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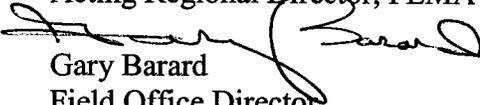


**Homeland
Security**

May 25, 2004

MEMORANDUM

TO: Mary Lynne Miller
Acting Regional Director, FEMA Region IV

FROM: 
Gary Barard
Field Office Director

SUBJECT: Audit of the State of Kentucky
Administration of Disaster Assistance Funds
Audit Report No. DA-26-04

Attached for your review and follow-up are five copies of the subject audit report that was prepared by an independent accounting firm, Foxx & Company under contract with the Office of Inspector General. In summary, Foxx & Company determined that the Kentucky Division of Emergency Management should improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On January 8, 2004 your office responded to the draft report. Based upon your response, Findings B.2 and B.4 are closed and require no additional action. Findings A.1, B.1 and B.5 are resolved, but require an additional response describing actions taken to implement the recommendations. In addition, your response did not fully address the recommendations in Finding B.3. Therefore, this finding remains unresolved pending an additional response from the Region.

Please advise the Atlanta Field Office-Audit Division by July 21, 2004, of the action taken. Should you have any questions, please contact George Peoples or me at (770) 220-5242.

Attachments



Foxx & Company
Certified Public Accountants

May 20, 2004

Office of Inspector General
Department of Homeland Security
245 Murray Drive Building 410
Washington, D.C. 20528

Foxx & Company conducted an audit of the Commonwealth of Kentucky Division of Emergency Management's administration and management of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The audit was performed in accordance with our Task Order dated October 15, 2001.

This report presents the results of our audit and includes recommendations to help improve the Commonwealth of Kentucky's administration of Federal Emergency Management Agency disaster assistance grant programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 1999 revision. 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 FEMA. The scope of the audit consisted of program and financial activities for 13 Presidential disaster declarations that occurred during the period of February 1989 through August 2001. The scope of the audit included open Public Assistance, Hazard Mitigation, and Individual and Family Grant Programs for each disaster, as applicable.

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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I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the Kentucky Division of Emergency Management's (grantee) administration and management of FEMA's¹ disaster assistance grant programs. The objective of this audit was to determine the effectiveness of the grantee's administration and management of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

This report focuses on the grantee's systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the grantee's financial statements or the funds claimed in the Financial Status Reports (FSRs) submitted to FEMA. The funds awarded and costs claimed for the disasters included in the audit scope are presented in Attachment A of this report.

Our audit included 13 major disasters declared by the President of the United States between February 1989 and August 2001. Ten of the disasters involved all three types of grant programs: Public Assistance (PA) Grants, Individual and Family Grants (IFG), and Hazard Mitigation Grants (HMG). Disaster Nos. 893, 1018, and 1207 did not include Individual and Family Grants. The Federal share of obligations for the 13 disasters was about \$165 million. Federal funds claimed through September 30, 2001 were over \$143 million.

In accordance with our agreement with the FEMA Office of Inspector General (OIG), our audit focused on the grantee's current program and financial management procedures and practices. During the audit, we strived to identify the causes of each reportable condition. We also made recommendations that, if implemented properly, would improve the grantee's management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings summarized below are discussed in detail in the body of the report.

Financial Management

- **Financial Reporting**

Kentucky did not submit quarterly FSRs for the IFG programs as required by Federal regulations. In addition, with the exception of the quarter ended March 31, 2001, Kentucky did not submit quarterly FSRs for the PA and HMG programs within the time frame required by Federal regulations. Some reports were submitted nearly two months

¹ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

after the end of the quarter. As a result, the FEMA regional office did not receive timely information in order to perform its oversight responsibility of the grantee's financial activities.

Program Management

- **PA Quarterly Progress Reporting**

Improvements were needed in the grantee's preparation and submission of PA quarterly progress reports. The grantee did not prepare quarterly progress reports on a timely or regular basis in accordance with Federal requirements. Furthermore, the reports that were prepared were not complete and were generally prepared after the PA projects were 100 percent completed. As a result, FEMA Region IV was not provided timely and complete information on the grantee's PA program that was essential for the region to exercise its management responsibility.

- **PA Project Monitoring**

The state's PA project monitoring was not in compliance with Federal requirements and FEMA approved administrative plans. In addition, the grantee did not enforce the requirement that PA subgrantees submit quarterly progress reports even though this requirement was included in the grantee's approved PA administrative plan. Also, the grantee did not document on-site project visits or inspections. Therefore, the grantee did not have up to date information on its subgrantee projects.

- **IFG Closeout Packages**

The grantee had not established a mechanism to track outstanding IFG checks. As a result, the grantee did not know if there were any outstanding checks that should have been listed, as required, in IFG program closeout packages or if any IFG funds should be returned to FEMA.

- **Single Audit Act Requirements for Subgrantees**

The state did not have adequate procedures for ensuring compliance with the provisions of the Single Audit Act. While some single audit related activities were being performed, no written procedures existed to ensure that PA subgrantees were complying with the Act. In addition, procedures were documented for the HMG program but these procedures were not being followed. Accordingly, there was no assurance that PA and HMG subgrantees did not have accounting problems that would affect the FEMA funded programs.

- **Hazard Mitigation Program Plans**

Improvements were needed in the preparation and submission of Hazard Mitigation program plans. The required Section 409 HMG program plans were not always submitted. As a result, there was no assurance that the HMG programs were being performed in accordance with Federal requirements.

II. Background

When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA).² FEMA, in turn, can make grants to state agencies, local governments, private citizens, and other qualifying organizations through a designated agency within the affected state.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters declared by the President of the United States.³ Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The three major programs addressed in this audit were:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor of the state must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the state (25 percent).

Public Assistance (PA) Grants are awarded to state agencies, local governments, private non-profit organizations, Indian tribes or authorized tribal organizations, and Alaska Native village or organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. To receive a PA grant, a designated representative of an organization affected by the disaster must sign a Notice of Interest. After the notice is sent to the grantee and to FEMA, FEMA schedules an inspection of the damaged facilities. An inspection team prepares Project Worksheets (PWs)⁴ identifying the eligible scope of work and estimated cost for the projects. FEMA reviews and approves the PWs and obligates the funds. At least 75 percent of the PW cost is paid by FEMA and the remainder of the cost is paid by non-Federal sources.

² Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

³ On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

⁴ Prior to the use of PWs, Damage Survey Reports (DSRs) were used. Kentucky's first disaster that used PWs was Disaster 1310, declared in January 2000.

In accordance with 44 CFR 206.203, PA projects are classified as either "small" or "large." The classification is based on a project threshold amount that is adjusted annually to reflect changes in the Consumer Price Index for All Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for Disaster No. 1388 was \$50,600. Projects costing less than \$50,600 were classified as "small" and projects costing \$50,600 or more were classified as "large" projects.

To speed up payments to subgrantees for small projects, the Federal share of the cost is to be disbursed as promptly as possible after approval by FEMA. Subgrantees of large projects submit periodic requests to the state for funds to meet expenses incurred or expected to be incurred in the near future. When a project is completed, the state determines and reports the final cost to FEMA. FEMA then adjusts the amount of the large project to reflect the actual cost.

Hazard Mitigation Grants (HMG) are awarded to states to help reduce the potential for future disaster damages. The state must submit a Letter of Intent to participate in the program and subgrantees must submit an HMG proposal to the grantee. The grantee is responsible for setting priorities for the selection of specific projects, but each project must be approved by FEMA. HMG grants can be awarded to state agencies, local governments, private non-profit organizations or institutions, Indian tribes or authorized tribal organizations, and Alaskan native villages or organizations. The FEMA share of project cost shall not exceed 75 percent. However, the total amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act.

Under the PA and HMG programs, FEMA may grant three types of administrative funds for overseeing the program:

1. An **administrative cost allowance** to the grantee to cover *extraordinary costs* directly associated with administering the program. The amount is determined by a statutorily mandated sliding-scale percentage (ranging from one-half of one percent to three percent) applied to the total Federal disaster assistance awarded under the program. The allowance is intended for *extraordinary costs* such as those incurred for preparing inspection reports; processing project applications; conducting final audits and related field inspections; overtime; per diem; and travel expenses. The administrative cost allowance does not include regular time for employees.
2. **State management costs** to cover expenses directly associated with the program that were not covered by the administrative allowance.
3. **Indirect costs** based on an approved indirect cost allocation plan.

For the IFG program, up to five percent of the Federal share of total program costs may be granted for administration costs.

Kentucky Division of Emergency Management

The Kentucky Division of Emergency Management (grantee) was the disaster and emergency management agency for the Commonwealth of Kentucky. The grantee was the central point of contact within the state for all emergency management activities. The agency worked with state-level, Federal, city, county, or private organizations with a mission to coordinate an emergency management system of mitigation, preparedness, response, and recovery to protect the lives, environment, and property of the people of Kentucky. The grantee was responsible for ensuring the establishment and development of policies and programs for emergency management at the state and local levels. This responsibility included the development of a statewide capability to mitigate against, prepare for, respond to, and recover from the full-range of emergencies, both natural and technological.

The grantee was an organizational component of the Kentucky Department of Military Affairs. The grantee reported directly to the Governor at the time of an emergency. Grantee staffing was limited to about 100 employees, but additional staff members were added during major emergencies, usually in proportion to the size of the emergency.

The grantee's personnel managed the IFG, PA and HMG programs. An Individual Assistance Officer managed the IFG program, a Public Assistance Officer managed the PA program, and a Hazard Mitigation Officer managed the HMG program. Other grantee employees assisted the three program officers. In addition, through a contractual agreement, the Martin School of Public Policy and Administration, University of Kentucky, assisted the Hazard Mitigation Officer. Financial responsibility for the IFG, PA, and HMG programs resided with the Division of Administrative Services, Kentucky Department of Military Affairs.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine if the Commonwealth of Kentucky had:

- administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- complied with the FEMA-approved disaster assistance administrative plans,
- properly accounted for and expended FEMA disaster assistance funds, and
- operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included the 13 major disasters listed below. These disasters were declared between February 1989 and August 2001. As agreed with the Office of Inspector General (OIG), we concentrated on four of these disasters for testing the systems and processes used by the grantee. As appropriate, we expanded our tests to include other disasters when justified by the issues identified.

Declaration			Disaster Programs		
Number	Date	Disaster	IFG	PA	HMG
821	02/24/89	Flooding	Closed	Closed	Open
834	06/30/89	Flooding	Closed	Closed	Open
846	10/30/89	Mudslides/Flooding	Closed	Closed	Open
893	01/29/91	Flooding	N/A	Closed	Open
1018	03/16/94	Winter Storm	N/A	Closed	Open
1055	06/13/95	Tornado	Closed	Open	Open
1117	06/01/96	Flooding/Tornados	Closed	Open	Open
1163	03/04/97	Flooding/Tornadoes	Closed	Open	Open
1207*	03/03/98	Winter Storm	N/A	Open	Open
1216	04/28/98	Flooding/Tornadoes	Closed	Open	Open
1310*	01/10/00	Tornado	Open	Open	Open
1320*	02/23/00	Ice Storm	Open	Open	Open
1388*	08/16/01	Flooding	Open	Open	Open

*Indicates that this disaster was one of the four originally tested during the audit.

The cut-off date for the audit is September 30, 2001. However, we also reviewed more current activities related to conditions found during our audit to determine whether appropriate corrective actions had been taken.

Our audit fieldwork was initiated at the FEMA Region IV Office in Atlanta, which has Federal jurisdiction over FEMA disaster programs in the Commonwealth of Kentucky. Our **methodology** included interviews with FEMA headquarters, regional, and state officials to obtain an understanding of internal control systems and to identify current issues or concerns relative to the grantee's management of disaster programs. Our audit considered FEMA and state policies and procedures, as well as the applicable Federal requirements. Documentation

received from the grantee, as well as from FEMA headquarters, the regional office, and the Disaster Finance Center in Berryville, Virginia, was reviewed.

We selected and tested individual recipient files and representative projects to help ensure that the disaster assistance programs had been conducted in compliance with applicable regulations. We also reviewed the state's procurement and property management procedures for compliance with Federal regulations. We evaluated current systems and procedures to identify systemic causes of internal control system weaknesses or noncompliance situations. Our review included all aspects of **program management** including application, approval, monitoring, and reporting.

We reviewed prior audits conducted within the timeframe of the disasters included in our scope, including OMB Circular A-133 audit reports and the project-by-project subgrantee audit reports prepared by the OIG. Our audit scope did not include interviews with subgrantees or visits to their project sites. We also did not evaluate the technical aspects of the disaster related repairs because this was beyond the scope of the audit.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. 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 accounts and items specified. The report does not extend to any financial statements of the Kentucky Division of Emergency Management or the Commonwealth of Kentucky and should not be used for that purpose.

IV. Findings and Recommendations

The findings and recommendations focus on the state's systems and procedures for ensuring that grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned the grantee's financial and program management activities for the PA, IFG, and HMG programs. These findings are summarized below. We believe that proper implementation of our recommendations will improve the overall management of FEMA programs and correct the noncompliance situations noted during the audit.

A. Financial Management

1. Financial Status Reporting

Kentucky did not submit quarterly Financial Status Reports (FSRs) for the IFG programs as required by Federal regulations. In addition, with the exception of the quarter ended March 31, 2001, Kentucky did not submit quarterly FSRs for the PA and HMG programs within the time frame required by Federal regulations. Some reports were submitted nearly two months after the end of the quarter. As a result, the FEMA regional office did not receive timely information in order to perform its oversight responsibility of the grantee's financial activities.

According to 44 CFR 13.41 grantees are required to submit FSRs to the regional office within 30-days after the end of each Federal quarter. FEMA emphasized the significance of these reports in its *Standard Operating Procedure (SOP) for Reconciling Financial Status Reports*. Specifically, the SOP transmittal memorandum dated March 22, 1999 stated that improving financial management practices is a top priority for FEMA and receiving and reconciling FSRs is a critical step in this initiative. In addition, FEMA's *Guide to Managing Disaster Grants* states that the FSR is a critical component of disaster grant management because it (1) enables FEMA to carry out its financial stewardship duties, (2) serves as a check to determine if grantees are expending Federal funds on a timely basis, and (3) is the official source for cost-share information.

Individual and Family Grant Program

The grantee did not submit quarterly FSRs for the IFG programs as required by Federal regulations. The grantee's Individual Assistance Officer (IAO) prepared and submitted the final FSRs to FEMA with the IFG closeout packages required for program closure. However, the IAO stated that the Division of Administrative Services, Kentucky Department of Military Affairs was responsible for preparing and submitting FSRs for the IFG programs. According to Officials from the Division of Administrative Services, it was the grantee's responsibility for preparing and submitting FSRs for the state's IFG programs.

Public Assistance and Hazard Mitigation Grant Programs

With the exception of the calendar quarter ended March 31, 2001, the Division of Administrative Services, Kentucky Department of Military Affairs had not submitted quarterly FSRs for the state's PA and HMG programs within 30-days after the end of each Federal quarter as required by Federal regulations. In this regard, we noted that some reports were submitted nearly two months after the end of the applicable quarter.

According to Administrative Services officials, quarterly FSRs were not being submitted on time because of limited staff resources and the installation of a new state financial accounting and reporting system. These officials stated that procedures are now in place to ensure that quarterly FSRs are prepared and submitted to FEMA in a timely manner.

Conclusions and Recommendations

Improvement was needed in the state's process for the preparation and submission of required quarterly financial status reports. In addition, an effective regional office process was needed to ensure that the grantee complied with the financial status reporting requirements. Financial status reports are critical components of the disaster grant management process. The quarterly reports provide visibility of the state reported financial activities. Without current, accurate, and complete status reports, FEMA's sources for information concerning the financial activities of a program are primarily limited to the Federal systems.

Regional officials informed us that they were aware that Kentucky was not submitting quarterly FSRs, but that regional staff reductions did not afford them the time to ensure that Kentucky submitted the quarterly FSR for the IFG programs. In addition, regional officials stated that the region's FSR distribution system made it difficult to track the receipt of reports because the reports were forwarded to various offices within the region.

Accordingly, we recommend that the Regional Director, Region IV:

1. Require the grantee to establish procedures for ensuring that FSRs are prepared and submitted to the regional office in accordance with Federal requirements; and,
2. Develop and implement procedures within the regional office to ensure that the required reports are received from the grantee and are reviewed, and approved by the regional office in a timely manner.

Management Response and Auditor's Analysis

The Regional Director, Region IV and the grantee concurred with the conditions cited. For the PA and HMG programs, the state officials said that procedures had been put in place within the Emergency Management Agency to ensure the timely submission of FSRs in accordance with Federal requirements and the Region has ensured that adequate procedures have been established.

For the IFG program, the state did not address the need for procedures for ensuring timely financial status reporting. Rather, the state claimed that the Disaster Mitigation Act of 2000 resolved the finding. Under the Act, the state will no longer be responsible for the disbursement of payments to individual recipients or the submission of FSRs. The Region has acknowledged the state's decision to allow FEMA to administer the IFG program. Therefore, management's actions are adequate to resolve and close Recommendation No. 1.

The Director also concurred with the Recommendation No. 2 that procedures be developed and implemented within the regional office to ensure timely financial status reporting. Therefore, Recommendation No.2 is resolved, but cannot be closed until the Region has established the recommended procedures. .

B. Program Management

1. PA Quarterly Progress Reporting

Improvements were needed in the grantee's preparation and submission of PA quarterly progress reports. The grantee did not prepare quarterly progress reports on a timely or regular basis in accordance with Federal requirements. Furthermore, the reports that were prepared were not complete and were generally prepared after the PA projects were 100 percent completed. As a result, FEMA Region IV was not provided information on the PA programs that was essential for the region to exercise its management responsibility.

In accordance with 44 CFR 206.204(f), grantees are required to submit PA quarterly progress reports to the Regional Director. These reports are to describe the status of projects on which a final payment of the Federal share has not been made and outline any problems or circumstances expected to result in non-compliance with the approved grant conditions.

According to the state's Public Assistance Officer (PAO), the grantee did not have adequate resources or the time to prepare quarterly progress reports. The PAO could only provide copies of six PA quarterly progress reports that the grantee had prepared for five of the eight disasters with open PA programs as of September 30, 2001. The report preparation dates showed that these quarterly reports were prepared about three years or more after the disasters were declared, but the reporting period covered by the reports was not indicated.

Disaster Number	Date of Declaration	PA Quarterly Progress Report Date of Preparation
1163	03/04/97	02/26/01
1163	03/04/97	05/09/01
1207	03/03/98	02/23/01
1216	04/28/98	02/22/01
1310	01/10/00	No date noted.
1320	02/23/00	No date noted.

The projects were completed by the time the four quarterly reports were submitted for Disaster Nos. 1163, 1207 and 1216. If these projects had been adequately reported on before completion,

FEMA could have fully exercised its necessary responsibilities over project activities. For the one report covering Disaster No. 1310, 11 of 17 projects were reported as completed. No comments were provided on the status of the other six open projects. In the report for Disaster No. 1320, four of the 11 projects reported on were completed and no comments were provided on the status of the seven open projects.

Conclusions and Recommendations

The quarterly reports on the status of open PA projects are one of the most important sources of information relative to FEMA's ability to exercise its management responsibilities for the PA program. The lack of timeliness and information in the grantee's quarterly reporting on the status of PA projects hindered FEMA's ability to be alerted on a timely basis of the need for action to help prevent or reduce delays in completing and/or closing projects. Improvement was needed in the grantee's process for preparing and submitting the required quarterly status reports.

There was no evidence that showed that the region had followed-up with the grantee to request the financial status reports or that the reports received had been adequately reviewed. Accordingly, the regional office's process needed to be strengthened to ensure that the required reports were submitted to the regional office as required.

We recommend that the Regional Director, Region IV,

1. Require the grantee to develop and implement procedures to improve the state's process for reporting sufficient, relevant, and reliable project status information in a timely manner as required by Federal regulations, and
2. Develop procedures to strengthen the regional office's process for monitoring the grantee's compliance with the quarterly progress reporting requirements.

Management Response and Auditor's Analysis

The Regional Director, Region IV and the grantee concurred with the condition cited. The grantee stated that grant managers will request quarterly progress reports from the applicants and will submit the reports to FEMA. The state officials also stated that the forms and letters to the applicant had been revised. A calendar was put into place showing the required dates of quarterly reports due to FEMA. The region has reviewed and concurred with these measures, and we believe these actions are sufficient to resolve and close Recommendation No. 1.

The Director also concurred with Recommendation No. 2 that procedures be developed and implemented within the regional office for monitoring the grantee's compliance with the quarterly reporting requirement. Therefore, Recommendation No. 2 is resolved, but cannot be closed until the recommended procedures have been established within the regional office.

2. PA Project Monitoring

The grantee's PA project monitoring was not in compliance with Federal requirements and FEMA approved administrative plans. In addition, the grantee did not enforce the requirement that PA subgrantees submit quarterly progress reports even though this requirement was included in the grantee's approved PA administrative plan. Also, the grantee did not document on-site project visits or inspections. Therefore, the grantee did not have up to date information on its PA subgrantee projects.

Section 44 CFR 13.40 establishes the requirements for monitoring and reporting FEMA grant program performance. This section states that grantees are responsible for day-to-day management of grant and subgrant supported activities. Grantees must ensure compliance with applicable Federal requirements and ensure that performance goals are being achieved. Section 13.40 states that grantee monitoring must cover each program, function, or activity, and that grantees will adhere to the standards in this section in prescribing performance and reporting for subgrantees.

The FEMA-approved PA administrative plans covering Disaster Nos. 1310 and 1388 stated that subgrantees were required to report quarterly on the progress of all open large projects. This report was to include such items as the approved project amount, funds spent to date, anticipated project completion date, any anticipated cost overruns or under-runs, and the current status of the project. The PA administrative plans also stated that site inspections were to include reviews of subgrantee's cost documentation and an inspection of the project site. A written report on this inspection was to have been prepared.

From our review of selected PA projects and comments from grantee officials, we noted that subgrantee quarterly progress reports had not been submitted on a timely or consistent basis. According to grantee officials, because of significant staff turnover, the grantee did not have experienced grant managers available to (1) enforce the requirement that subgrantees submit quarterly progress reports in a timely manner or (2) follow-up with subgrantees if they failed to submit the required reports. Also, grantee officials did not document their on-site project visits or inspections. Although grantee officials stated that on-site project visits and inspections were made, the officials also said they had not had the time to prepare written visit and inspection reports.

Conclusions and Recommendations

Quarterly progress reports and documentation of contacts with subgrantee officials are essential elements of the grantee's responsibility to monitor PA projects. Without progress reports and documented contacts with subgrantees, the grantee cannot demonstrate that projects are being adequately monitored.

Accordingly, we recommend that the Regional Director, Region IV, require the grantee to improve its project monitoring by:

1. Enforcing the approved administrative plan's requirement that PA subgrantees submit quarterly progress reports,

2. Reviewing the progress reports received from the subgrantees and following up on inconsistencies and/or contradictions reported from one quarter to the next, and
3. Documenting contacts with subgrantees, as appropriate, to provide further evidence of grantee monitoring activities and a record of decisions or agreements made during these contacts.

Management Response and Auditor's Analysis

The Regional Director, Region IV and the grantee concurred with the condition cited. The actions taken by the state in response to the find concerning the grantee's quarterly progress reporting to FEMA will also result in the subgrantees submitting quarterly progress reports to the grantee. In addition, the state's establishment of a tracking sheet for recording contacts with subgrantees will provide the recommended evidence of the grantee's monitoring and follow-up activities. Accordingly, we consider the condition to be resolved and closed.

3. IFG Closeout Packages

The grantee had not established a mechanism to track outstanding IFG checks. As a result, the grantee did not know if there were any outstanding checks that should have been listed, as required, in IFG program closeout packages. The grantee also could not determine the Federal share for outstanding checks that should be returned to FEMA.

On April 20, 1999, FEMA directed states to include a list of outstanding checks in IFG closeout packages. If there were no outstanding checks, the FEMA directive required that a certification to this effect be included in the state's closeout package. FEMA also directed the states to establish a mechanism for tracking outstanding checks and to provide details on the process in the IFG state administrative plan. Through the June 23, 2000, issuance of the Response and Recovery Directorate Policy No.9469.F-1 entitled: "Policy for Outstanding Checks and Warrants, Individual and Family Grant (IFG) Program, CFDA No. 83.543", FEMA reaffirmed its requirements regarding outstanding IFG checks. In addition, this policy stated that the 75 percent Federal share of outstanding IFG program checks must be returned by the state to FEMA within 30 days after a check has been declared as outstanding. FEMA defines an outstanding check as a check that has neither expired nor been cashed by the date the IFG program closeout package is due to FEMA.

We found that Kentucky's accounting system could not provide the required list of outstanding IFG program checks for the closeout packages. The only report generated by the state's Department of Treasury was a listing at the end of each month for *all state checks* reaching one-year issuance and were not cashed during that 12-month period.⁵ As a result, the grantee did not provide a listing of outstanding checks, or the required certification that there were no outstanding checks, with the IFG closeout packages for Disaster Nos. 1310 and 1320. In addition, Kentucky had not established a mechanism for tracking IFG outstanding checks or for

⁵ Commonwealth of Kentucky checks not cashed within the 12-month period following the issuance of the check expire and cannot be cashed.

determining the Federal share for outstanding checks that should be returned to FEMA. The grantee also had not provided details on a process in the IFG state administrative plan for complying with the Federal requirements for outstanding checks.

Conclusions and Recommendations

The grantee was not in compliance with FEMA's requirements concerning the inclusion of a list of outstanding checks in IFG program closeout packages. This was because the state accounting system could not identify outstanding IFG checks from other state checks. In addition, the grantee could not determine if FEMA was due the Federal share of any outstanding checks.

We recognize from discussions with grantee officials that Kentucky intends to select the option in the Disaster Mitigation Act of 2000 to let FEMA take over the administration of the state's IFG Program. With FEMA running the program, the state will no longer be responsible for complying with the FEMA policy for outstanding checks.

Accordingly, we recommend that the Director, Region IV:

1. Request the grantee to advise if FEMA will be required to administer the IFG program in the future, or
2. Require the grantee to develop accounting procedures to ensure that the grantee complies with the Federal requirements concerning outstanding IFG checks.

Management Response and Auditor's Analysis

In commenting on the draft report, the grantee advised that the FEMA option for administering the IFG program (now called the Individuals and Households Program) had been selected, and that the state will continue to have FEMA administer the program in the future. In addition, the grantee stated that a program had been set up in the state accounting system to provide a listing of outstanding checks if the state were to opt to be responsible for the program in the future. However, the Regional Director, Region IV did not comment on this finding. Accordingly, the finding is unresolved pending an official response from the Region.

4. Single Audit Act Requirements for Subgrantees

The grantee did not have adequate procedures for ensuring compliance with the provisions of the Single Audit Act. While some single audit related activities were being performed, no written procedures existed to ensure that PA subgrantees were complying with the Act. Procedures were documented for the HMG program but these procedures were not being followed. Accordingly, there is no assurance that PA and HMG subgrantees complied with the Federal requirements and had an adequate accounting system.

Prior to June 30, 1996, state and local governments that *received more than \$25,000* in total Federal funds during a fiscal year were required to have an audit performed in accordance with the Single Audit Act of 1984. For fiscal years beginning after June 30, 1996, states, local governments, and nonprofit organizations that *expended \$300,000 or more* in Federal funds

during a fiscal year were required to have an audit performed in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133.

With respect to the PA grant program, the grantee notified PA subgrantees of the Single Audit Act requirements and requested subgrantees to send copies of their single audit reports to the grantee. While some reports were received, the grantee did not have a system to determine if all subgrantees meeting the Single Audit Act expenditure threshold were having the required audits performed. In addition, PA program officials did not review or follow-up on reported findings to determine if any of the findings impacted the PA program or future FEMA awards. According to PA officials, the grantee did not have sufficient staff with the expertise necessary to fully comply with the Single Audit Act requirements.

With respect to the HMG program, procedures for ensuring subgrantee compliance with the provisions of the Single Audit Act were incorporated in the grantee's FY 2001 HMG administrative plan. The Audit Requirements section of the plan stated that:

- subgrantees were to be notified of Single Audit Act requirements, and
- the state HMG program officer was responsible for:
 - ensuring that the required audits were performed in a timely manner,
 - reviewing the audit reports to determine if exceptions or findings were report,
 - initiating appropriate action to correct the finding, and
 - reporting the action to FEMA.

While these procedures appear to be adequate for compliance with the Single Audit Act, we found that the HMG program officer had not implemented the procedures. The grantee's HMG program officer did not ensure that subgrantee single audits were being performed as required. In addition, for audit reports received from subgrantees, the state HMG program officer did not review or follow-up on reported findings to determine if any of those findings impacted the HMG program. As was the case for the PA program, grantee officials said that sufficient staff with the expertise needed to review, interpret and follow-up on audit findings reported in single audit reports were not available.

We also noted that the administrative plan and the award letters the grantee sent to the HMG subgrantees with their grant payment checks included outdated information. The plan and award letters referenced the requirements of the Single Audit Act of 1984 rather than the requirements of the Single Audit Act of 1996. These outdated references were discussed with the grantee officials and they agreed to include the correct Single Audit Act references in future documentation.

Conclusions and Recommendations

Reviews of single audit reports are intended to alert the state of pertinent financial and financial-related issues concerning the subgrantees management of Federal funds. This information is intended to assist the state in identifying non-compliance issues and weaknesses in internal controls, which if not corrected, could adversely impact the use of FEMA funds. We believe the most efficient and effective way for the grantee to comply with the requirements of the Single Audit Act would be to consolidate the requirement within the grantee's office. Furthermore, we believe the single audit monitoring should be assigned to staff with financial backgrounds.

Accordingly, we recommend that the Regional Director, Region IV, require the grantee to develop effective procedures for monitoring the subgrantees' compliance with the Single Audit Act requirements.

Management Response and Auditor's Analysis

The Regional Director, Region IV and the grantee concurred with the finding. The grantee provided documentation showing that revised procedures were implemented to improve compliance with the requirements of the Single Audit Act. Our review of these procedures concluded that the actions taken by the grantee are adequate to close the finding.

5. Hazard Mitigation Program Plans

Improvements were needed in the grantee's process for preparing and submitting Hazard Mitigation program plans. The required Section 409 HMG program plans were not always submitted. As a result, there was no assurance that the HMG programs were being performed in accordance with Federal requirements.

The state is required to submit a Section 409 Hazard Mitigation Program plan or plan update to FEMA for approval (44 CFR 206.405) within 180 days after a disaster is declared. Also, states are required to annually evaluate their Section 409 plans to ensure that implementation occurs as planned and that the plans remain current (44 CFR 206.405).

The grantee submitted an updated FY 2001 Section 409 plan on March 2, 2001, and the region approved the plan on March 14, 2001. However, we found no evidence that the grantee had submitted Section 409 Hazard Mitigation Program plans or plan updates prior to the submission of the March 2001 updated plan. Within the scope of the audit, there were 12 disasters with HMG programs; the earliest of which was declared in February 1989. In addition, we found no evidence that FEMA-Region IV had approved Section 409 plans or updates prior to the March 2001 updated plan.

Conclusions and Recommendations

Improvements were needed in the grantee's process for the preparation and submission of HMG program plans. Improvements were also needed in the regional office's process for ensuring that the plans were submitted in a timely manner and that the plans contained consistent and current information as required.

Accordingly, we recommend that the Regional Director, Region IV:

1. Require the grantee to prepare and submit program plans that include consistent and current status information in a timely manner as required, and
2. Develop procedures within the regional office to strengthen the region's process for ensuring that all plans are submitted as required and that the plans reflect the changing conditions and circumstances that affect the administration of the program.

Management Response and Auditor's Analysis

The Regional Director, Region IV and the grantee concurred with the conditions cited. The regional office acknowledged that a rigorous, ongoing planning process is the cornerstone for effective emergency management. In this regard, the state said that it would make updates to plans as needed and submit the updated plans to FEMA as required after each Federal disaster declaration.

We believe that the responses to the draft report clearly indicate a commitment by the regional office and the state to improve the HMG planning process. Additionally, we recognize that the planning process is changing as a result of the enactment of the Disaster Mitigation Act of 2000. The commitment for improvement is sufficient to resolve and close Recommendation No. 1. However, the Region did not address Recommendation No. 2. Accordingly, the finding is resolved, but cannot be closed until the regional office establishes procedures to strengthen its process for reviewing plans submitted by grantees to ensure compliance with federal requirements.

ATTACHMENTS

Attachment A-1

**Sources and Applications of Funds
As of September 30, 2001**

All Disasters Nos. 821 thru 1388

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$111,071,462	\$27,948,215	\$25,950,646	\$164,970,323
Local Match/State Share	\$35,099,240	\$9,157,551	\$9,246,399	\$53,503,190
Total Award Amounts	\$146,170,702	\$37,105,766	\$35,197,045	\$218,473,513
Sources of Funds				
Federal Share (SMARTLINK)	\$95,751,499	\$27,467,215	\$20,114,645	\$143,333,359
Local Match/State Share	\$30,043,652	\$8,966,060	\$7,274,844	\$46,284,556
	\$125,795,151	\$36,433,275	\$27,389,489	\$189,617,915
Total Undrawn Authorizations	\$15,319,963	\$481,000	\$5,836,001	\$21,636,964
Application of Funds (Expenditures)				
Federal Share	\$95,751,499	\$27,467,215	\$20,114,645	\$143,333,359
Local Match/State Share	\$17,226,943	\$8,967,526	\$3,605,785	\$29,800,254
Total Application of Funds	\$112,978,442	\$36,434,741	\$23,720,430	\$173,133,613
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Attachment A-2

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 821
Declared February 24, 1989**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$6,354,411	\$1,540,009	\$583,731	\$8,478,151
Local Match/State Share	\$2,096,956	\$497,935	\$546,139	\$3,141,030
Total Award Amounts	\$8,451,367	\$2,037,944	\$1,129,870	\$11,619,181
Sources of Funds				
Federal Share (SMARTLINK)	\$6,354,411	\$1,540,009	\$565,585	\$8,460,005
Local Match/State Share	\$2,096,956	\$497,935	\$529,169	\$3,124,060
Total Sources of Funds	\$8,451,367	\$2,037,944	\$1,094,754	\$11,584,065
Total Undrawn Authorizations	\$0	\$0	\$18,146	\$18,146
Application of Funds (Expenditures)				
Federal Share	\$6,354,411	\$1,540,009	\$565,585	\$8,460,005
Local Match/State Share	\$1,986,696	\$497,935	\$529,169	\$3,013,800
Total Application of Funds	\$8,341,107	\$2,037,944	\$1,094,754	\$11,473,805
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	Closed	Open	

Attachment A-3

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 834
Declared June 30, 1989**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$2,949,867	\$758,404	\$288,919	\$3,997,190
Local Match/State Share	\$941,036	\$252,802	\$270,456	\$1,464,294
Total Award Amounts	\$3,890,903	\$1,011,206	\$559,375	\$5,461,484
Sources of Funds				
Federal Share (SMARTLINK)	\$2,949,867	\$758,404	\$288,919	\$3,997,190
Local Match/State Share	\$941,036	\$252,802	\$270,456	\$1,464,294
Total Sources of Funds	\$3,890,903	\$1,011,206	\$559,375	\$5,461,484
Total Undrawn Authorizations	\$0	\$0	\$0	\$0
Application of Funds (Expenditures)				
Federal Share	\$2,949,867	\$758,404	\$288,919	\$3,997,190
Local Match/State Share	\$941,036	\$252,802	\$270,456	\$1,464,294
Total Application of Funds	\$3,890,903	\$1,011,206	\$559,375	\$5,461,484
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	Closed	Open	

Attachment A-4

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 846
Declared October 30, 1989**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$4,371,941	\$951,541	\$174,237	\$5,497,719
Local Match/State Share	\$1,050,290	\$307,665	\$163,556	\$1,521,511
Total Award Amounts	\$5,422,231	\$1,259,206	\$337,793	\$7,019,230
Sources of Funds				
Federal Share (SMARTLINK)	\$4,371,941	\$951,541	\$125,171	\$5,448,653
Local Match/State Share	\$1,050,290	\$307,665	\$117,500	\$1,475,455
Total Sources of Funds	\$5,422,231	\$1,259,206	\$242,671	\$6,924,108
Total Undrawn Authorizations	\$0	\$0	\$49,066	\$49,066
Application of Funds (Expenditures)				
Federal Share	\$4,371,941	\$951,541	\$125,171	\$5,448,653
Local Match/State Share	\$1,050,290	\$307,665	\$117,500	\$1,475,455
Total Application of Funds	\$5,422,231	\$1,259,206	\$242,671	\$6,924,108
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0

Program Status September 30, 2001 **Closed** **Closed** **Open**

Attachment A-5

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 893
Declared January 29, 1991**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,243,372	\$0	\$82,037	\$3,325,409
Local Match/State Share	\$1,024,380	\$0	\$75,080	\$1,099,460
Total Award Amounts	\$4,267,752	\$0	\$157,117	\$4,424,869
Sources of Funds				
Federal Share (SMARTLINK)	\$3,243,372	\$0	\$73,780	\$3,317,152
Local Match/State Share	\$1,024,380	\$0	\$67,526	\$1,091,906
Total Sources of Funds	\$4,267,752	\$0	\$141,306	\$4,409,058
Total Undrawn Authorizations	\$0	\$0	\$8,257	\$8,257
Application of Funds (Expenditures)				
Federal Share	\$3,243,372	\$0	\$73,780	\$3,317,152
Local Match/State Share	\$1,024,380	\$0	\$67,526	\$1,091,906
Total Application of Funds	\$4,267,752	\$0	\$141,306	\$4,409,058
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	N/A	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1018
Declared March 16, 1994**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$18,196,379	\$0	\$2,995,955	\$21,192,334
Local Match/State Share	\$4,921,266	\$0	\$988,665	\$5,909,931
Total Award Amounts	\$23,117,645	\$0	\$3,984,620	\$27,102,265
Sources of Funds				
Federal Share (SMARTLINK)	\$18,196,379	\$0	\$1,735,426	\$19,931,805
Local Match/State Share	\$4,921,266	\$0	\$572,691	\$5,493,957
Total Sources of Funds	\$23,117,645	\$0	\$2,308,117	\$25,425,762
Total Undrawn Authorizations	\$0	\$0	\$1,260,529	\$1,260,529
Application of Funds (Expenditures)				
Federal Share	\$18,196,379	\$0	\$1,735,426	\$19,931,805
Local Match/State Share	\$4,921,266	\$0	\$430,288	\$5,351,554
Total Application of Funds	\$23,117,645	\$0	\$2,165,714	\$25,283,359
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Closed	N/A	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1055
Declared June 13, 1995**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$5,393,934	\$826,670	\$1,263,453	\$7,484,057
Local Match/State Share	\$1,779,998	\$261,779	\$416,939	\$2,458,716
Total Award Amounts	\$7,173,932	\$1,088,449	\$1,680,392	\$9,942,773
Sources of Funds				
Federal Share (SMARTLINK)	\$5,385,575	\$826,670	\$770,773	\$6,983,018
Local Match/State Share	\$1,777,240	\$261,779	\$254,355	\$2,293,374
Total Sources of Funds	\$7,162,815	\$1,088,449	\$1,025,128	\$9,276,392
Total Undrawn Authorizations	\$8,359	\$0	\$492,680	\$501,039
Application of Funds (Expenditures)				
Federal Share	\$5,385,575	\$826,670	\$770,773	\$6,983,018
Local Match/State Share	\$1,266,558	\$261,779	\$21,618	\$1,549,955
Total Application of Funds	\$6,652,133	\$1,088,449	\$792,391	\$8,532,973
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Closed	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1117
Declared June 1, 1996**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$1,618,390	\$157,345	\$395,934	\$2,171,669
Local Match/State Share	\$534,069	\$49,951	\$130,658	\$714,678
Total Award Amounts	\$2,152,459	\$207,296	\$526,592	\$2,886,347
Sources of Funds				
Federal Share (SMARTLINK)	\$15,599	\$157,345	\$140,640	\$313,584
Local Match/State Share	\$5,148	\$49,951	\$46,411	\$101,510
Total Sources of Funds	\$20,747	\$207,296	\$187,051	\$415,094
Total Undrawn Authorizations	\$1,602,791	\$0	\$255,294	\$1,858,085
Application of Funds (Expenditures)				
Federal Share	\$15,599	\$157,345	\$140,640	\$313,584
Local Match/State Share	\$0	\$49,951	\$0	\$49,951
Total Application of Funds	\$15,599	\$207,296	\$140,640	\$363,535
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Closed	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1163
Declared March 4, 1997**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$35,221,292	\$19,740,271	\$16,122,136	\$71,083,699
Local Match/State Share	\$11,623,026	\$6,514,289	\$5,320,305	\$23,457,620
Total Award Amounts	\$46,844,318	\$26,254,560	\$21,442,441	\$94,541,319
Sources of Funds				
Federal Share (SMARTLINK)	\$32,621,401	\$19,740,271	\$14,686,433	\$67,048,105
Local Match/State Share	\$10,765,062	\$6,481,528	\$4,846,523	\$22,093,113
Total Sources of Funds	\$43,386,463	\$26,221,799	\$19,532,956	\$89,141,218
Total Undrawn Authorizations	\$2,599,891	\$0	\$1,435,703	\$4,035,594
Application of Funds (Expenditures)				
Federal Share	\$32,621,401	\$19,740,271	\$14,686,433	\$67,048,105
Local Match/State Share	\$3,605,505	\$6,481,528	\$1,997,742	\$12,084,775
Total Application of Funds	\$36,226,906	\$26,221,799	\$16,684,175	\$79,132,880
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Closed	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1207
Declared March 3, 1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$13,884,538	\$0	\$1,980,293	\$15,864,831
Local Match/State Share	\$4,581,898	\$0	\$653,497	\$5,235,395
Total Award Amounts	\$18,466,436	\$0	\$2,633,790	\$21,100,226
Sources of Funds				
Federal Share (SMARTLINK)	\$12,175,924	\$0	\$266,761	\$12,442,685
Local Match/State Share	\$4,018,055	\$0	\$88,031	\$4,106,086
Total Sources of Funds	\$16,193,979	\$0	\$354,792	\$16,548,771
Total Undrawn Authorizations	\$1,708,614	\$0	\$1,713,532	\$3,422,146
Application of Funds (Expenditures)				
Federal Share	\$12,175,924	\$0	\$266,761	\$12,442,685
Local Match/State Share	\$1,096,225	\$0	\$30,031	\$1,126,256
Total Application of Funds	\$13,272,149	\$0	\$296,792	\$13,568,941
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	N/A	Open	

Attachment A-11

Sources and Applications of Funds

As of September 30, 2001

Disaster No. 1216

Declared April 28, 1998

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$3,767,620	\$1,926,336	\$1,588,956	\$7,282,912
Local Match/State Share	\$1,243,315	\$611,536	\$524,355	\$2,379,206
Total Award Amounts	\$5,010,935	\$2,537,872	\$2,113,311	\$9,662,118
Sources of Funds				
Federal Share (SMARTLINK)	\$3,735,995	\$1,926,336	\$1,192,167	\$6,854,498
Local Match/State Share	\$1,232,878	\$611,536	\$393,415	\$2,237,829
Total Sources of Funds	\$4,968,873	\$2,537,872	\$1,585,582	\$9,092,327
Total Undrawn Authorizations	\$31,625	\$0	\$396,789	\$428,414
Application of Funds (Expenditures)				
Federal Share	\$3,735,995	\$1,926,336	\$1,192,167	\$6,854,498
Local Match/State Share	\$312,769	\$611,536	\$115,575	\$1,039,880
Total Application of Funds	\$4,048,764	\$2,537,872	\$1,307,742	\$7,894,378
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Closed	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1310
Declared January 10, 2000**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$4,943,552	\$533,319	\$84,248	\$5,561,119
Local Match/State Share	\$1,631,372	\$169,308	\$27,802	\$1,828,482
Total Award Amounts	\$6,574,924	\$702,627	\$112,050	\$7,389,601
Sources of Funds				
Federal Share (SMARTLINK)	\$4,269,948	\$533,319	\$67,188	\$4,870,455
Local Match/State Share	\$1,409,083	\$169,308	\$22,172	\$1,600,563
Total Sources of Funds	\$5,679,031	\$702,627	\$89,360	\$6,471,018
Total Undrawn Authorizations	\$673,604	\$0	\$17,060	\$690,664
Application of Funds (Expenditures)				
Federal Share	\$4,269,948	\$533,319	\$67,188	\$4,870,455
Local Match/State Share	\$638,646	\$169,308	\$0	\$807,954
Total Application of Funds	\$4,908,594	\$702,627	\$67,188	\$5,678,409
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Open	Open	

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1320
Declared February 23, 2000**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$2,846,914	\$593,305	\$390,747	\$3,830,966
Local Match/State Share	\$939,482	\$188,351	\$128,947	\$1,256,780
Total Award Amounts	\$3,786,396	\$781,656	\$519,694	\$5,087,746
Sources of Funds				
Federal Share (SMARTLINK)	\$2,431,087	\$593,305	\$201,802	\$3,226,194
Local Match/State Share	\$802,259	\$188,351	\$66,595	\$1,057,205
Total Sources of Funds	\$3,233,346	\$781,656	\$268,397	\$4,283,399
Total Undrawn Authorizations	\$415,827	\$0	\$188,945	\$604,772
Application of Funds (Expenditures)				
Federal Share	\$2,431,087	\$593,305	\$201,802	\$3,226,194
Local Match/State Share	\$383,572	\$188,351	\$25,880	\$597,803
Total Application of Funds	\$2,814,659	\$781,656	\$227,682	\$3,823,997
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Open	Open	

Attachment A-14

**Sources and Applications of Funds
As of September 30, 2001
Disaster No. 1388
Declared August 16, 2001**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA approved)				
Federal Share	\$8,279,252	\$921,015	\$0	\$9,200,267
Local Match/State Share	\$2,732,153	\$303,935	\$0	\$3,036,088
Total Award Amounts	\$11,011,405	\$1,224,950	\$0	\$12,236,355
Sources of Funds				
Federal Share (SMARTLINK)	\$0	\$440,015	\$0	\$440,015
Local Match/State Share	\$0	\$145,205	\$0	\$145,205
Total Sources of Funds	\$0	\$585,220	\$0	\$585,220
Total Undrawn Authorizations	\$8,279,252	\$481,000	\$0	\$8,760,252
Application of Funds (Expenditures)				
Federal Share	\$0	\$440,015	\$0	\$440,015
Local Match/State Share	\$0	\$146,671	\$0	\$146,671
Total Application of Funds	\$0	\$586,686	\$0	\$586,686
Balance of Federal Funds On Hand	\$0	\$0	\$0	\$0
Program Status September 30, 2001	Open	Open	Open	

List of Acronyms

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
DMA2K	Disaster Mitigation Act 2000
DSR	Damage Survey Report
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
GRANTEE	Kentucky Division of Emergency Management
HMG	Hazard Mitigation Grant
IAO	Individual Assistance Officer
IFG	Individual and Family Grant
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PAO	Public Assistance Officer
PW	Project Worksheet
SOP	Standard Operating Procedure

MANAGEMENT COMMENTS

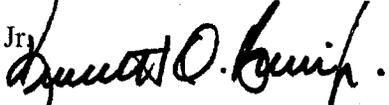
U.S. Department of Homeland Security
Region IV
3003 Chamblee Tucker Road
Atlanta, GA 30341



FEMA

January 8, 2004

MEMORANDUM FOR: Gary J. Barard
Field Office Director

FROM: Kenneth O. Burris, Jr. 
Regional Director

SUBJECT: Draft Audit Report
State of Kentucky
Administration of Disaster Assistance Funds

The Federal Emergency Management Agency (FEMA) and the State of Kentucky have received recommendations brought forward in the above-referenced audit report. In accordance with FEMA Instruction 1270.1, this serves as notice of action taken in response to your recommendations. Our evaluations of corrective actions taken by the state are attached.

If you have any further questions, please do not hesitate contacting Mr. Charles M. Butler, Emergency Analyst, at (770) 220-5460.

Attachment

Roberts, Dee

From: Martin, Porter
Sent: Monday, December 29, 2003 16:15
To: Kelemen, Nan; Butler, Charles
Cc: Roberts, Dee
Subject: KY Audit Response 01 .04.04.doc

<p style="text-align: center;">DHS – FEMA RIV Mitigation Grant Programs</p>
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Memorandum

To: Nan Keleman, R4 ARP
From: Porter Martin
Date: 12/29/2003
Re: Mitigation Response to: Kentucky Audit performed by DHS/IG Atlanta and submitted to R4 09.10.2003

Herein is the response from the R4 Mitigation Division to the Referenced audit findings and recommendations. Our response is made in light of two Audit reply letters from KyEMA to Mr. Burns R4 RD, dated October 20, 2003 and December 16.2003. We are addressing issues using the format chosen for the Audit Report.

Chapter I of the Audit, Executive Summary, identified two areas of concern regarding the HMGP.

1. Deficiencies by the Grantee in the implementation of the Single Audit Act Requirements for HMGP Subgrantees.
2. Deficiencies in preparation and submission of HMGP program plans.

Chapter IV of the Audit, Findings and Recommendations:

- Item A1, Financial Status Reporting. The R4 ARP Division has addressed this item. We concur with its findings and recommendations.
- Item B4, Single Audit Act Requirements for Subgrantees. The December 16, 2003 Audit reply letter from the Commonwealth suggests proposed improvements to procedures to implement this requirement. We assume that process will include a procedure to follow up any identified deficiencies to resolution.

- Item B5, Hazard Mitigation Program Plans. Prior to Federal FY-2000, the Division was not regularly requiring annual reviews and updates to the Commonwealth's *Hazard Mitigation Plan* as mandated by 44CFR. In March 2001, and again in September 2001, the Commonwealth did provide two revisions to its existing Hazard Mitigation Plan that made the existing Plan minimally compliant with Stafford Act provisions prior to the Act's revision in October of 2000.

On October 30, 2000, the Disaster Mitigation Act of 2000 (DMA2K) revised the Stafford Act. Existing section 409, which required annual updates and revisions to the State's Mitigation Plan, was repealed.

The Commonwealth is currently working on a new *Statewide Hazard Mitigation Plan*, funded by the HMGP, to create a new and more comprehensive Mitigation plan as required by Section 322 of DMA2K. The State hopes to have that plan completed and approved by November 1, 2004. We are currently monitoring that effort closely in cooperation with the Commonwealth.

The Commonwealth has revised its *HMGP Administrative Plan* as need and it has been reviewed and approved for each Presidential Disaster since DR-1310-KY, declared January 10, 2000.

We know that a rigorous, ongoing planning process is the cornerstone for effective Emergency Management. We continue to encourage the Commonwealth to pursue regular, ongoing analysis, reviews, and improvement to its emergency management planning process, and to encourage County and local governments to do the same.

01/06/2004



Federal Emergency Management Agency

Region IV

3003 Chamblee-Tucker Road
Atlanta, GA 30341

December 11, 2003

MEMORANDUM FOR: Greg Burel, Director
Administration Resource Planning

FROM: Steven N. Glenn, Chief 
Infrastructure Branch

SUBJECT: Audit of the Commonwealth of Kentucky
Administration of Disaster Assistance Funds
Period of February 1989 through August 2001

The Federal Emergency Management Agency's (FEMA's) Public Assistance Program and the Commonwealth of Kentucky (Grantee), have received the findings and recommendations brought forward in the above-referenced Audit Report.

The Audit Report cited weaknesses in the Commonwealth of Kentucky Department of Military Affairs' (Military Affairs) procedures for monitoring Sub-recipients of Federal Financial Assistance, tardiness in submission of Quarterly Reports and non-compliance with provisions of the Single Audit Act.

The Grantee has responded to the findings and presented corrective measures that would ensure solution of weaknesses listed in the Audit Report. FEMA concurred with the findings and reviewed measures adopted by Military Affairs aimed at strengthening its monitoring procedures, promoting timely submissions of quarterly reports and ensuring compliance with requirements of the Single Audit Act. In accordance with FEMA Instruction 1270.2, this serves as notice of action taken in response to the findings and recommendations.

Based on recommendations listed in the report, the Public Assistance Division of the Military Affairs has developed an improved system of monitoring sub-recipients of Federal assistance as well as compliance with requirements of the Single Audit Act. Starting February 1, 2004, Military Affairs will implement an audit tracking report that records the following:

- Sub-recipients eligible for audit under the Single Audit Act.
- The date each audit is due,
- The date each audit is received from an applicant,
- The date each audit report is accepted by the agency,
- The date of any findings, and
- The date that all findings are resolved.

The Grantee also agreed to work jointly with Subgrantees to obtain quarterly reports and forward them to FEMA. Additionally, the Grantee will implement a tracking report of all site visits and inspections and the findings that resulted from the visits.

The Infrastructure Branch considers all findings resolved and closed. If you have any questions regarding the action taken, please contact this office, at (770) 220-5300.

Memorandum

To: Nan Keleman, Region IV Administrative and Resource Planning (ARP)

From: Dee Roberts, Region IV ARP Division

Date: November 18, 2003

Re: ARP Response to: Kentucky Audit performed by DHS/IG Atlanta and submitted to Region IV September 10, 2003 Tracker # 09-003-03

Financial Management, Financial Reporting Findings:

The Commonwealth of Kentucky did not submit quarterly Financial State Reports (FSR's) for IFG programs. Additionally, the Commonwealth of Kentucky did not submit FSR's for the PA or HMG programs within the 30 day time frame required by Federal regulations. The lack of timely financial information resulted in the FEMA regional office being unable to perform their oversight responsibilities of the grantee's financial activities.

Administrative and Resource Planning (ARP) Division's response:

The Commonwealth of Kentucky's Division of Emergency Management has rectified the problem they previously had of sending in Financial Status Reports (269's) to the regional headquarters of FEMA. In prior years, the state has had problems sending these reports in a timely and complete manner. As noted in the Office of Inspector General's audit findings, the state consistently missed deadlines (30 days after the end of the quarter) and often omitted to send in all reports required by FEMA for open disasters in the state. Since the beginning of Fiscal Year 2003, the state has consistently sent all reports due to FEMA and has even sent them to the regional office earlier than the required due dates, in many cases as early as two weeks before the reports were actually due.



COMMONWEALTH OF KENTUCKY
DEPARTMENT OF MILITARY AFFAIRS
DIVISION OF EMERGENCY MANAGEMENT
FRANKFORT
40601-4100



December 16, 2003

Kenneth O. Burris Jr.
Regional Director
FEMA Region IV
3003 Chambles-Tucker Rd.
Atlanta GA30341

Re: Response to OIG Audit Report A-S-44-03

Dear Mr. Burris:

This is in response to your letter of October 1, 2003, requesting that our agency address findings of the above-referenced audit.

First, we agree with the finding of inadequate monitoring of sub-recipients of federal financial assistance through our agency. As a result of numerous Presidential disaster declarations and their associated activities as well as the limited amount of staffing assigned to our agency, we have been unable to follow up on our earlier commitment to resolve this finding.

We intend to re-commit our agency to fulfilling this requirement and plan to take the following steps to resolve these findings and improve our performance in the areas listed as deficient

1. A quarterly tracking report spreadsheet will be prepared by our Public Assistance/infrastructure section and our Mitigation Section indicating the list of sub-recipients, source, date and eligible amount of the federal award and amount dispersed during the quarter. The spreadsheet will also include columns indicating whether and when the sub-recipient has been notified of the audit requirement and the response from each sub-recipient, including date of response.
2. Sub-recipients will be informed of their audit requirement in writing when the federal award is made.
3. In addition, when sub4eCipiaflts are sent checks in payment of federal and state shares of eligible expenses, they will be informed of their audit requirement in writing with each payment.
4. A form will be developed and sent to each sub-recipient at the end of the sub-recipients fiscal year reminding them of the audit requirement end requiring them to inform KyEM of the status of their compliance with applicable audit requirements and any deficiencies noted in their audits relating to federal funds provided by KyEM.
5. If deficiencies or irregularities are noted in the audit reports, the sub-recipient will be contacted by an employee of the Department for Military Affairs and asked to explain the status of its effort to correct them.

I intend to insure that the above actions will be taken by February 29, 2004 so that we will meet our audit tracking obligations.

Sincerely,

Malcolm Franklin
Director



COMMONWEALTH OF KENTUCKY
DEPARTMENT OF MILITARY AFFAIRS
DIVISION OF EMERGENCY MANAGEMENT
FRANKFORT
40601-6168
20 October 2003



Kenneth O. Burris, Jr.
FEMA Region IV
3003 ChambleeTuckw Road
Atlanta, Georgia 30341

Dear Mr. Burris:

This responds to the findings and recommendations from the audit that was conducted by the accounting firm, Foxx & Company, under the FEMA Office of Inspector General on the Commonwealth of Kentucky's administration of Federal Emergency Management Agency (FEMA) disaster assistance grant programs.

The Commonwealth of Kentucky, Division of Emergency Management concurs with the findings and recommendations by Foxx and Company and will put in place the following recommendations where applicable based on new federal regulations.

Individual and Family Grants Program (IFGP)

- **Findings:** The grantee did not submit the Financial Status Reports (FSR's) quarterly for the IFG Programs as required by Federal regulations. The grantee's Individual Assistance Officer (LAO) prepared and submitted the final FSR's to FEMA with the IFG closeout packages required for the program closure. However, the LAO stated that the Division of Administrative Services, Kentucky Department of Military Affairs was responsible for preparing and submitting FSR's for the IFG Programs. According to Officials from the Division of Administrative Services, it was the grantee's responsibility for preparing and submitting FSR's for the states IFG programs.
- **Resolution:** As of October 2002 the enactment of the Disaster Mitigation Act 2000 (DMA2K) resolved this finding. Due to the enactment of the new law, the program now provides the states with the option to have FEMA be responsible for administering the entire IFG program. The state is not responsible for the disbursement of payments or program closeout; therefore FSR's will not be required to be submitted by the state.

IFG Closeout Packages

- The grantee had not established a mechanism to track outstanding IFG checks. As a result, the grantee did not know if there were outstanding checks that should have been listed, as required, in the IFG program closeout packages. The grantee also could not determine the Federal share for outstanding checks that should be returned to FEMA
- Resolution: Again, as of October 2003 the enactment of the Disaster Mitigation Act 2000 (DMA2K) resolved this finding. With FEMA being responsible for the administration of the IFG program and disbursement of checks under Option I of the FEMNA/State Cooperative Agreement, there is no longer a requirement for states to submit an outstanding check register or a closeout package. If the state were to opt to be responsible for the IFG program administration in the future, a program has been set up in the state accounting system to provide a listing of outstanding checks.

Hazard Mitigation (HMGP):

- Findings: Section 409 HMG program plans were not always Submitted, and the plan submitted to FEMA for review and approved for Disaster No. 1 388 was incomplete.
- Resolution: HMGP will make updates to plans as needed and submit the updated plans to FEMA as required after each federal disaster declaration. This requirement will change on November 1, 2004, when new regulations relating to state and local mitigation plans take effect.

Public Assistance (PA):

- Findings: The grantee did not prepare Quarterly Progress Reports in a timely or regular basis in accordance with Federal Requirements (44 CFR 206.204 (f)).
- Resolution: Grant's Managers are to request from the applicant every quarter Progress Reports and submit to FEMA. Forms and letters to applicant have been revised. A calendar has been put in place showing required dates of quarterly reports due to FEMA.
- Findings: Grantee Officials did not document onsite project visits or inspections as stated in the PA Plan.
- Resolution: A tracking sheet of visits and inspections has been put in place. A record of each visit and the findings will be completed as stated in the PA Plan. A plan to utilize other state staff such as Area Managers,

Grants Managers and State KyEM employees to help with inspections is being reviewed.

Single Audit Act Requirements for Subgrantees (PA) (HMGP):

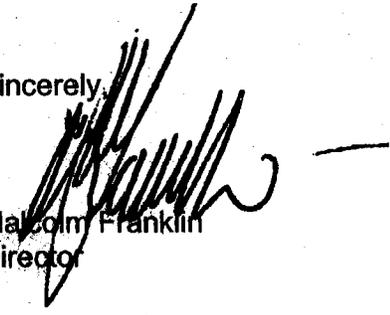
- Findings: The Commonwealth did not have adequate procedures for ensuring compliance with the provisions of the Single Audit Act by the subgrantees.
- Resolution: The Commonwealth will put in place procedures to comply with the Single Audit Act for PA and HMGP programs and to track activities were audit are performed by subgrantees and reviewed by the grantee.

Financial Status Reports (PA) (HMGP):

- The Commonwealth has put in place procedures to ensure the submission of the Financial Status Reports is completed in accordance with requirements- The completion of all FSRs for disaster related grants has been assigned to a Branch Manager within the Division of Emergency Management. Within the branch, employees will be cross trained in the completion of these reports so that at all times there will be at least one individual that can complete the FSRs.

Should you have any questions concerning these comments, please contact Charlie Winter at (502) 607-1663.

Sincerely,



Malcolm Franklin
Director

C: Office of Inspector General