

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

Annual Report to Congress on States' and Urban
Areas' Management of Homeland Security Grant
Programs Fiscal Year 2012





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Department of Homeland Security

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MEMORANDUM FOR: David J. Kaufman
Acting Assistant Administrator
Grant Programs Directorate
Federal Emergency Management Agency

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Annual Report to Congress on States' and Urban Areas'
Management of Homeland Security Grant Programs
Fiscal Year 2012*

Attached for your action is our final report, *Annual Report to Congress on States' and Urban Areas' Management of Homeland Security Grant Programs Fiscal Year 2012*. This report, required by Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, is a summary of 16 individual audit reports completed in fiscal year 2012. The report summarizes the findings and recommendations made to the Federal Emergency Management Agency, requiring the States and territories to take corrective actions to improve their grant management programs.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact John E. McCoy II, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	fiscal year
OIG	Office of Inspector General
SHSP	State Homeland Security Program
UASI	Urban Areas Security Initiative



Executive Summary

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security (DHS), Office of Inspector General (OIG), to audit individual States' management of State Homeland Security Program and Urban Areas Security Initiative grants, and annually submit to Congress a report summarizing the results of those audits. This report responds to the annual reporting requirement and summarizes audits of 16 States and territories completed in fiscal year 2012: Arizona, Arkansas, Colorado, Florida, Georgia, Kansas, Louisiana, Michigan, Minnesota, Montana, New Mexico, Ohio, Oklahoma, U.S. Virgin Islands, Utah (Urban Areas Security Initiative only), and Washington (Urban Areas Security Initiative only).

The objectives of the State audits were to determine whether each State distributed and spent the grant funds (1) effectively and efficiently, and (2) in compliance with applicable Federal laws and regulations. We also addressed the extent to which grant funds enhanced the States' ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other manmade disasters. The audits included more than \$924 million in State Homeland Security Program and Urban Areas Security Initiative grants awarded to the 16 States and territories during 3-year periods between fiscal years 2006 and 2010.

In most instances, with the exception of the U.S. Virgin Islands, the States did an efficient and effective job of administering the grant program requirements in compliance with grant guidance and regulations. Additionally, we identified an innovative system that can be considered for use by other jurisdictions.

Two major areas were identified for improvement: strategic planning and oversight of grant activities. We recommended that the Federal Emergency Management Agency (FEMA) consider designating the U.S. Virgin Islands as a high-risk grantee. We also documented instances of prior recommendations that had not been resolved, and identified more than \$5.7 million in questioned costs. We made 130 recommendations addressing these areas. In its corrective action plans, FEMA concurred with 99 of the recommendations, concurred with the intent of 28 recommendations, partially concurred with 1 recommendation, did not concur with 1 recommendation, and did not address 1 recommendation.



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Background

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires DHS OIG to annually submit to Congress a report summarizing completed audits of State Homeland Security Program (SHSP) grants and Urban Areas Security Initiative (UASI) grants awarded to States, territories, and the District of Columbia. This report summarizes our fiscal year (FY) 2012 audits of the management of Homeland Security Grant Program funds awarded to 16 States, as indicated in table 1.¹ Appendix B provides Internet links to the reports. Table 2 summarizes the status of audit recommendations for FY 2012.

Table 1: Audits Included in This Report

State	Fiscal Years Reviewed	SHSP Grant Awards (000s)	UASI Grant Awards (000s)
Arizona	2007–2009	\$35,606	\$48,471
Arkansas	2008–2010	\$19,308	\$0
Colorado	2007–2009	\$29,235	\$22,518
Florida	2007–2009	\$96,659	\$111,536
Georgia	2008–2010	\$61,747	\$41,252
Kansas	2008–2010	\$21,424	\$0
Louisiana	2007–2009	\$40,385	\$18,817
Michigan	2007–2009	\$55,818	\$42,303
Minnesota	2007–2009	\$29,825	\$24,914
Montana	2007–2009	\$16,514	\$0
New Mexico	2007–2009	\$16,514	\$0
Ohio	2007–2009	\$64,477	\$48,351
Oklahoma	2006–2008	\$21,240	\$13,519
U.S. Virgin Islands	2007–2009	\$4,550	\$0
Utah (UASI)	2008–2010	N/A	\$7,639
Washington (UASI)	2007–2009	N/A	\$32,031
TOTAL		\$513,302	\$411,351

Source: DHS OIG.

Appendixes A and C provide additional details on the purpose, scope, and methodology of this report and the State grant management audits.

¹ The term “State” means any one of the 50 States, the District of Columbia, Puerto Rico, the Northern Mariana Islands, the Virgin Islands, Guam, American Samoa, and any other territory or possession of the United States.



Results of Audit

In most instances, with the exception of the U.S. Virgin Islands, the States did an efficient and effective job of administering grant program requirements in compliance with grant guidance and regulations. We also identified an innovative system that can be considered for use by other jurisdictions.

Two major areas for improvements were identified in the audit reports: strategic planning and oversight of grant activities. We recommended that FEMA consider designating the U.S. Virgin Islands as a high-risk grantee. We also documented instances of prior recommendations that had not been resolved, and identified more than \$5.7 million in questioned costs. We made 130 recommendations to FEMA that, when implemented, should strengthen program management, performance, and oversight. In its corrective action plans, FEMA concurred with 99 of the recommendations, concurred with the intent of 28 recommendations, partially concurred with 1 recommendation, did not concur with 1 recommendation, and did not address 1 recommendation. The recommendations will remain open pending completion of corrective actions by FEMA.

Table 2: Status of Audit Recommendations²

Areas for Improvement	Issued	FEMA Concurrence		Status:	
		Yes	No	Open	Closed
I. State Strategic Planning Processes					
Fully measurable and achievable goals and objectives	20	20	0	19	1
Long-term capability sustainment options	3	3	0	2	1
Prioritize strategic goals and proposed projects	2	2	0	2	0
Subtotal	25	25	0	23	2

² Concurrence includes “concur with intent” and partial concurrence. In addition, one recommendation not addressed by FEMA was subsequently resolved and closed, and is considered a concurrence.



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Areas for Improvement	Issued	FEMA Concurrence		Status:	
		Yes	No	Open	Closed
II. State Oversight of Grant Activities					
Allocation, obligation, and expenditure of grant funds	8	7	1	8	0
Monitoring of subgrantee activities	29	29	0	15	14
Oversight of financial management, reporting, and costs	27	27	0	17	10
Compliance with procurement and property management requirements	19	19	0	15	4
Subtotal	83	82	1	55	28
III. U.S. Virgin Islands as a High-Risk Grantee	22	22	0	17	5
Total	130	129	1	95	35

Source: DHS OIG.

State Strategic Planning Processes

The States’ strategic planning processes contained weaknesses in fully measurable goals and objectives, sustainment options, and priorities.

Fully Measurable and Achievable Goals and Objectives in State Homeland Security Strategies

The Homeland Security Strategies for Arkansas, Florida, Georgia, Kansas, Louisiana, Minnesota, Montana, New Mexico, U.S. Virgin Islands, and Washington did not include some or all of the elements necessary for a successful Homeland Security Strategy, such as specific, measurable, achievable, results-oriented, and time-limited goals and objectives.

Minnesota and New Mexico had outdated Homeland Security Strategies. Minnesota’s Homeland Security Strategy was limited in its effectiveness because it was last updated January 18, 2008, but referred to a comprehensive risk, capabilities, and needs assessment completed in October 2003. The strategy stated that an “updated assessment will be accomplished during calendar year 2006,” but an assessment update was not performed.

New Mexico developed a 3-Year Domestic Preparedness Strategy in January 2003 that did not contain current and specific goals, objectives, and performance



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measurements that was never updated. FEMA requested an update for the State strategy in FY 2005, and New Mexico developed a draft, but it was never approved.

Without fully measurable and achievable goals and objectives, and performance measurements, these States did not have a basis to evaluate the effect of grant expenditures on their preparedness and response capabilities, or when making funding and management decisions.

Long-term Capability Sustainment Options

Florida and Minnesota did not have contingency plans to address potential funding shortfalls in the event of significantly reduced or eliminated DHS funding. Funding shortfalls could put critical programs intended to respond to terrorist acts and various catastrophes at risk.

Florida did not have contingency plans for some SHSP-funded projects in the event of reduced or eliminated Federal funding. Sustainability is a critical factor that impacts Florida's overall preparedness capabilities, and one that Florida has placed little emphasis on as a ranking factor when prioritizing SHSP projects. As a result, the long-term sustainment of capabilities and the completion of projects funded by multiyear contracts may be in jeopardy in the event of significantly reduced or eliminated Federal funding.

Minnesota did not have a viable contingency plan for its fusion center, and had not been able to obtain a commitment from its legislature to fund fusion center operations in the event of reduced or eliminated Federal grant funding. State Administrative Agency officials said that funding contributed by other fusion center stakeholders, including local law enforcement agencies, would not be sufficient to sustain operations. Without continued Federal grant funding, the capability of fusion centers to help develop and maintain information sharing and intelligence to law enforcement agencies could be lost.

Prioritize Strategic Goals and Proposed Projects

Michigan and Washington did not prioritize all proposed projects submitted by counties and regions as part of their strategic planning process. According to FEMA guidance, grant funds must be used to achieve the goals, objectives, and priorities of the UASI strategy.



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Michigan's funding allocation method did not appear to maximize financial assistance to meet the needs of the urban areas with the highest threat and population density. According to Michigan officials, all counties in the UASI region received a baseline amount before risk-based allocations were made. This funding model, which included regional, baseline, and risk-based allocations, resulted in areas with the largest populations and potentially highest risk receiving a less-than-proportionate share of UASI funds.

Washington had not implemented a process to ensure that the urban area strategy was reviewed and updated periodically to reflect current goals, objectives, and priorities. Consequently, it relied on a ranking and project prioritization process that was disconnected from the strategy. Project funding within the urban area was not focused on the highest priorities as described by the strategy, making the strategy irrelevant. Instead, the annual rankings became an ad hoc strategy that focused only on the current year.

State Oversight of Grant Activities

States needed to improve in four areas of oversight of grant activities. Specifically, they (1) were not effective in their allocation, obligation, and expenditure of funds to subgrantees; (2) did not monitor subgrantee performance to ensure enhancement of terrorism prevention, response, recovery, and mitigation capabilities; (3) were not effective and efficient stewards of Federal grant funds, including expenditures, costs, and financial management; and (4) did not comply with property and procurement management requirements.

Allocation, Obligation, and Expenditure of Grant Funds

Allocation, obligation, and expenditure of grant funds are critical elements of grants oversight. However, Arkansas, Florida, Georgia, New Mexico, and Ohio did not allocate, obligate, or expend grant funds to subgrantees in a timely manner.

Specifically, Arkansas, Florida, and Georgia did not obligate funds timely to subgrantees. In Arkansas, there was a lapse of 137 to 1,031 days between required obligation and availability of funds during FYs 2008 to 2010. Florida had some instances during FYs 2007 and 2008 in which obligations were more than 400 days after the award date, and in FY 2009 it obligated funds between 44 and 101 days late. Georgia did not make funds available for expenditure to subgrantees until as many as 261 days after the required date.



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Additionally, Florida did not adequately calculate and award SHSP funds designated for local jurisdictions in FY 2009. In that year, FEMA program guidance stated that the State Administrative Agency must separately obligate at least 80 percent of SHSP and UASI funds to local units of government within 45 days of receipt of the funds. Florida combined UASI and SHSP funds, and from the total it allocated 80 percent to local jurisdictions. This method resulted in less than 80 percent of the SHSP award being obligated to local recipients. The difference equates to approximately \$2.9 million that local jurisdictions could have used to complete critical projects.

During FYs 2008 through 2009, New Mexico withheld \$2.5 million in SHSP grant funds from local units of government to provide training and exercises, without the required memorandums of understanding. By withholding a portion of the grant funds to centralize training and exercises for local units of government, New Mexico obligated less than the required amount to local units during FYs 2008 and 2009.

In FY 2007, 24 subgrantees and 4 State agencies we visited in Ohio, did not receive grant awards until an average of 8 months (between 3 and 22 months) after the State obligated the grant funds. For FY 2008, delays increased to an average of 10 months (between 6 and 30 months); for FY 2009, they increased to an average of 11 months. Four subgrantees did not receive FY 2009 grant awards by May 15, 2011—19 months after Ohio reported to FEMA that these funds were obligated. Eighteen of the 28 grant recipients requested an extension to the grant performance period because they needed more time to complete planned procurements and obtain reimbursements.

Ohio did not always make payments to subgrantees for grant expenditures in a timely manner. A sample of 55 payment requests showed payments were made anywhere from 13 to 89 days after the requests were submitted to the State. As a result, local funds were often not reimbursed in a timely manner and vendors were not always paid timely for goods and services.

Withholding grant funds from subgrantees may limit subgrantees' ability to make purchase decisions regarding their most critical needs, and limits subgrantee input regarding training decisions. In addition, these issues caused noncompliance with the requirements and intent of Congress for the grant, which is to place control of the funds in the hands of local units of government.



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Monitoring of Subgrantee Activities

Monitoring of grant performance and subgrantees' adherence to Federal and State regulations needs to be improved in nine States because they do not have procedures to ensure consistent tracking of accomplishment made with grant funds, did not always ensure compliance with Federal laws and regulations, or had limited oversight.

Arizona and New Mexico did not have procedures to track grant performance activity. Arizona did not ensure that After-Action Reports and Improvement Plans, critical management tools that document weaknesses identified by exercises and provide a basis to track corrective actions, were prepared. This could hamper the State's ability to assess capability gaps and corrective actions needed to enhance its responder capabilities, and could waste resources by conducting exercises that do not focus on urban area preparedness deficiencies.

New Mexico did not have a system or process or qualified personnel, to track accomplishments resulting from grant funds. State officials informed us that personnel are not trained on how to measure preparedness improvements, and the State had not hired additional personnel to address this function. Without performance monitoring, there is no reasonable assurance that program goals are accomplished and that purchased assets will enhance the State's first responder capabilities.

Washington had not implemented an assessment process to measure improvements in preparedness. Each year, the State reassessed its priorities without considering the performance improvement and attainment of objectives established in prior years. It had not fully incorporated the use of FEMA's Target Capabilities List to measure improvements and identify gaps. This prevented the urban area's accomplishments from being properly evaluated to ensure that the goals and objectives were being achieved, or that requested funding was still in line with the urban area's real threats and vulnerabilities.

Arkansas' monitoring of subgrantees through desk reviews of budgets, payments, an inventory database, and After-Action Reports did not always ensure subgrantee compliance with Federal laws and requirements. It was only when auditors requested copies of review documents that Arkansas discovered that no subgrantees reviews were conducted during the FYs 2008 through 2010 grant years. Consequently, some grant funds were being used for other than the intended purposes, such as a vehicle intended for use by the bomb response team being used by and labeled as the special weapons and tactics unit.



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Colorado's guidance to subgrantees did not provide sufficient grant administration information or program support to ensure compliance with Federal requirements. With the exception of activities such as grant reimbursement requests and modification procedures, Colorado's written guidance did not adequately describe its expectations, methodologies, or functional administration requirements. Also, its guidance did not address requirements to ensure segregation of duties, nor did it suggest methods to accomplish it.

Louisiana did not have adequate oversight to ensure that subgrantees complied with all Federal requirements. Louisiana's monitoring processes were not sufficient to identify subgrantees' non-compliance with Federal financial and equipment-related requirements. Of the 17 subgrantee financial records reviewed, 5 did not include required information such as records of expenditures, obligations, unobligated balances, and liabilities.

Also in Louisiana, the New Orleans Urban Area did not have a regional multiyear training and exercise plan. The urban area relied on a University of New Orleans consortium to develop a plan; however, the consortium was abolished in 2009 because of budget shortfalls. In December 2010, Texas A&M University selected the New Orleans UASI as a pilot site for its Training Needs Assistance Project, which should result in a fully developed multiyear training plan.

Minnesota did not adequately monitor subgrantee activities for FYs 2007 through 2009. It conducted only limited monitoring and did not have subgrantee program performance monitoring policies and procedures in place until December 31, 2009. As a result, Minnesota did not have adequate information to assess whether the subgrantees were using grant funds efficiently and effectively to accomplish program objectives, or whether the grants were managed in accordance with Federal requirements.

Minimal oversight was accomplished in Montana through periodic contact with subgrantee staff, review of subgrantee grant applications, and processing of reimbursement requests. According to State officials, subgrantee site visits were not made during the grant years reviewed. Other weaknesses were identified in the State-required subgrantee progress report that described the activities accomplished, difficulties encountered, and funding used during the period. For example, Montana's FY 2007 interoperability investment justification requested \$3.7 million to meet five milestones; however, the progress reports for this grant did not indicate how well the funds were being spent, nor did the reports discuss the progress being made on particular milestones. Therefore, Montana funded



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activities without knowing the extent that prior funds had on the subgrantee's ability to meet specific program goals.

Oklahoma did not have an adequate system to document and analyze performance data related to the accomplishment of its Homeland Security Strategy goals and objectives. Data related to the progress made for ongoing projects were not always collected at the State level and not documented in a manner that would facilitate ongoing analysis and review of progress.

Oversight of Financial Management, Reporting, and Costs

FY 2012 audits revealed that States needed improvement in their financial management practices, performance and financial reporting, transfer of grant funds, management and administrative costs, or grant expenditure reviews.

Financial Management Practices

Montana did not comply with Federal grant financial management requirements. Deficiencies included incomplete subgrantee file information for award letters and supporting documentation for reimbursement requests, as well as inadequate coordination between the State Administrative Agency and the supporting administrative office responsible for paying subgrantee invoices. Montana had missing grant award letters that totaled \$477,000 out of \$3.4 million in awards selected for testing. It also had difficulty reconciling subgrantee award amounts with expenditures, and did not have supporting documentation for subgrantee reimbursement requests totaling \$938,601. Because the State Administrative Agency did not exercise financial management of all subawards, including compliance with applicable Federal requirements, it was unable to determine the actual status of SHSP grant funding.

In New Mexico, one subgrantee paid funds to a vendor for a data management system upgrade and related equipment before it received the services and equipment. The subgrantee advanced a total of \$99,250, or 63 percent of the total contract price of \$157,620. New Mexico reimbursed the subgrantee for the amounts advanced to this vendor; however, as of the date of the audit testing, the upgrades and equipment had not been received. We questioned the \$99,250 advanced by the subgrantee.



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Performance and Financial Reporting

Minnesota subgrantees did not submit the State-required quarterly financial status reports timely and did not always submit State-required quarterly progress reports. Minnesota relied on the subgrantee financial and progress information to generate the statewide financial status documents and determine the progress being made in using grant funds. Yet, five financial status reports exceeded the quarterly reporting requirement, with one report covering 28 months.

In addition, 5 of the 22 subgrantees visited did not submit progress reports from October 1, 2007, through June 30, 2010. For example, one subgrantee received \$1.69 million of grant funds in FY 2007 and had spent \$1.687 million by June 30, 2010, but in that time it had not submitted any progress reports. As a result, Minnesota did not know the current status of subgrantees' financial activities, the subgrantees' progress in improving preparedness and response capabilities, or problems that could delay subgrantee projects.

New Mexico did not submit timely and accurate Biannual Strategy Implementation Reports and Financial Status Reports to FEMA. Of the 12 Biannual Strategy Implementation Reports submitted, 11 were submitted 24 to 1,003 days late, and the amounts included in these reports were not accurate. Additionally, 8 of 27 Financial Status Reports were submitted late.

Transfers of Grant Funds Between Projects

In FYs 2009 and 2010, Utah changed the scope of several projects by transferring approximately \$2.3 million in UASI grant funds between projects without prior approval from FEMA. Although the grant guidelines allowed these types of expenditures, FEMA should ensure that the State Administrative Agency submits budget change requests for all funding transfers between projects. This will help ensure that items purchased do not exceed approved amounts and are allowable under the grant guidelines.

Monitoring of Grant Management and Administrative Costs

Kansas and New Mexico did not identify and validate management and administrative costs in accordance with Federal and State requirements. A Kansas fiscal agent representing six of the seven homeland security regions could not provide supporting documentation for any of the \$197,532 in management and administrative costs submitted to and reimbursed by the State from FY 2008



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through October 2011. Kansas decided to reimburse the fiscal agent for the maximum allowable amount of management and administrative costs without requiring support for these costs.

New Mexico allocated \$195,735 as management and administrative costs in FY 2009, which was the 3 percent maximum allowed to the State. However, the State did not provide the detailed costs for the \$195,735, and spread the amount among various budget line items without sufficient supporting documentation to identify what comprised each item.

The absence of a procedure for determining the allocation of the management and administrative costs inhibits the user's ability to identify the costs charged to the SHSP grants. In addition, the States may overstate the management and administrative costs at the time of the grant application.

Grant Expenditure Reviews

Minnesota did not have written policies and procedures to guide its financial review and did not always have documentation to support reimbursement approvals. As a result, the State could not ensure that grant expenditures were allowable, allocable, authorized, and in accordance with grant requirements. In two instances, approved reimbursement requests did not include invoices: (1) \$392,000 for hand-held digital portable radios, and (2) \$64,000 for a wireless x-ray system. Even though invoices were subsequently obtained from the subgrantees, the State Administrative Agency should not have approved the reimbursements without the appropriate documentation.

Compliance With Procurement and Property Management Requirements

The audits identified areas for most States to improve in complying with procurement and property management requirements.

Procurement Weaknesses

In Arkansas, 14 of 18 subgrantees did not (1) obtain an adequate number of qualified quotes or formal bids, (2) conduct a cost analysis, or (3) justify sole source procurements. Therefore, they did not adhere to Federal, State, and local procurement requirements. Of the 114 reviewed transactions, more than \$1.2 million was questioned in 63 transactions for issues pertaining to rate quotes, cost analysis, sole source justifications, and formal bidding.



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Georgia and some of its subgrantees did not ensure that Federal regulations were followed for equipment and services procured using Homeland Security Grant Program funds. For example, a subgrantee awarded a noncompetitive contract for \$2.2 million to purchase communication equipment without a sole source justification. In another example, a contractor awarded a subcontract for \$450,000 to a local university to update an inventory of food systems within the State, also without a sole source justification for awarding a noncompetitive subcontract. Although both the contractor and subcontractor are State entities and therefore are exempt from Federal competitive bidding requirements, Georgia law requires competitive bidding for this particular procurement.

Ohio did not ensure that Federal regulations were followed for equipment and services procured with Homeland Security Grant Program funds. Even though other sources were available, Ohio made 76 noncompetitive procurements of the 85 procurements reviewed. Subgrantees did not prepare cost or price analyses for any of the procurements.

Five of the 76 noncompetitive procurements from Ohio were specifically identified as sole source by the purchasing agent, and local procedures were followed to obtain approval. Fifty-five purchases were procured from suppliers in Ohio State Term Schedules, which are lists prepared and maintained by the Ohio Department of Administrative Services of approved manufacturers with products offered at "best prices" and specific State-required terms. Competition is not part of the process for suppliers to be placed on the Term Schedules.

Purchasing directly from State Term Schedules may meet Ohio competition requirements; however, these purchases do not meet Federal procurement standards for fair and open competition for purchases in excess of \$100,000. Federal regulations require that all prequalified lists of persons, firms, or products that are used in acquiring goods and services be current and include enough qualified sources to ensure maximum open and free competition. The items on the State Term website are not necessarily the best value, but rather are a list of suppliers that have qualified their products for the State Term Schedules.

Property Management Weaknesses

Of the 16 States reviewed in 2012, 6 had property management weaknesses, including the need for physical inventories; inaccurate, incomplete, and missing records; and no enforcement of the requirement for subgrantees to establish and maintain effective control and accountability systems.



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At one subgrantee location in Colorado, equipment purchased with grant funds was not properly marked with DHS tags, items were not entered on the inventory control sheet, and follow-up was not conducted to validate that the subrecipients had received equipment. Another subgrantee had difficulty providing an equipment list that correlated to our FYs 2007–2009 grant review period. At another location, listed property was assigned to individuals who did not have custody of the property. Another subgrantee did not maintain any kind of equipment list.

In Louisiana, 7 of 16 subgrantees' equipment property records did not include pertinent information such as acquisition dates, serial numbers, cost, or location. Inaccurate, incomplete, and missing records impede subgrantees' ability to make sound management decisions regarding future equipment needs and may lead to duplicate purchases. In addition, there were no reasonable assurances that assets procured with Federal funds were adequately safeguarded to prevent loss, damage, theft, or abuse.

Minnesota did not enforce the requirement that subgrantees establish and maintain effective control and accountability systems to (1) safeguard property procured with Homeland Security Grant Program funds or (2) provide assurances that the property was used solely for authorized purposes.

Furthermore, Montana subgrantees did not always maintain property management records in accordance with Federal requirements. Property record requirements were not being followed at 14 of 22 subgrantees. As a result, the State did not have reasonable assurance that the assets procured with Federal funds were adequately safeguarded to prevent loss, damage, or theft.

Oklahoma and Utah did not ensure that equipment purchased with Homeland Security funds was identified as purchased with DHS grants, to help deter theft or unauthorized use. In Oklahoma, 9 of 28 locations had various items such as interoperable equipment, emergency response vehicles, and surveillance cameras not labeled as purchased with Homeland Security Grant Program funds. In Utah, none of the items reviewed were marked.

U.S. Virgin Islands as a High-Risk Grantee

The U.S. Virgin Islands did not do an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. Eight areas were identified for improvement: (1) strategic goals and objectives, (2) sole source procurement and management of contract deliverables,



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(3) financial management documentation, (4) property management controls and accountability, (5) use of purchased equipment, (6) procurement of training, (7) personnel time charges, and (8) filing financial reports. Because of the need for these improvements, we questioned approximately \$1.2 million for specific items claimed and considered the entire \$3.4 million drawn-down for FYs 2007, 2008, and 2009 as potential questioned costs until the U.S. Virgin Islands provides adequate support for the funds.

We concluded that FEMA should consider classifying the U.S. Virgin Islands as a high-risk grantee because of the numerous problems noted in our audit, as well as its history of noncompliance with the terms and conditions of grant awards and Federal regulations. The U.S. Virgin Islands' non-compliance has been independently documented by various oversight organizations in single audit reports and FEMA monitoring reports, and the DHS OIG January 2012 audit. U.S. Virgin Islands officials were unaware of Federal requirements, did not maintain grant expenditure and procurement records, did not maintain an up-to-date strategy, and generally did not comply with the Federal grant requirements. In the absence of additional oversight or grant restrictions on the U.S. Virgin Islands, the noncompliance documented by this audit and other reviews will likely continue.

The non-compliance by the State Administrative Agency in the administration of grants indicates that action is needed to force it to comply with grant requirements. We believed that designating the State Administrative Agency as high risk would be an effective way to force its compliance. As a high-risk grantee, the State Administrative Agency would be under greater oversight by FEMA to comply with Federal requirements.

Unresolved Prior Recommendations

Prior audits in Colorado, Georgia, Montana, and Ohio identified issues with grants management and made recommendations to correct the deficiencies. However, the audits conducted this fiscal year identified some of the same issues, as efforts to implement those recommendations had not been successful. The recurring issues are highlighted below; any corresponding recommendations made in the respective audit reports have been categorized in table 2 under the appropriate area for improvement.

Colorado's untimely onsite monitoring of subgrantees was previously reported in an OIG audit report from December 2007. It was recommended that Colorado improve its onsite monitoring of subgrantees. Colorado had submitted evidence



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of recent subgrantee monitoring visits and had established a grant monitoring schedule; however, during the preceding two-and-a-half years, Colorado issued monitoring reports for six of the nine All-Hazards regions and four State agencies.

Our January 2008 audit of Georgia reported conditions similar to those that currently exist. The State monitored subgrantees through desk monitoring, site visits, and regular contact between subgrantees and program managers. The State used a financial and program monitoring guide based on field best practices that did not include all Federal grant requirements. As a result, these efforts did not always ensure subgrantee compliance with Federal laws and requirements, including inventory and procurement practices.

The Montana Legislative Audit Division noted in its February 2010 Single Audit Report on State Administrative Agency management of homeland security grants that in FY 2008, the State Administrative Agency did not monitor any of its subgrantees, and recommended that the State Administrative Agency implement effective monitoring controls to ensure that its subgrantees comply with Federal requirements. However, the State Administrative Agency did not issue management decisions or require corrective action on five of the audit findings within the required timeframe.

Minnesota's Office of Legislative Audit reported in March 2009, and again in March 2010, that the Department of Public Safety had not documented its risk assessment for internal controls over (1) compliance with Federal single audit requirements, (2) its monitoring process that assesses the quality of internal controls over compliance with Federal single audit requirements, and (3) the quality of internal control performance over time. Until the weaknesses in internal controls over financial operations are corrected, the State Administrative Agency will continue to be noncompliant with requirements for efficient and effective administration of Federal awards through the application of sound management practices.

In a previous audit of Ohio's Homeland Security Grant Program examining FYs 2002 through 2004, OIG reported that the Ohio Emergency Management Agency did not have an adequate monitoring program. The report recommended that Ohio take several steps to remedy this situation, including implementing regular onsite monitoring. However, Ohio did not conduct monitoring visits to UASI and SHSP grant recipients for FYs 2007 through 2009 grant awards, and had not implemented an onsite monitoring program.



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Furthermore, in Ohio, the February 2008 DHS OIG audit report identified the need for internal controls over equipment management and overall compliance with Code of Federal Regulations Title 44 §13.32. Although Ohio concurred with the February 2008 report's recommendations and agreed to address the issue, the subgrantees we visited were not complying with the required property management standards, regarding written policies and procedures, complete inventory records, properly identifying equipment purchased with grant funds, and periodic inspections of such equipment. Consequently, property management controls were not in place, and there was no assurance that the location, condition, and availability of essential equipment will be known in the event of an emergency.

We also reported in February 2008 that the State Administrative Agency did not ensure that Federal procurement regulations were followed for noncompetitive procurements, cost analyses were not performed for several noncompetitive procurements that exceeded \$100,000, and subgrantees did not notify the agency before awarding noncompetitive contracts. Ohio officials agreed to perform cost analyses when high-value sole source contracts or contracts with inadequate competition are awarded, and said that the grant guidance will highlight and emphasize these requirements. The State will require that subgrantees notify the State Administrative Agency before undertaking high-value sole source procurements. The December 2011 audit report identified the same problems.

Innovative Practice

During these performance audits, a potentially innovative system was identified for possible use by other States and jurisdictions. We believe that FEMA should consider evaluating its potential benefits to help improve grant management and preparedness.

The Jacksonville, Florida, UASI measured improvements in preparedness by evaluating its capabilities through gap analyses that are based on measured outcomes and an assessment of future needs. The Jacksonville UASI conducts an annual gap analysis that provides up-to-date information on the UASI's current state of preparedness based on funding allocations. The gap analysis measures progress through readiness indicators (i.e., target capabilities list) and quantifiable data (i.e., spending trends) to identify gaps in planning, training, exercise, and equipment. Each year, the UASI Urban Area Working Group Strategy and Initiatives Committee prioritizes the target capability list, using a tier system based on risk to the urban area. The prioritization results are then



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implemented immediately and incorporated into the Jacksonville UASI project worksheets and project scoring sheets for the next grant cycle processes. The gap analysis process also includes capability-based planning sessions, held by the Strategy and Initiatives Committee staff, to measure target capabilities and implementation tasks from the Jacksonville UASI Strategy. Each goal, objective, and implementation task is measured by Metropolitan Statistical Area completion percentages (0 percent, 25 percent, 50 percent, 75 percent, and 100 percent) based on risks to the urban area. Through this process, the Jacksonville UASI can identify gaps by assessing and cataloging the risks the UASI faces and the capabilities it has or will need to mitigate those risks. The gap between the risk and the capabilities will determine the UASI's homeland security needs going forward and should form the basis for funding allocation.



Appendix A

Objectives, Scope, and Methodology

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

The purpose of this report, prepared in accordance with Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, was to assess and summarize the audit reports completed during FY 2012 on SHSP and UASI grants awarded to States, territories, and the District of Columbia. Specifically, we were to determine (1) the number of audits conducted and completed; (2) whether findings are applicable to the mandate; (3) whether the funds awarded were used in accordance with the law, program guidance, and State homeland security plans and other applicable plans; and (4) the extent to which funds awarded enhanced the ability of a grantee to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism and other manmade disasters.

The audit reports included in this annual consolidated report to Congress were the result of 16 audits conducted by OIG and by independent public accounting firms under contract to OIG. Appendix B provides citations and Internet links to each report.

The audits summarized in this report were conducted pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives. No additional audit work was performed in preparing this report.



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Appendix B
Audit Reports Included in this Report

Report	Report Number	Date Issued	Internet Link
The State of Louisiana's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-03	11/07/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-03_Nov11.pdf
The State of Colorado's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-04	11/07/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-04_Nov11.pdf
The State of Oklahoma's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2006 through 2008	OIG-12-11	11/21/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-11_Nov11.pdf
The State of Florida's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-13	11/23/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-13_Nov11.pdf
The State of Minnesota's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-14	11/29/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-14_Nov11.pdf
The State of Montana's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-16	12/09/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-16_Dec11.pdf
The State of Ohio's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-17	12/13/11	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-17_Dec11.pdf
The State of Washington's Management of Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-27	01/20/12	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-27_Jan12.pdf
The U.S. Virgin Island's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-29	01/30/12	http://www.oig.dhs.gov/assets/Mgmt/OIG_12-29_Jan12.pdf



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Report	Report Number	Date Issued	Internet Link
The State of Arizona's Management of Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-61	03/23/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-61_Mar12.pdf
The State of New Mexico's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-102	07/26/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-102_Jul12.pdf
The State of Georgia's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2008 Through 2010	OIG-12-110	08/03/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIGr_12-110_Jul12.pdf
The State of Michigan's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded During Fiscal Years 2007 through 2009	OIG-12-114	08/30/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-114_Aug12.pdf
The State of Arkansas' Management of State Homeland Security Program Grants Awarded During Fiscal Years 2008 Through 2010	OIG-12-116	09/07/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-116_Sep12.pdf
State of Kansas' Management of State Homeland Security Program Grants Awarded During Fiscal Years 2008 Through 2010	OIG-12-122	09/14/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-122_Sep12.pdf
The State of Utah's Management of Urban Areas Security Initiative Grants Awarded During Fiscal Years 2008 Through 2010	OIG-12-124	09/14/12	http://www.oig.dhs.gov/assets/Mgmt/2012/OIG_12-124_Sep12.pdf

Source: DHS OIG.



Appendix C

Scope of State Grant Program Management Audits

The purpose of each State audit was to determine whether the State distributed and spent SHSP and UASI grant funds (1) effectively and efficiently and (2) in compliance with applicable Federal laws and regulations and DHS guidelines. We were to also address the extent to which grant funds enhanced the State's ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other manmade disasters.

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

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

The scope of the audits included SHSP and UASI grants, where applicable, for FYs 2006 through 2008, FYs 2007 through 2009, or FYs 2008 through 2010. Appendix B lists specific years for individual States.



Appendix D

Report Distribution

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