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April 2003

GRANT MANAGEMENT

Alaska's Compliance with Disaster Assistance Program's Requirements

DHS IG

DO-02-03

Audit Conducted by:
Cotton & Company LLP

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audits Division
1111 Broadway, Suite 1200
Oakland, California 94607-4052

April 15, 2003

MEMORANDUM

TO: John E. Pennington, Regional Director, FEMA Region X

FROM: Robert J. Lastrico, Audit Manager

SUBJECT: Performance Audit Report: Management of FEMA Disaster Grants Awarded Under the Stafford Act State of Alaska, Department of Military and Veteran Affairs, Division of Emergency Services Audit Report Number DO-02-03

This memorandum transmits the results of the subject audit performed by Cotton & Company LLP, an independent public accounting firm. In summary, the audit determined that the State of Alaska, Department of Military and Veteran Affairs, Division of Emergency Services (ADES) could improve certain program procedures associated with the administration of disaster assistance funds. On March 19, 2003, you responded to the draft report (Exhibit B of the attached report). However, in order to resolve or close the 10 findings and associated recommendations in the report, we require additional actions or information from you or ADES as identified in the following table:

Finding Number	Finding Title	Additional Actions Required
A.1.	ADES did not prepare annual public assistance (PA) administrative plans or updates for 1999, 2000, and 2001.	Provide a copy of the procedures or system ADES uses to review, revise, and re-submit PA administrative plans and plan updates on a calendar year basis.

Finding Number	Finding Title	Additional Actions Required
A.2.	PA and hazard mitigation (HM) administrative plans did not contain all required elements.	Provide copies of correspondence approving the amended PA and HM administrative plans and a planned target date from ADES for updating the State Emergency Operations Plan.
A.3.	ADES did not submit a complete Section 409 plan in a timely manner.	Provide copies of correspondence approving the natural hazard annexes to the plan and actions to be taken to ensure complete plans are submitted timely.
A.4.	ADES did not process PA project closeout requests in a timely manner.	Provide a copy of procedures established to prevent delays in PA project closeout requests.
A.5.	ADES did not process PA subgrantee payments in a timely manner.	Provide a copy of procedures established to ensure timely PA subgrantee payments.
A.6.	ADES did not have adequate controls over PA and HM advances.	Provide a copy of ADES' policy on advances.
A.7.	HM subgrant applications were missing a required covenant.	Provide copies of the restrictive covenants and correspondence relating to the establishment and implementation of procedures that ensure maintaining this documentation in the future.
A.8.	Grant agreements for HM projects referred to outdated legislation.	Provide copies of the revised grant agreements or correspondence informing ADES to notify subgrantee of Single Audit requirements. Also, provide ADES' updated procedure documents.
A.9.	ADES did not have adequate PA subgrantee monitoring and reporting procedures.	Provide a copy of ADES' procedures established to ensure adequate PA subgrantee monitoring and reporting.
B.10.	ADES did not have an adequate labor distribution system to support claimed labor costs for the HM and PA management grants.	Provide copies of deobligation paperwork for PA grant and revised scope of eligible work for HM state management grant costs.

In addition to the above, please identify ADES' staffing plan and advise this office of progress made by ADES in meeting its plan so as to correct those deficiencies attributed to the limited staffing discussed in your responses to findings A.1., A.4., A.5., A.6., and A.9. Pursuant to FEMA Instruction 1270.1, by June 16, 2003, please provide the documentation or information requested above or provide us a date as to when such information will be provided.

We would like to thank your staff and the ADES' staff for the courtesies extended the auditors during their fieldwork. Should you have any questions concerning this report, please contact Brian Byrne or me at (510) 627-7011.

COTTON & COMPANY LLP

auditors ◆ advisors

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September 25, 2002

Federal Emergency Management Agency
Office of Inspector General
Washington, DC

In accordance with terms of our July 16, 2001, contract, Cotton & Company LLP audited the grant management process used by the State of Alaska, Department of Military and Veteran Affairs, Division of Emergency Services (ADES), for one disaster award by the Federal Emergency Management Agency (FEMA) under the Stafford Act.

Primary audit objectives were to determine if ADES administered FEMA disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. Our audit scope did not include interviews with ADES subgrantees or technical evaluation of the work performed. We identified several program management findings primarily related to the Hazard Mitigation (HM) and Public Assistance (PA) grant programs, as well as financial management issues primarily related to cash management and HM and PA grant management costs. We also identified FEMA-wide issues that are addressed in a separate letter to the Office of the Inspector General.

We conducted the audit in accordance with *Government Auditing Standards,* as revised. We were not engaged to and did not perform a financial statement audit, the purpose of which would be to express an opinion on specified elements, accounts, or items. The audit included applicable PA and HM grant programs awarded under the one disaster.

We understand that this audit was requested for the purpose of determining if ADES administered FEMA disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. This report is intended to meet these objectives and should not be used for other purposes.

Please contact me at (703)836-6701 if you have questions.

Very truly yours,

COTTON & COMPANY LLP

By: SHadley
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A. Independent Accountants' Report on Application of Agreed-Upon Procedures, State of Alaska, Department of Military and Veterans Affairs, Division of Emergency Services, Schedule of Sources and Applications of Funds

A-1. Schedule of Sources and Applications of Funds under Disaster No. 1316

B. Schedule of Questioned Costs

C. Comments from FEMA Regional Office

I. EXECUTIVE SUMMARY

Cotton & Company LLP completed an audit of the administration of disaster assistance grant programs by the State of Alaska, Department of Military and Veterans Affairs, Division of Emergency Services (ADES). The objectives of this audit were to determine if ADES administered Federal Emergency Management Agency (FEMA) disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. This report focuses on ADES' systems and procedures for assuring that grant funds were managed, controlled, and expended in accordance with applicable laws and regulations, including the Robert T. Stafford Disaster Relief and Emergency Act and Title 44 of the *Code of Federal Regulations* (CFR).

We audited one major disaster declared by the President of the United States on February 17, 2000 (Disaster No. 1316). Disaster No. 1316 involved the Public Assistance (PA) and Hazard Mitigation (HM) programs. The federal share of total PA and HM obligations for this disaster was $12,577,556, and expenditures through September 30, 2001, were $7,877,242. We reviewed expenditures and financial reporting through September 30, 2001.

We did not perform a financial audit of these costs. Accordingly, we do not express an opinion on costs claimed by ADES (Attachment A-1 to this report). During our audit, we identified questioned costs (Attachment B). We did not perform statistical sampling and therefore did not project questioned costs to the full population of claimed costs.

Our audit scope (and therefore this audit report) focused on systems and procedures used by ADES to manage, control, and expend grant funds in accordance with applicable laws and regulations, including the Stafford Act and 44 CFR. We divided findings into two sections: Program Management and Financial Management. Our recommendations for each finding, if implemented by ADES, would improve management, strengthen controls, or correct noncompliance.

Program Management

- ADES did not prepare annual PA administrative plans or updates for 1999, 2000, and 2001. Additionally, ADES submitted the administrative plan for the disaster after project funds were obligated.

- PA and HM administrative plans did not contain all required elements. Elements required by 44 CFR were not included in the plans approved by FEMA Region X.

- ADES did not submit a complete Section 409 plan in a timely manner. ADES requested and was granted an extension to submit the Section 409 plan. The extension was, however, requested one year after the initial deadline had expired. Additionally, the plan identified six hazards, but did not describe or analyze state and local hazard management policies, programs, and capabilities to mitigate these potential disasters.

- ADES did not process PA project closeout requests in a timely manner. Of the 42 projects sampled, 22 took over 188 days to close.

- ADES did not process PA subgrantee payments in a timely manner. ADES took between 52 and 572 days to approve 4 large project reimbursement requests and between 147 and 686 days to approve 8 small project reimbursement requests. ADES also processed a payment for one large project and one small project in 454 and 71 days, respectively,

after it had approved the projects for payment.

- ADES did not have adequate controls over PA and HM advances. ADES provided significant advances to PA and HM projects, often at project inception.

- HM subgrant applications were missing a required restrictive covenant.

- Grant agreements for HM projects referred to outdated legislation. The agreements referred to the Single Audit Act of 1984, which has been superseded by the Single Audit Act Amendments of 1996.

- ADES did not have adequate PA subgrantee monitoring and reporting procedures. ADES did not conduct subgrantee site visits, and it did not submit a progress report until 13 months after the first report was due. Also, several projects did not have adequate follow-up with subgrantees and were not completed in a timely manner.

Financial Management

- ADES did not have an adequate labor distribution system to support claimed labor costs for the HM and PA management grants. Claimed labor costs were based on effort estimates and were not supported by adequate documentation.

We have summarized comments from the FEMA regional office and ADES management officials in the body of this report and included additional auditor reaction to those comments if necessary. Full comments from the FEMA regional office and ADES are attached to this report (Attachment C). Regional office and ADES management generally agreed with findings and recommendations.

II. INTRODUCTION

The Stafford Act governs disasters declared by the President. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to states under three major programs [PA, HM, and Individual and Family (IFG) grants]. Each program has separate objectives and regulations, as described in 44 CFR 206. On October 30, 2000, the President signed the Stafford Act Amendments into law (Public Law 106-390). These amendments are effective only for disasters declared after October 2000.

PA grants are awarded to state agencies, local governments, qualifying private nonprofit organizations, and Indian tribes or authorized tribal organizations for the repair and 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. The notice is sent to the grantee and to FEMA, which schedules an inspection of the damaged facilities. The inspection team prepares a Project Worksheet (PW), which identifies the eligible scope of work and estimated project costs. FEMA reviews and approves PWs and obligates funds to the grantee. The cost-share arrangement of the disaster is specified by the FEMA-state agreement.

The CFR provides that PA projects be classified as either small or large. The classification is based on a project threshold amount adjusted annually to reflect changes in the Consumer Price Index (CPI) for all Urban Consumers, as published by the U.S. Department of Labor. The threshold for Disaster No. 1316 was $48,900. Projects costing under $48,900 were classified as small projects, and projects costing $48,900 and above were classified as large projects.

HM grants are awarded to states to help reduce the potential for damages from future disasters. The state (grantee) must submit a letter of intent to participate in the program, and subgrantees must submit a project proposal to the state. The grantee sets priorities for selecting projects and submits projects to FEMA for final approval. Subgrants are awarded to state agencies, local governments, qualifying private nonprofit agencies, and Indian tribes or authorized tribal organizations. The amount of assistance available under this program must not exceed 15 percent of the total assistance provided under other assistance programs for Disaster No. 1316. The cost-share arrangement of the disaster is specified by the FEMA-state agreement.

Administrative funds provided to the grantee under this disaster could consist of three types of assistance to cover the costs of overseeing the PA and HM grant programs. First, an administrative allowance was provided to cover "extraordinary" costs directly associated with managing the programs, such as overtime wages and travel costs. This allowance was determined by using a statutorily mandated sliding scale with payments ranging from one-half to three percent of the total amount of federal disaster assistance provided to the grantee. Second, FEMA could award an administrative allowance referred to as "State Management Grants" on a discretionary basis to cover the state's ordinary or regular costs directly associated with the administration of the programs. Third, FEMA could award an administrative allowance for activities indirectly associated with program administration.

ADES, the state agency (grantee) responsible for administering these programs, is part of the Department of Military and Veterans Affairs within the State of Alaska. Its mission is to lead, coordinate, and support the emergency management system to protect lives and prevent the loss of property from all hazards. State appropriations and FEMA Emergency Management Performance Grants fund ADES' daily operations. Disasters and emergencies are funded through FEMA cost-shared disaster grants. The state pays its share through appropriations. ADES uses the services of other state agencies, such as the Department of Transportation and the Department of Natural Resources, to accomplish its goals.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary audit objective was to determine if ADES administered FEMA disaster grant programs according to federal regulations. Specifically, we reviewed all material aspects of the grant cycle including:

- Administrative Plan
- Subgrantee Award Process
- Project Completion
- Project Closeout
- Subgrantee Monitoring
- Administrative Costs
- Cost-Share Requirements

To assess compliance and performance with grant management provisions, we selected and tested numerous PA and HM project files to determine if the project was administered within program guidelines. We included both open and closed projects in our review, but emphasized the evaluation of

ADES' current internal controls and procedures to identify current internal control system weaknesses or noncompliance issues. When developing findings and recommendations, we considered the views of the FEMA regional office and guidance from FEMA headquarters

We also evaluated how ADES accounted for and used FEMA program funds to ensure that ADES had internal controls and procedures in place to account for program funds and safeguard federal assets. Finally, we reviewed ADES' financial reporting process to ensure that it submitted accurate financial expenditure reports. These two objectives included a review of overall internal controls of ADES, management oversight activities, and the financial management system used by ADES. In our sample of PA and HM projects noted above, we tested expenditures incurred for allowability in accordance with applicable cost principles. We also selected several financial reports submitted by ADES and reconciled those reports to:

- Supporting accounting system used by the State of Alaska
- ADES' Federal Cash Transaction Reports (FCTRs)
- FEMA database (NEMIS)
- FEMA's accounting system (IFMIS)

Our review of financial reports also included reviewing ADES' system for allocating costs to disasters and programs, testing the timeliness and accuracy of payments to subgrantees, determining the timeliness of financial reporting, and evaluating ADES' overall cash management (both the timing of funds drawn down from the SMARTLINK system and how funds are advanced to subgrantees).

The scope of our audit consisted of Disaster No. 1316, which was declared on February 17, 2000. The two major programs addressed in this audit were PA and HM grants. The audit cut-off date was September 30, 2001. ADES made payments through the State of Alaska accounting system, and ADES had policies and procedures for compliance with state accounting guidelines.

Our audit was conducted in accordance with the FEMA Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs provided by the Office of Inspector General (OIG). Audit work included a site visit to the FEMA Region X office in Bothell, Washington, and audit fieldwork at ADES' office in Anchorage, Alaska. Our methodology included reviewing files at FEMA Region X, discussing ADES' administration and grant oversight with Region X personnel, and reviewing region and ADES contract files, accounting records, and correspondence, including administrative and program plans. We also interviewed knowledgeable FEMA and ADES personnel. Our audit scope did not include interviews with ADES subgrantees, a technical evaluation of the work performed, or assessment of repairs of disaster-caused damages.

The State Division of Legislative Audit conducts annual audits of the state of Alaska in accordance with Office of Management and Budget (OMB) Circular Number A-133. ADES is included in this State Single Audit. In Fiscal Years (FY) 1998, 1999, and 2000, the auditors did not identify findings and recommendations related to FEMA grants. There were findings related to FEMA grants in the FY 2001 audit. We reviewed these reports and their supporting workpapers in Juneau, Alaska, to determine if these findings affected our audit scope or specific audit tests and made appropriate changes or additions to our original audit tests. We also reviewed these reports to gain an understanding of internal controls and any identified weaknesses in internal controls. We requested copies of audit reports for any audits FEMA OIG had conducted on ADES. We were notified that there had been no audits on ADES subgrantees.

The audit was conducted in accordance with *Government Auditing Standards,* as revised, issued by the Comptroller General of the United States. 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 costs claimed for the disaster under the scope of the audit. If we had performed additional procedures or conducted an audit of 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 accounts and items specified and does not extend to any financial statements of the State of Alaska or ADES.

IV. FINDINGS AND RECOMMENDATIONS

Audit results are summarized in two major sections: Program Management and Financial Management. These sections contain findings and related recommendations. Based on the number and nature of findings, we concluded that management controls and financial management controls could be improved to better protect assets and prevent errors and fraud. In view of the nature and significance of the findings, we concluded that ADES did not comply, in all material respects, with applicable laws and regulations relative to the findings.

A. Program Management

1. ADES did not prepare annual PA administrative plans or updates for 1999, 2000, and 2001.

ADES did not prepare or submit required annual administrative plans for 1999, 2000, and 2001. ADES did submit an administrative plan for Disaster No. 1316 on September 7, 2000, and Region X approved it on September 15, 2000. The disaster was declared on February 17, 2000, however, and funds were obligated on April 19, 2000. 44 CFR 206.207(b)(3), *Administrative and audit requirements*, requires an approved administrative plan to be on file with FEMA before projects will be approved in a future major disaster; the majority of the projects were, however, obligated before plan approval.

FEMA requires administrative plans to ensure that the grantee is prepared for future disasters, and that stated policies and procedures will effectively accomplish grant goals. Because funds were obligated before submitting the administrative plan, FEMA was not aware of the policies and procedures that would be used to administer the program. According to 44 CFR 206.207(b)(3):

> ...the Grantee shall submit a revised plan to the RD annually. In each disaster for which Public Assistance is included, the RD shall request the Grantee to prepare any amendments required to meet current policy guidance.

ADES personnel noted that they were understaffed at the time of the disaster and had a significant turnover of program staff in September 2000. Staff from two other states were brought in to help ADES organize the disaster, including assisting in writing the administrative plan. Two staff members now manage PA matters, whereas only one staff member did this work at the beginning of the disaster. ADES may fail to handle issues properly if plans are outdated, incorrect, or not submitted.

Conclusions and Recommendations: We recommend that the regional director ensure that ADES implements procedures to prepare and submit annual administrative plans and plan updates in a timely manner.

Management Response: "The Regional Director concurs. Due to limited staffing, the annual plans and updates were not prepared as required by Title 44 Code of Federal Regulations. In recent years, ADES has obtained approvals to hire additional employees and has instituted a system for an annual review, revision and re-submittal of the administrative plans and plan updates on a calendar year basis."

Auditors' Additional Comments: The actions described by the Regional Director can adequately address the recommendation. However, until additional staff is hired, and the new system is implemented, the issue is still open.

2. PA and HM administrative plans did not contain all required elements.

The PA administrative plan did not contain procedures:

- For assisting FEMA in conducting damage surveys to serve as a basis for obligating funds to subgrantees [44 CFR 206.207(b)(1)(iii)(D)]. The plan only stated that the grantee may choose to assist FEMA and/or the applicant in developing scopes of work and cost estimates.
- For the state to follow for participating with FEMA in establishing hazard mitigation requirements [44 CFR 206.207(b)(1)(iii)(E)].
- To ensure that the PA administrative plan is incorporated into the state emergency plan [44 CFR 206.207(b)(4)]. Additionally, the state emergency plan did not properly reference the PA administrative plan.

The HM administrative plan did not contain procedures:

- To conduct environmental and floodplain management reviews [44 CFR 206.437(b)(4)(iv)].
- To be used to process requests for reimbursements [44 CFR 206.437(b)(4)(vi)].
- For the grantee to comply with administrative requirements of 44 CFR Parts 13 and 206 [44 CFR 206.437(b)(4)(xi)].
- For the grantee to comply with audit requirements of 44 CFR Part 14 [44 CFR 206.437(b)(4)(xii)].
- For the grantee to use in providing quarterly progress reports to the regional director on approved projects [44 CFR 206.437(b)(4)(xiii)].
- To ensure that the approved administrative plan is incorporated into the state emergency plan [44 CFR 206.437(c)]. Additionally, the state emergency plan did not properly reference the HM administrative plan.

ADES was understaffed at the time of the disaster and had a significant turnover in program staff in September 2000. Only one staff member was working on the PA program, and one staff member was working the HM program. Because ADES did not have an adequate annual plan in place at the

declaration of the disaster, a disaster-specific plan had to be developed quickly, and this was done with help from personnel from other states.

Adequate administrative plans are necessary so that all personnel handling disaster administration are aware of and can accomplish tasks according to the plans. ADES may fail to handle issues properly if administrative plans are outdated and do not contain all procedures to administer programs. Additionally, FEMA cannot be assured that ADES is sufficiently prepared, and that stated policies and procedures will accomplish grant goals.

Conclusions and Recommendations: We recommend that the regional director ensure that ADES revises its administrative plans to include procedures for all elements required by the CFR. We also recommend that the regional director ensure that administrative plans are included in the state emergency plan.

Management Response: "The Regional Director concurs. The current plans have been amended to include all required elements and the State Emergency Operations Plan is currently being updated to properly incorporate administrative plans. FEMA Region X continues to work with ADES to better define administrative procedures of how the programs are managed."

Auditors' Additional Comments: The actions described by the Regional Director appear to adequately address the recommendation. However, the revised plans were not provided as an attachment to their response.

3. ADES did not submit a complete Section 409 plan in a timely manner.

ADES submitted the Section 409 plan on February 12, 2002; 44 CFR 206.405 (d) *Plan submission*, however, requires a plan to be submitted to FEMA within 180 days of the date of declaration, or August 15, 2000. The regional director may extend this deadline up to 365 days from the date of declaration; requests for extensions beyond that must be forwarded with justification to the associate director for approval. While an extension was requested and routed through the associate director, it was not requested until August 21, 2001 (1 year after the initial deadline had expired).

Region X approved the Section 409 plan submitted on February 12, 2002, on February 25, 2002. This plan identified six hazards (weather, landslides, erosion, drought, technological, and economic); the plan did not, however, describe or analyze state and local hazard management policies, programs, and capabilities to mitigate these potential disasters as required by 44 CFR 206.405(a)(2), *General*. Region X approved an HM project for the purpose of completing the Section 409 plan on December 19, 2001. Several sections of the plan were completed in April and May 2002, two (drought and technological) have not yet been completed, and none of these sections has been submitted to FEMA for review and approval.

If natural hazards identified in the program plan are not adequately evaluated, described, or analyzed, mitigation projects involving those hazards may not be able to be submitted or approved by the state or region.

As noted in findings discussed earlier, ADES suffered from a lack of experienced program staff at the time of this disaster. Effort was concentrated on completing the administrative plan and performing other functions required by the program.

Conclusions and Recommendations: We recommend that the regional director ensure that ADES complete annexes to the program plan and submit them for approval as part of the next annual plan update process.

Management Response: "The Regional Director concurs. It is important to note that ADES has updated the required plan, which was approved by FEMA Region X on February 12, 2002, and all natural hazards annexes have also been completed. FEMA Region X will continue to work with ADES on subsequent disasters to ensure future plans (now under Section 322) are submitted in accordance with regulations."

Auditors' Additional Comments: The actions described by the Regional Director appear to adequately address the recommendation. However, the completed annexes were not provided as an attachment to their response.

4. ADES did not process PA project closeouts requests in a timely manner.

ADES did not process closeouts of small and large projects in a timely manner. When a project is complete, ADES receives from the subgrantee a Project Completion and Certification Report (P.4). The P.4 report was completed for each project; it indicates when each Project Worksheet (PW) was completed and identifies total subgrantee costs for each. ADES also required supporting documentation of all costs incurred, a Project Cost Summary form, and a Statement of Documentation form (for large projects). ADES reviewed the closeout packages to ensure that costs were allowable and projects were completed in a timely manner and prepared requests for obligations or deobligations, if necessary. Additionally, ADES performed project inspections, then sent a letter to the regional office to request FEMA closeout of the project.

We sampled 42 non-management grant projects; 22 of the 42 projects took an extended period of time for closeout:

Disaster No.	PWs	Days to Closeout*
1316	9 large	188 to 779
1316	13 small	215 to 796

* Days between project completion reported on the P.4 and date projects were submitted to the regional office for closeout.

We noted that six large projects and one small project are complete, and closeout packages have been received from subgrantees. ADES had not, however, completed project closeout procedures for the following projects:

PW No.	Project Completion Date*	P.4 Certification Date
89	07/31/00	07/31/01
150	02/18/00	06/09/00
215	04/17/00	07/24/00
120	02/07/00	08/07/00
237	01/01/00	06/21/00
138	***	***
87**	02/21/00	11/14/00

* Many projects were completed before disaster declaration, because of the long incident period for this disaster (December 21, 1999, to February 23, 2000).

** Small project.

*** The P.4 for this project had not been received; documentation does, however, support project completion before July, 19 2001. ADES received the closeout package and prepared a supplemental PW for the cost overrun; however, the project cannot be closed until ADES completes a final inspection.

Processing of subgrantee closeout requests in a timely manner is important to ensure that:

- The grantee can identify unallowable costs in subgrantee claims to permit prompt recovery.
- The grantee can recover excess advances given to subgrantees (resulting from cost underruns on large projects).
- The grantee can calculate obligations for additional funds and make funding requests to FEMA.
- The grantee can request that FEMA process deobligations and notify FEMA that additional funding has become available for other purposes.
- The subgrantee has an opportunity to answer grantee or regional director questions while employees with knowledge of issues and the rationale for decisions are available.
- Documentation to support claimed costs is available for review. Delays in processing a closeout often result in records becoming lost or destroyed by the subgrantee or the grantee.

While specific delays are not identified in each project file, several potential reasons exist for delay in project closeout:

- Final inspections were delayed, because administrative funds were not available to hire inspectors.
- Review of the closeout package was delayed, because of the lack of ADES staffing and program turnover, as previously discussed.

- Subgrantees did not promptly complete and return the closeout package or respond to ADES questions regarding the closeout package.

- Many PA projects occur in remote areas of the state. Correspondence with subgrantees performing project inspections can take considerable time.

- ADES requires supporting documentation for small projects, as is typical for large projects. Because small project payments were made quickly after disaster declaration, delays have been incurred in ADES' attempt to gather that documentation.

We agree that these circumstances can impact project and subgrantee closeout. ADES may, however, be able to prevent or shorten many of the delays to achieve more timely project closeout. Further, subgrantee responses might become more timely, complete, and accurate with increased education and monitoring.

Conclusions and Recommendation: We recommend that the regional director ensure that ADES review and revise its policies and procedures to include enhancing subgrantee monitoring and education to ensure that subgrantees are aware of documentation requirements and the allowability and eligibility of costs and to ensure timely closeout. Additionally, when project closeout is legitimately delayed, we recommend that ADES document the nature of the delay in the project file.

Management Response: "The Regional Director concurs. Projects were not closed in a timely manner due to limited staffing. ADES has obtained approvals to hire additional employees and has established procedures to prevent future delays and document legitimate delays."

Auditors' Additional Comments: The actions described by the Regional Director can adequately address the recommendation. However, until additional staff is hired, and the new system is implemented, the issue is still open.

5. ADES did not process PA subgrantee payments in a timely manner.

ADES did not process PA subgrantee payments for large projects in a timely manner:

- For 4 of 20 large projects we sampled (PW Nos. 19, 91, 120, and 143), ADES took 52 to 572 days to approve reimbursement requests. This represents the number of days between the date the subgrantee requested payment and the date ADES approved the payment request.
- ADES issued a payment (under a large project, PW No. 169) to a subgrantee 454 days after it approved the payment.

ADES is required to make payments for large projects as soon as practical after the subgrantee has completed the approved work and requested payment [44 CFR (206.205(b), *Payment of claims*].

ADES also did not process PA subgrantee payments for small projects in a timely manner:

- For 8 of 22 small projects we sampled, ADES took between 147 and 686 days to approve payment. This represents the number of days between the FEMA obligation of the PW and ADES approval of the payment:

PW No.	No. of Days to Approve Payment
18	238
87	223
97	549
63	249
88	686
126	676
127	200
179	147

- ADES issued a payment (under a small project, PW No. 18) to a subgrantee 71 days after it approved the payment.

ADES is required to make payments for small projects as soon as practical after federal approval of funding [44 CFR 206.205(a), *Payment of claims*].

ADES provided explanations for delays in processing payments. It was understaffed at the time of the disaster and had a significant turnover in program staff in September 2000. Also, Disaster No. 1423 was declared on June 26, 2002, and the limited numbers of personnel it did have were diverted to administer the new disaster.

Delays in processing payments may result in delays in project closeout and subgrantee reimbursements. Additionally, timely processing of payments is necessary to ensure that small projects have the available funds to proceed with necessary repairs.

Conclusions and Recommendation: We recommend that the regional director require ADES to implement policies and procedures to ensure that payments for projects are processed as soon as practical.

Management Response: "The Regional Director concurs, but recognizes that ADES appropriately delayed certain payments due to inadequate documentation submitted by subgrantees. ADES has obtained approvals to hire additional employees and has established and implemented procedures to ensure timely payments are made in the future."

Auditors' Additional Comments: The actions described by the Regional Director can adequately address the recommendation. However, until additional staff is hired, and the new system is implemented, the issue is still open.

6. ADES did not have adequate controls over PA and HM advances.

ADES often provided advances of state funds for PA and HM projects upon project inception. We noted the following:

- ADES advanced a considerable amount of funds for 8 of 20 large projects tested:

PW No.	Amount of Original Approved PW	Amount of Advance
83	$ 71,518	$ 71,518
32	768,824	576,618
45	100,521	75,391
101	464,639	348,479
150	657,251	673,238
215	382,544	286,908
143	620,515	465,386
138	172,455	129,341

- The Single Audit for the 2001 noted that ADES advanced one subgrantee over $2 million in December 2000 for several disaster projects. No liquidations were made to this advance until March 2002, long after the expenditures had occurred and been reported in the subgrantee's financial statements. The state auditor report noted that untimely reporting of subgrantee and grantee expenditures delayed federal reimbursement and estimated that the state forfeited over $100,000 of investment earnings.

- For one of ADES' three HM projects, a subgrantee was given an advance of $431,115 in October 2000; however, the subgrantee has not reported any actual expenditures as of the date of this audit. The only documentation contained in the project files was a spreadsheet provided by the subgrantee when requesting the advance. The spreadsheet listed buyout and relocation properties against which the advance was to be applied. ADES HM personnel noted that they had been attempting to obtain supporting documentation. Additionally, a completed "Request for Funds" (state form 30-3) was included in the project file. One of the conditions included on that form is that the subgrantee agrees to promptly credit any interest earned on unused funds. Supporting documentation was not, however, in the project files to indicate whether interest had or had not been earned or returned on this advance.

Advancing project funds provides no incentive for the subgrantee to aggressively complete projects. Also, subgrantees may be less likely to provide timely and accurate status reports, respond to ADES communications, or provide necessary documentation for project closeout. Finally, while the advances were for state funds only, and ADES did not request reimbursement from FEMA, advances increase the risk that unallowable costs will be included in the final claim, which will include FEMA-funded costs, and make cost recovery more difficult.

Conclusions and Recommendation: We recommend that the regional director ensure that ADES implements additional controls over advances, which will strengthen subgrantee monitoring and reporting procedures and reduce the risk of unsupported and unallowable costs.

Management Response: "The Regional Director concurs. Due to limited staffing and multiple disaster events, maintaining controls over advances was a challenge for ADES. ADES has subsequently established polices that only allow for an advance up to 30% for any project with a written request that outlines all expenditures and requires those expenditures to be reported and supported within 30 days. This policy, along with additional trained employees, has improved their ability to control advances, deal with potential unallowable expenditures, and close projects."

Auditors' Additional Comments: The actions described by the Regional Director can adequately address the recommendation. However, until the new system is implemented, the issue is still open.

7. HM subgrant applications were missing a required restrictive covenant.

ADES' HM buyout and relocation project applications did not contain the required restrictive covenant that no new structures will be built on the property except for a public facility that would be open on all sides and be designated as open space or for recreational use [44 CFR 206.434 (d) (1) (ii)(A), *Eligibility*].

ADES personnel were unaware that the required restrictive covenant was not included in the application. Further, the covenant was not included in project deeds. In response, ADES personnel noted that they had planned to include the required restrictive covenant in the deeds when projects entered "Phase IV." We reviewed deeds for the one project that entered Phase IV; the deeds did not, however, contain this restrictive covenant. If restrictive covenants are not included in the subgrant applications or warranty deeds, the property may be sold and used for unallowable purposes.

Conclusions and Recommendation: We recommend that the regional director ensure that ADES include all required restrictive covenants in HM subgrant applications and warranty deeds.

Management Response: "The Regional Director concurs and recognizes the importance of this required restrictive covenant. Though the documents were not available during the conduct of the audit, the restrictive covenants were on file with the subgrantees and have since been received to complete the ADES project files, and are currently being submitted to FEMA Region X for the regional project files. FEMA Region X and ADES have established and implemented procedures that require the restrictive covenant and ensure the documentation is maintained in the appropriate files."

Auditors' Additional Comments: The actions described by the Regional Director appear to adequately address the recommendation. However, the covenants and the established and implemented procedures were not included as an attachment to their response.

8. Grant agreements for HM projects referred to outdated legislation.

ADES grant agreements for Project Nos. 1316-0001 and 1316-0002 incorrectly cite Single Audit Act requirements. The agreements state that:

> The APPLICANT shall comply with the requirements of Federal Circular A-133, which requires that the APPLICANT **receiving** $300,000 or more a year in federal funds to have an audit made for that year. [Emphasis added.]

44 CFR 13.26 (b), *Non-Federal audit,* states that subgrantees are required to obtain audits in accordance with the Single Audit Act Amendments of 1996, which requires an audit for those subgrantees that **expend** $300,000 or more in federal awards in a fiscal year.

The grantee was unaware that the statement or legislation was incorrect. The subgrantee may fail to obtain an audit when required. Additionally, the grantee may fail to adequately monitor and ensure that subgrantees required to undergo audits actually do so and ensure that any findings are followed up and resolved.

Conclusions and Recommendation: We recommend that the regional director ensure that ADES' HM grant agreements refer to legislation current at the time of the agreement.

Management Response: "The Regional Director concurs that an incorrect citation was made for the Single Audit Act. This has been corrected and placed in the ADES procedure documents for future reference."

Auditors' Additional Comments: The actions described by the Regional Director appear to adequately address the recommendation. However, the grant agreements were not provided as an attachment to their response.

9. ADES did not have adequate PA subgrantee monitoring and reporting procedures.

ADES did not have adequate subgrantee monitoring and reporting procedures. Specifically, we noted in our sample of 42 non-management grant projects (20 large and 22 small projects):

- Only one subgrantee has consistently submitted progress reports to ADES (for large projects).
- ADES did not conduct any subgrantee site visits to ensure that projects were being completed.
- ADES did not submit the first progress report to Region X until 13 months after it was due, although subsequent reports have been submitted in a timely manner.
- Seven projects (two large and five small) did not have adequate follow-up with subgrantees to obtain support needed to pay and close the projects in a timely manner.
- The project file for PW No. 133 could not be located during fieldwork.

44 CFR 13.40(a), *Monitoring by grantees,* states that grantees are responsible for managing the day-to-day operations of grant and subgrant activities and must monitor subgrantee activities to ensure compliance with applicable federal requirements and performance goals. Grantee monitoring must cover each program, function, or activity. Additionally, 44 CFR 206.204(f), *Progress reports,* requires the grantee to submit quarterly progress reports. Such reports describe the status of open projects and outline any problems or circumstances expected to result in noncompliance with approved grant conditions.

ADES noted that the major reason for not receiving subgrantee progress reports was that subgrantees had no incentive to submit progress reports. Additionally, as noted earlier, the PA program was understaffed and experienced significant turnover. Therefore, they could not follow up with subgrantees to obtain additional information in a timely manner. Additionally, replacement staff did not realize that progress reports were required and had not been done.

Because subgrantees were inadequately monitored, progress reports to Region X did not always contain accurate information. For example, because ADES did not receive status reports from subgrantees, it did not update the percentage-of-completion information on each large project. Inadequate monitoring could delay subgrantee payments and subgrantee closeouts. Further, Region X and ADES may not be aware of the status of many projects.

Conclusions and Recommendation: We recommend that the regional director ensure that ADES strengthens its controls over subgrantee monitoring and reporting.

Management Response: "The Regional Director concurs. Due to limited staffing, ADES experienced difficulty ensuring correct actions had taken place for all subgrantees. Procedures are now implemented to require sufficient monitoring and reporting to occur and documentation of all actions. These procedures have allowed newly trained staff to assess quickly where applicants are in the process and assist them in meeting requirements."

Auditors' Additional Comments: The actions described by the Regional Director can adequately address the recommendation. However, until the new system is implemented, the issue is still open.

B. Financial Management

10. ADES did not have an adequate labor distribution system to support claimed labor costs for the HM and PA management grants.

ADES did not have adequate documentation to support claimed labor costs within the HM and PA management grants. ADES prepared management grant requests using estimates of labor effort instead of actual time spent for each person managing the HM and PA programs. Additionally, management grant expenses for PA and HM management grants were not segregated in accounting codes separate from state-funded disasters, training, and other activities (costs were coded to Disaster Relief Fund). Accordingly, we cannot assure that FEMA reimbursed ADES for the appropriate amount of labor costs.

44 CFR 13.22 (b), *Allowable costs*, states that claimed costs must be allowable in accordance with applicable OMB costs principles. For state and local governments, OMB Circular A-87, Attachment B, 11(h) (5), *Compensation for Personal Services*, requires that labor charges to federal grants by employees who work on more that one final cost objective (i.e. different disasters, training, or other activities) be supported by personal activity reports that:

- Reflect an after-the-fact distribution of actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and coincide with one or more pay periods.
- Are signed by the employee.

For the HM management grant, all claimed labor costs were based on estimated effort percentages from February 1, 2000, to October 30, 2002. While ADES had no documentation to support actual costs incurred prior to August 16, 2001, we compared estimated effort percentages to actual effort (based on timesheets) after August 16, 2001, and noted that estimates in the management grant were significantly overstated. For the PA management grant, claimed costs represented an estimated level of effort for PA staff from January 1, 2000, to August 15, 2001, and actual hours incurred from August 16, 2001, forward. On August 16, 2001, ADES revised its timekeeping and labor recording system (which affects both the PA and HM programs) to require all staff to maintain timesheets indicating time spent on each project.

Under the PA program, we questioned only those labor costs from inception to August 16, 2001, and only those costs claimed for employees who did not spend 100 percent of their time on this project, which totals $142,170. We cannot question reported HM labor costs of $67,460, because costs have not yet been requested (or drawn down) from FEMA. ADES should not claim (or draw down) costs without detailed time records to support actual costs incurred.

Conclusions and Recommendations: We recommend that the regional director request ADES to recalculate any HM costs that can be supported by detailed timesheets and adjust management grant costs accordingly. We also recommend that ADES only request reimbursement from FEMA for the amount of

those costs that can be supported in accordance with OMB circulars. Finally, we recommend that ADES reimburse FEMA for $142,170 of claimed PA costs not adequately supported.

Management Response: "The Regional Director substantively concurs. As noted in the draft audit report, ADES has established and implemented an adequate labor distribution system to track actual expenditures associated with programmatic management grants for the period beginning August 16, 2001 and continuing. FEMA Region X will adjust the allowable costs and the performance period for the Public Assistance state management Project Worksheet per this audit recommendation. FEMA Region X will deobligate the amount of $137,367, which will be completed by April 11, 2003. The discrepancy between the amount identified in the draft audit report ($142,170) and the actual amount to be deobligated ($137,367) is due to errors in the payroll calculations and previous adjustments for movement of expenditures. It is important to note that the amount to be deobligated will actually be the federal share (75%) plus the associated statutory administrative costs.

The Region Director concurs that adequate supporting documentation does not exist to support eligible Hazard Mitigation state management labor costs. ADES will submit a revised scope of eligible work for their Hazard Mitigation state management costs for the period of August 16, 2001 through the anticipated financial reconciliation of the program (this revised SOW may also include other eligible HM State Management costs from disaster declaration, if documented). The Region will review the revised scope of eligible work, recalculate eligible costs and adjust the funds available. All HMGP funding drawn down by ADES will be supported by detailed records."

Auditors' Additional Comments: The actions described by the Regional Director appear to adequately address the recommendation. However, the PA deobligation paperwork and revised claimed costs under HM management grants were not included as an attachment.

COTTON & COMPANY LLP

auditors ◆ advisors

DAVID L. COTTON, CPA, CFE, CGFM ◆ CHARLES HAYWARD, CPA, CFE, CISA ◆ MICHAEL W. GILLESPIE, CPA, CFE ◆ CATHERINE L. NOCERA, CPA
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ATTACHMENT A

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLICATION OF AGREED-UPON PROCEDURES
STATE OF ALASKA
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
DIVISION OF EMERGENCY SERVICES
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS

September 25, 2002

Federal Emergency Management Agency
Office of Inspector General
Washington, DC

Cotton & Company LLP performed agreed-upon procedures related to the Sources and Applications of Funds Schedule for Disaster No. 1316 as of September 30, 2001, prepared by the State of Alaska, Department of Military and Veterans Affairs, Division of Emergency Services (ADES); refer to Attachment A-1. This schedule was prepared on the cash basis of accounting. We have performed the procedures below, which were agreed to by the Federal Emergency Management Agency (FEMA), solely to assist FEMA with information needed to review this disaster. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of FEMA. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. Procedures performed on the schedule were as follows:

- Verified the mathematical accuracy of the schedule.
- Verified that the amount reported as Sources of Funds for each program ties to the amount reported in SMARTLINK (FCTRs) as the cumulative amount drawn down as of September 30, 2001.
- Verified that the total Applications of Funds for each program ties to the amount of cumulative expenditures reported in ADES' quarterly Financial Status Reports (FSRs) for September 30, 2001.
- Verified that amounts reported as subgrantee expenses, administrative allowance, and management grant expenses tie to amounts reported in ADES' financial management system.

C&C

established 1981

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- Verified that amounts reported as subgrantee expenses, administrative allowance, and management grant amounts do not exceed amounts awarded by FEMA in the grant award documents.

- Selected a sample of three quarterly FSRs and traced the cumulative expenditure amount to financial management system records for that period.

RESULTS

The results of our procedures are as follows:

- Attachment A-1 is mathematically accurate.

- Amounts reported as of Sources of Funds, Federal Share, for each program tie to the amount reported in SMARTLINK as the amount drawn down as of September 30, 2001.

- Amounts reported as total Applications of Funds for each program tie to the amount of cumulative expenditures reported in ADES' FSR for September 30, 2001.

- Amounts reported as subgrantee expenses, administrative allowance, and management grant expenses tie to amounts reported in ADES' financial management system.

- Amounts reported as subgrantee expenses, administrative allowance, and management grant expenses do not exceed amounts awarded by FEMA in the grant award documents.

- Amounts reported as cumulative quarterly expenditures for sampled quarters tied to cumulative amounts reported in the financial management system for that period.

We were not engaged to and did not perform an audit of the Sources and Applications of Funds Schedule. The objective of an audit would be expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of FEMA in evaluating the reasonableness of reported costs and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,

COTTON & COMPANY LLP

By: SHadley

Sam Hadley, CPA, CGFM

ATTACHMENT A-1

STATE OF ALASKA
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
DIVISION OF EMERGENCY SERVICES
SCHEDULE OF
SOURCES AND APPLICATIONS OF FUNDS UNDER DISASTER NO. 1316
AS OF SEPTEMBER 30, 2001
(See Accompanying Agreed-Upon Procedures Report)

Description	Funds Obligated	Sources of Funds	Applications of Funds
Hazard Mitigation			
Federal Share	$ 1,496,542	$ 409,916	
State Share		136,639	
Total		$ 546,555	
Program Outlays, Including Subgrantee Administrative Allowance			$ 546,555
Grantee Administrative Allowance			0
Total Applications of Funds			$ 546,555
Public Assistance			
Federal Share	$11,081,014	$ 5,543,593	
State Share		1,869,741	
Total		$ 7,413,334	
Program Outlays, Including Subgrantee Administrative Allowance			$ 7,267,697
Grantee Administrative Allowance			62,990
Total Applications of Funds			$ 7,330,687

ATTACHMENT B

STATE OF ALASKA
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
DIVISION OF EMERGENCY SERVICES
SCHEDULE OF QUESTIONED COSTS UNDER
DISASTER NO. 1316

Program	Reason for Questioned Costs	Questioned Costs
PA	ADES did not adequately support claimed labor on PA management grants. Page 15	$ 142,170
Total Questioned Costs		$ 142,170

ATTACHMENT C

COMMENTS FROM FEMA REGIONAL OFFICE