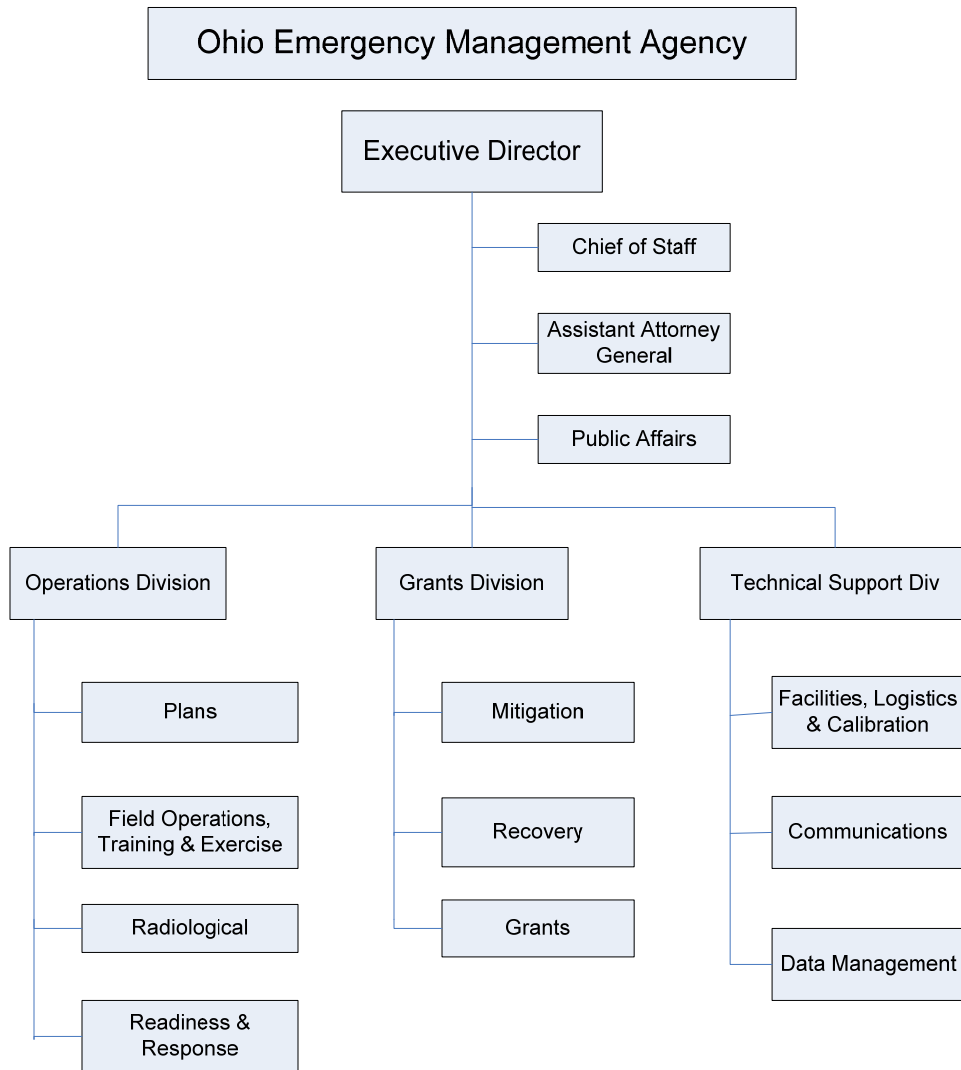
The **scope** of the audit included the following four grant programs. These programs are described in the Background section of this report.

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

The audit **methodology** included work at DHS Headquarters, the State of Ohio's offices responsible for the management of the grants, and various subgrantee locations. The subgrantee locations visited included six counties (Auglaize, Franklin, Hocking, Jefferson, Montgomery, and Scioto) and 21 first responder organizations within those counties. We also visited two other organizations that received subgrants from the State Administrative Agency (the Ohio Department of Natural Resources and the Ohio Association of Chiefs of Police).

The purposes of the visits were to obtain an understanding of the four grant programs and to assess how well the programs were being managed. Our audit considered DHS and State Administrative Agency policies and procedures, as well as the applicable federal requirements. We reviewed documentation received from DHS as well as from the State Administrative Agency offices and the subgrantees. In each of the locations visited, we interviewed responsible officials, reviewed documentation supporting the State Administrative Agency and subgrantee management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds. The cutoff date related to the transactions and records reviewed was June 30, 2006. The fieldwork for the audit was conducted between November 2006 and June 2007.

The audit of the State of Ohio was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2003 Revision). Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on the State of Ohio's financial statements or the funds claimed in the Financial Status Reports submitted to DHS. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified. The report does not extend to any financial statements of the State of Ohio. The Department of Homeland Security, Office of Inspector General is reporting the results of the audit to appropriate DHS officials.



August 2007



- Administration
- Bureau of Motor Vehicles
- **Emergency Management Agency**
- Emergency Medical Services Division
- Office of Criminal Justice Services
- Ohio Homeland Security
- Ohio Investigative Unit
- Ohio State Highway Patrol



Ted Strickland, Governor
Henry Guzmán, Director
Nancy J. Dragani
Executive Director

Emergency Management Agency
2855 West Dublin-Granville Road
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(614) 889-7150
www.ema.ohio.gov

January 17, 2008

Foxx and Company
700 Goodall Complex
324 West Ninth Street
Cincinnati, OH 45202

Dear Foxx and Company:

The following are the State of Ohio's responses to the 2007 Department of Homeland Security, Office of Inspector General Report on The State of Ohio's Management of State Homeland Security Grants Awarded during Fiscal Years 2002 through 2004. The responses were prepared by the Ohio Emergency Management Agency (Ohio EMA), as the State Administering Agency, and are presented in order of the major program areas highlighted in the Report.

In regard to the first program area - "Needs Assessment Results Not Used"

Your Recommendations were: 1) link future homeland security grant awards to the State's most critical terrorist threats and risks; 2) establish statewide equipment standards and priorities for meeting first responders' most critical needs, and 3) require counties to use grant funds to alleviate equipment shortfalls between the newly established standards and priorities, as compared with current capabilities of each county.

Ohio's response:

1. Concur. In 2006, the Department of Homeland Security began distributing homeland security grants through a competitive application process. This process required the state to conduct a comprehensive needs assessment, identify current capabilities and gaps, develop an enhancement plan, and then develop investment justifications based on the enhancement plan. Counties were then required to focus their grant expenditures and budget worksheets on the state's highest priority (based on the gap analysis and enhancement plan) - Interoperable Communications. If subgrantees chose to apply their grant funds towards other priorities, they were required to justify in writing why they were not focusing on Interoperable Communications. The enhancement plan was updated for the 2007 grant application and used to develop the state's 2007 investment justifications. We anticipate a similar process for 2008.
2. Concur in concept. We will continue to work with our federal and local partners to identify equipment standards and will continue to focus future grant funding on the priorities identified during our gap analysis and enhancement plan updates.
3. Concur. As equipment standards are identified, we will encourage subgrantees to adhere to those standards when using homeland security funds to purchase applicable equipment.

Mission Statement

"to save lives, reduce injuries and economic loss, to administer Ohio's motor vehicle laws and to preserve the safety and well being of all citizens with the most cost-effective and service-oriented methods available."

Ohio Department of Public Safety
Page 2

In regard to the second program area - "Measurable Goals and Objectives Not Established"

Your Recommendations were: 1) develop strategic goals and objectives applicable to first responder capabilities that are specific, measurable, achievable, results-oriented, and time limited; 2) incorporate the goals and objectives into a statewide system for measuring local jurisdiction first responder progress toward achieving the goals and objectives, and 3) use the progress achieved as a basis for future first responder grant funding decisions.

Ohio's response:

1. Concur. The latest version of the Ohio Homeland Security Strategic Plan, developed by the Ohio Homeland Security Division, was completed in August 2007. Version 3.0 of the Ohio Homeland Security Strategic Plan guides the state toward utilizing its current resources and people to their highest potential and taking appropriate steps to address preparedness gaps in the areas of prevention, protection, response and recovery. Version 3.0 was developed using a large group of stakeholders, the Ohio Homeland Security Plan Roundtable, that included local first responders and officials, state officials and private sector representatives. The goals developed are specific, measurable, achievable, results-oriented and time-limited.
2. Concur. The Ohio Homeland Security Plan Roundtable was developed to leverage the vast knowledge and experience of critical stakeholders throughout the State of Ohio. These experts were tasked with crafting recommendations for the revision of objectives and implementation steps for the Strategic Plan. Members of the advisory committees considered the preparedness missions, the national target capabilities and universal task lists, the February 2006 Ohio capabilities assessment and the needs of Ohio's government agencies, businesses, non-governmental organizations and citizens. The advisory committee members were responsible for recommending that each state agency track the state's progress toward the completion of each objective. The Ohio Homeland Security Division is working with an independent contractor to develop a system for tracking progress toward achievement of goals and objectives.
3. Concur. The Ohio Homeland Security Strategic Plan, in concert with the enhancement plan, will provide the basis for the investment justifications and future grant applications. In addition, beginning with the 2006 grant, DHS conducts an annual programmatic monitoring visit that evaluates progress based on the investment justifications. Our next monitoring visit is scheduled to occur in late summer or early fall 2008.

In regard to the third program area - "Adequate Financial Controls Not Established"

Your Recommendations were: 1) ensure compliance with federal grant disbursement documentation and accounting requirements; 2) reconcile the \$11.4 million difference between the FY 2004 grant program disbursements reported in the State's accounting system and the quarterly Financial Status Reports sent to DHS, and 3) revise the State's annual supplemental grant guidance to require subgrantees to submit appropriate documentation to support Requests for Cash.

Ohio's response:

1. Concur. We now have a system in place to prepare Financial Status Reports (FSRs) using the State's accounting records as the basis for reporting spending. Copies of the documentation from the

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accounting system are now being maintained in a folder for each quarterly report and these files are maintained for the duration of the grant in accordance with records retention requirements. These changes ensure compliance with federal grant disbursement documentation and accounting requirements.

2. Concur. The FSR for the FY 2004 Homeland Security Grant for the period ending September 30, 2007 was prepared in the method described above and shows an unobligated balance of \$11,375.00. In the most recent FSR filing for quarter ending September 30, 2007, the State's accounting system shows expenditures of federal funds on this grant to total \$68,223,625.00, thus reflecting a balance in the amount of \$11,375.00 of cash on hand. We continue to research the records for this grant and should the total spending be less than the cash drawn, a refund will be issued. We expect the issues related to this grant to be resolved by March 31, 2008 and continue to work closely with DHS on closing out these grants.

3. Concur. Grant guidance to subgrantees has been revised and subgrantees must submit copies of invoices or documentation to support their cash requests. Effective November, 2006, cash requests are refused unless they contain the necessary supporting documentation.

In regard to the fourth program area - "Subgrantee Performance Not Adequately Monitored"

Your Recommendations were: 1) implement a monitoring program that includes periodic on-site visits to oversee the activities of subgrantees; 2) establish a system of regular reporting by local jurisdictions documenting progress toward achieving acceptable levels of equipment, training, and exercises for first responders, and 3) use the progress reported and the results of the site visits as factors in future funding management and funding decisions.

Ohio's response:

1. Concur. Ohio has developed an Administrative Plan for Homeland Security Grants which includes monitoring visit procedures. In July 2006, Ohio EMA, in coordination with Ohio Department of Public Safety (ODPS) Internal Auditors, developed and implemented a comprehensive subgrantee monitoring program. The program includes a combination of on-site reviews, desk reviews and audit report reviews. The Internal Audit Section at ODPS conducts a review of A-133 single audit reports, management letters, and audit reports for all grant areas. The grant coordinators conduct desk reviews each time a cash request is submitted, reviewing invoices and ensuring costs are allowable and correspond with the approved budget. The grant coordinators conduct on-site reviews of their assigned counties, with a goal in 2008 to conduct an on-site review of each county on an annual basis. Beginning in July 2006, Ohio EMA's three grant coordinators, with the assistance of internal audit and Ohio EMA field operations, conducted more than 42 on-site reviews.

2. Concur. Ohio is developing a system to track local jurisdictions' progress. Our FY08 Grant guidance will require local jurisdictions to answer four questions in their application: what are the equipment, training and exercise capabilities required for your jurisdiction's first responders; what needs have already been met; what needs remain, and; what percentage of critical capabilities have been met. We will require quarterly programmatic progress reports from subgrantees.

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3. Concur. Ohio believes the actions listed above will help us better identify capabilities required, progress toward meeting those capabilities and future needs. This will help determine future funding.

In regard to the fifth program area - "Federal Procurement Requirements Not Followed"

Your Recommendations were: 1) highlight, emphasize, and transmit to applicable state agencies and subgrantees the federal requirements to prepare a cost analysis for non-competitive procurements that are expected to exceed \$100,000 and notify the State of any such procurements and give the State the opportunity to conduct pre-award reviews, and; 2) establish and implement procedures to ensure that grant recipients follow federal requirements for non-competitive procurements exceeding \$100,000.

Ohio's response:

1. Concur. As outlined in the audit findings related to procurement requirements, we acknowledge that some high-value, sole-source contracts were awarded without the required cost analysis. The state of Ohio referenced the code of federal regulations related to purchasing requirements in our Notice of Award and Grant Agreements (NOAAs) and grant guidance. We did not, however, outline the detail of the requirements associated with high-value procurements. In the case of procurement made by the state of Ohio, state purchasing regulations were followed, which did not require a cost analysis. In the future, cost analyses will be performed when high-value, sole source contracts or contracts with inadequate competition are awarded and grant guidance will highlight and emphasize these requirements. The state, through an information bulletin, will inform subgrantees of the non-competitive procurement requirements and the need to prepare a cost analysis for non-competitive procurements that exceed \$100,000.00 or contracts with inadequate competition.

2. Concur. Procedures to ensure that subgrantees follow federal requirements for non-competitive procurements are outlined in the Administrative Plan for Homeland Security Grants. The plan includes requirements to prepare a cost analysis for non-competitive procurements exceeding \$100,000.00, requires that subgrantee notification be made to the state and outlines the state review process.

In regard to the sixth program area - "Personal Property Controls and Accountability Not Maintained"

Your Recommendations were: 1) develop guidance to subgrantees that clarifies the requirements for property controls and accountability of personal property purchased with first responder grant funds, 2) direct subgrantees to maintain the required control and accountability systems for equipment that meets the \$5,000 and 1-year life thresholds and all other personal property with special emphasis on sensitive and portable property, and 3) verify the adequacy of subgrantee control and accountability systems through on-site monitoring.

Ohio's response:

1. Concur. Property control and accountability are addressed in our Administrative Plan for Homeland Security Grants, grant guidance and in the NOAAs, with full reference to federal requirement guidelines. The ODPS Internal Audit Division developed a Powerpoint presentation

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that discusses personal property controls, accountability, and other grants management topics that has been presented to a variety of state and local partners. The presentation is available as a resource on the Ohio EMA website.

2. Concur. We cover these topics in our training sessions in the field and also at our semi-annual emergency management directors' conferences. We have also spoken on this topic at the last two annual County Auditors' Conferences and have asked to make a similar presentation at the 2008 conference.

3. Concur. Our monitoring process requires subgrantees to show us their property tracking sheets that show what the property is, vendor numbers, grant numbers, and current location. We have developed a sample tracking sheet that has been provided to subgrantees. During our on-site visits, we review the tracking sheets and physically verify the above information.

In regard to the seventh program area - "Vehicles Not Used for Intended Purposes"

Your Recommendations were: 1) verify the County's need for the vehicle and direct the County to terminate the use of the vehicle for personal commuting, install a trailer hitch if the county is to keep the vehicle, or if appropriate disallow the \$23,190 claimed for the cost of the vehicle, and 2) clearly communicate to subgrantees in the future that vehicles and other equipment purchased with grant funds must be used to the purposes intended and not for general purposes such as daily commuting.

Ohio's response:

1. Concur. Ohio EMA has verified the county's need for the vehicle. The county installed a hitch for hauling a trailer, supporting the use of the vehicle as a prime mover and the county is no longer using the vehicle for personal use. Therefore, there is no need to disallow the cost of the vehicle.

2. Concur. We have previously notified subgrantees that vehicles cannot be used for personal commuting. This was based on guidance we received from DHS. Vehicle use is also addressed in our grant guidance and Administrative Plan for Homeland Security Grants. We are also updating our vehicle use plan to reiterate the prohibition for general (personal) use. Vehicles must be used for the purpose described in the detailed budget worksheet or the funds must be reimbursed.

In regard to the eighth program area - "Grant Funds Inappropriately Commingled"

Your Recommendations were: 1) suspend further grant expenditures until the County satisfies the State that it has complied with federal accounting requirements and has established separate accounts for individual grant program fund activities and 2) require the State to review subgrantee finance and accounting practices to ensure first responder grant funds are not commingled with awards from other grant programs.

Ohio's response:

1. Concur. The subgrantee county mentioned in the report was still commingling funds and was advised to put all homeland security grant funds into separate accounts. A follow-up visit will be made to ensure compliance. We address the issue of commingling in the grant guidance and our

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Administrative Plan for Homeland Security Grants. We will also be sending out a bulletin on this topic.

2. Concur. Ohio EMA's monitoring program reviews subgrantee financial records, accounting procedures, and, purchases. We note that separate accounts are established for each grant and ensure that purchases from each account are properly tracked and that current balances are always available. If commingling is found, the subgrantee is notified by a monitoring report and funds are suspended until a corrective action plan is developed. Once corrective actions have been taken, the subgrantee is free to begin properly expending grant funds again.

We ask your favorable consideration of our responses and respectfully request they be included in the final report. If you have and questions or need any clarification, please call Sima Merick, Mitigation, Recovery & Preparedness Grants Division Director, at (614) 799-3674.

Sincerely,



NANCY J. DRAGANI
Executive Director

CC: Henry Guzmán, Director of Public Safety
Larry McCartney, Executive Director, Administration, ODPS
Kathy Ludowese, CFO, ODPS
Sima Merick, Division Director, Ohio EMA
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Office of Management and Budget

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