



DEPARTMENT OF HOMELAND SECURITY

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

August 29, 2003

MEMORANDUM

TO: John E. Pennington
Regional Director
FEMA Region X

FROM: *Robert J. Lastrico*
Robert J. Lastrico
Field Office Director

SUBJECT: Performance Audit Report:
GRANT MANAGEMENT - Washington's Compliance
with Disaster Assistance Program's Requirements
Audit Report Number DO-20-03

This memorandum transmits the results of the subject audit performed by KPMG LLP, an independent public accounting firm. In summary, the audit determined that the State of Washington, Washington Military Department – Emergency Management Division (EMD) could improve certain program procedures associated with the administration of disaster assistance funds. The audit also determined that follow up audit work was necessary for one applicant that received federal assistance under Disaster 1255. This issue was reported in the "Other Matters" section of the Executive Summary.

On June 13, 2003, you responded to the draft report (Attachment D of the report). Your response indicates that corrective action has been taken or is in process to address the audit recommendations. Therefore, pending follow up audit work at a later date, no further action on your part is required at this time. The Department of Homeland Security, Office of Inspector General has initiated an audit to address the issue reported in the "Other Matters" portion of this report.

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

DHS IG

Department of Homeland Security
Office of Inspector General
Audit Division

August 2003

**GRANT
MANAGEMENT**

Washington's
Compliance with
Disaster Assistance
Program's
Requirements



DHS IG

DO-20-03

Audit Conducted by:
KPMG LLP



400 Capitol Mall, Suite 800
Sacramento, CA 95814

Telephone 916 448 4700
Fax 916 554 1193

August 27, 2003

Mr. Humberto Melara
U.S. Department of Homeland Security
Office of the Inspector General
Oakland Field Office – Audits Division
1111 Broadway, Suite 1200
Oakland, California 94607

Subject: Audit of Disaster Assistance Grant Program Management—State of Washington

Dear Mr. Melara:

In accordance with contract number GS-23F-8127H, dated March 19, 2002, KPMG LLP has completed its financial-related audit of the Washington Military Department's Emergency Management Division, the grantee, in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 United States Code §5121 et. seq., the Stafford Act, Title 44 of the Code of Federal Regulations, and other applicable federal regulations.

This report represents the results of our audit and includes recommendations to help improve the State of Washington's administration of specific Federal Emergency Management Agency (FEMA) disaster assistance grant programs. Overall, the State of Washington needs to improve its financial reporting and monitoring of grant monies; however, delivery of program services to entities and individuals appeared to be adequate. During our audit, we also identified management-related issues involving the regional office's operations and have included our comments in a separate letter.

We conducted this audit in accordance with the standards applicable to a "financial-related audit" as defined in the *Government Auditing Standards* issued by the Comptroller General of the United States. The scope of the audit consisted of a review of financial and program activities for nine Presidential disaster declarations that were open and had financial activity during the period October 1, 2000, and September 30, 2001. KPMG did not perform a financial audit or an audit in accordance with Office of Management and Budget (OMB) Circular A-133 as part of this engagement. As a result, KPMG is not offering an opinion on the grantee's financial statements.

It has been KPMG's privilege to assist you in the review of the State of Washington's administration of disaster assistance grant programs, and we look forward to continuing our professional relationship with you and the Department of Homeland Security. If you have any questions, or to discuss our report, please contact Michael Kulig at (916) 551-3060 (mkulig@kpmg.com) or Hans Gude at (415) 955-5183 (hgude@kpmg.com).

KPMG LLP



KPMG LLP, KPMG LLP, a U.S. limited liability partnership,
is a member of KPMG International, a Swiss association

Table of Contents

Table of Contents	ii
Acronyms Used in this Report	iv
I. EXECUTIVE SUMMARY	1
A. Program Management	1
B. Financial Management	3
C. Other Matters	4
D. Washington Emergency Management Division Comments	4
E. Report Attachments	4
II. INTRODUCTION	6
A. FEMA’s Role in Disaster Assistance	6
B. Federal Laws, Rules, and Regulations Governing Disaster Assistance	7
C. FEMA Disaster Assistance Programs Subject to Audit	8
Public Assistance Program	9
Hazard Mitigation Grant Program	10
Individual and Family Grant Program	11
D. Overview of State Subject to Audit and Responsible State Department	12
III. OBJECTIVES, SCOPE, AND METHODOLOGY	13
A. Objectives	13
B. Scope	13
KPMG Did Not Conduct a Financial Statement Audit, or an Audit in Accordance with OMB Circular A-133	14
C. Methodology	15
Evidence	15
Criteria	17
Sampling and Testing	17
Standards	18
IV. FINDINGS AND RECOMMENDATIONS	19
A. Program Management Findings	19
Finding 1 – EMD’s Public Assistance Administrative Plan Contains Inadequate Procedures	19
Finding 2 – EMD Did Not Appear to Conduct Interim On-Site Monitoring of Construction Projects in Progress	20
Finding 3 – EMD Approved a Time Extension Request 16 Months After the Subgrantee’s Request	21
B. Financial Management Findings	22
Finding 4 – Expenditures Reported on Quarterly FSRs for All Programs Did Not Reconcile with the State’s Official Accounting Records	22

**Financial-Related Audit
Disaster Assistance Grant Program Management
State of Washington**

Finding 5 – Interim and Final FSRs Were Not Submitted in a Timely Manner.....	23
Finding 6 – The Grantee Did Not Meet Its Matching Requirements for 45 of the 56 Program Quarters Tested.....	23
Finding 7 – WMD Made Drawdowns in Excess of What Was Required	24
Finding 8 – WMD State Procurement Regulations Do Not Support Federal Requirements.....	25
Finding 9 – WMD is Not Tracking Property Adequately and Does Not Meet Federal Requirements	26
C. Other Matters.....	27
V. ATTACHMENTS	29
A. Sources and Application of Funds.....	30
B. Schedule of Questioned Costs.....	41
C. List of Other Audit Reports and Internal Control Reviews.....	42
D. Management Response.....	43

Acronyms Used in this Report

AFRS	Agency Financial Reporting System
CAMS	Capital Asset Management System
CFR	Code of Federal Regulations
CTR	Cash Transaction Report
DRM	Disaster Recovery Manager
DSR	Damage Survey Report
EMD	Emergency Management Division
EOC	Emergency Operations Center
FCO	Federal Coordinating Officer
FEMA	Federal Emergency Management Agency
FRC	Federal Regional Center
FSR	Financial Status Report
GAR	Governor's Authorized Representative
HM	Hazard Mitigation
IFG	Individual and Family Grant
NEMIS	National Emergency Management Information System
NFIP	National Flood Insurance Program
OFM	Office of Financial Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PDA	Preliminary Damage Assessment
PNP	Private Non-Profit
PW	Project Worksheet
RPA	Request for Public Assistance
SBA	Small Business Administration
SCO	State Coordinating Officer
SFHA	Special Flood Hazard Area
USC	United States Code
WMD	Washington Military Department

I. Executive Summary

KPMG LLP HAS COMPLETED ITS FINANCIAL-RELATED AUDIT of the State of Washington's administration of federal disaster assistance grant programs for the federal fiscal year ending September 30, 2001. The objective of this audit was to determine whether the State (the grantee):

- Administered these programs in accordance with applicable federal regulations,
- Properly accounted for and expended federal funds, and
- Submitted accurate financial reports.

This report focuses on the systems and procedures used by the grantee to comply with these regulations, including the *Stafford Act* and "Title 44" of the *Code of Federal Regulations* (44 CFR).

Our audit addressed three disaster assistance programs: the Public Assistance (PA) program, the Hazard Mitigation (HM) grant program, and the Individual and Family Grant (IFG) program. The scope of the audit was limited to nine Presidential disaster declarations (Table 1 in Section III). Further, our testing was limited to those programs that were open during the period of our review, October 1, 2000, and September 30, 2001, and that had financial activity during the period. The federal share of total funds obligated and expended for these nine audited disasters through September 30, 2001, were \$218,435,150 and \$201,762,767, respectively.

The following paragraphs summarize each of the findings we identified during our review. We have categorized these findings as being either *program management* or *financial management* related. A more detailed discussion of each finding can be found in Section IV of this report.

A. Program Management

Based upon the work we conducted, KPMG finds in general that the Washington Emergency Management Division (EMD) is adequately managing the federal disaster programs reviewed. The people managing the programs are knowledgeable about program requirements and dedicated to complying with these requirements and to providing a high level of client service to subgrantees and recipients. Summary findings related to program management follow.

- **Finding 1** – 44 CFR requires that the grantee include "procedures" for carrying out the required activities. KPMG observed that the administrative plan for Public Assistance that we reviewed contained largely inadequate procedures. Of 18 separate

requirements noted in the CFR, we determined that 14 were inadequate from the point of clearly stating the steps required to carry out the procedure.

- **Finding 2** -- Of 10 projects reviewed, KPMG did not find direct evidence of interim on-site project monitoring in the form of memos-to-file or trip reports. Based upon lack of direct evidence, we conclude that for the projects reviewed, EMD either did not conduct interim site visits for construction projects, or it failed to adequately document such trips in the files.
- **Finding 3** -- EMD failed to respond in a timely way to a subgrantee's request for a project time extension, having approved a time extension request 16 months after the subgrantee's request. The request was made on July 1, 1998. EMD responded to this letter on October 27, 1999—one year and four months later.

In addition to the program management findings noted above, KPMG makes the following recommendations unrelated to specific findings:

- We recommend that the programs clarify in their administrative plan specific performance goals and metrics that can be used to judge the program managers' consistency and success in delivering service to subgrantees and recipients.
- We recommend that the PA and HM programs include evidence of site visit in project files. As part of this, we recommend that the programs develop a standard site visit memorandum and include these in the project files. Moreover, the administrative plans should identify the responsibilities and actions of the inspector conducting the visit.
- We recommend that the PA program develop a standard file template and, through that tool, improve the general organization of its files. We would further recommend that it adopt a *categorical* approach vs. a *chronological* approach to filing information.
- We recommend that the PA program, rather than simply forwarding subgrantee status reports to the region, consolidate them into a single management report. Moreover, the categories on the report could give improved information about planned-to-actual status (see 44 CFR §13.40). Finally, EMD may want to consider placing its quarterly status report on its website for real-time updating by subgrantees and access by FEMA.
- Based upon our FEMA-related findings having to do with direct federal assistance (mission assignments) and questioned eligibility of costs (Kelso alternate project) communicated in our management letter to FEMA; and recognizing that the grantee must strike a balance between stewarding the PA program and serving subgrantees—we recommend that EMD fortify its position of independence with regard to overseeing the PA program and adopt a more questioning attitude toward FEMA recommendations. The justification for this is that it is the state (and subgrantees) that suffers if FEMA makes a mistake and funds are deobligated.

B. Financial Management

Based on our discussion with Washington Military Department (WMD) accounting staff, during the timeframe of our audit testing there were significant staffing issues at the WMD. For instance, there was a complete turnover of accounting staff responsible for federal disaster grant reporting and drawdowns during that time period. In addition, a number of current accounting staff did not begin with the WMD until after July 2001, and the current accounting staff for the WMD was not complete until May 2002.

- **Finding 4** -- The total federal and state share of expenditures reported on the quarterly Financial Status Reports (FSRs) for all programs (PA, HM, and IFG) that EMD submitted to FEMA did not reconcile with the State's official accounting records, the Agency Financial Reporting System (AFRS), and additional supporting schedules, for all quarters tested. It was not possible to determine how the amounts on the FSR were developed, since the WMD did not retain supporting documentation to substantiate the expenditures reported on the FSRs submitted to FEMA. When conducting our testing, WMD had to "recreate" the support for the FSRs to assist in our testing.
- **Finding 5** -- Interim FSRs were submitted from 1 day to 22 days late (14 instances), while final FSRs were submitted from 149 to 178 days late (4 instances). It should be noted that in several cases WMD submitted their interim and final reports on or before the due date.
- **Finding 6** -- The grantee did not meet its matching requirements for 45 of the 56 program quarters tested.
- **Finding 7** -- The drawdown of federal funds was not based on actual expenditures from the grantee's official accounting records. The failure to use actual expenditures as a basis for drawdowns led WMD to request funds in excess of what was necessary, or not request sufficient funds that were allowable, for the various programs that we reviewed. For example, drawdowns in excess of expenditures ranged from \$27,165 to \$524,153, while drawdowns less than expenditures ranged from \$3,462 to \$992,881, for the period. The net impact of all drawdowns for the period was drawdowns in excess of expenditures of \$78,595.
- **Finding 8** -- WMD procurement staff were unaware of federal regulations associated with FEMA's federal grant agreements associated with procurement regulations. Due to this unfamiliarity with the federal government requirements, the terms and conditions for procurement for the State of Washington may not comply with those of the federal government. KPMG also noted that for federal procurement requirements, no corresponding state requirement could be located.
- **Finding 9** -- WMD's property ledger is incomplete and its asset management system does not meet the requirements of the federal government in regards to maintaining information on the *federal percentage of participation and use and condition of the*

property. For instance, from our review, several items of property are not adequately identified. From the Capital Asset Management System (CAMS), approximately 114 of the 661 pieces of like equipment, or 17% of the items listed, did not have a serial number to identify the asset. These items were not unique in nature either. For instance, an entire report page from CAMS listed the same type of Dell computer at the same price. Not one of the items had a serial number associated with it. Without proper identification, missing, stolen, or disposed inventory cannot be tracked.

C. Other Matters

KPMG raised an issue related to the decision process followed to determine the eligibility of work authorized and completed under the Kelso Landslide declaration (FEMA-DR-1255-WA). KPMG referred this issue to FEMA in a separate management letter for follow up review and disposition. We recognize that any adverse outcomes resulting from the FEMA decision making process related to the Kelso declaration may pose a risk to the state and subgrantee in the form of disallowed costs.

D. Washington Emergency Management Division Comments

As part of our audit we requested that responsible management officials from the FEMA regional office and the grantee provide comments on the findings in our report. The written responses are included in full in Attachment D to Section V of this report.

The Regional Director concurs with all KPMG's findings, with several notations to indicate its support of comments made by the grantee. The State of Washington concurs with all KPMG's findings related to financial management, and has indicated the steps it is taking or has taken to correct the finding. For most of the financial management findings, KPMG considers that appropriate corrective action has been taken.

In the case of the program management findings, the grantee generally disagrees with KPMG's findings, arguing either that our finding runs contrary to their interpretation of the regulations, or that the finding is not systemic. In its written response, the grantee identifies in detail (see Section V-D) the steps it has taken to address the finding. For the three program management findings, KPMG considers that appropriate corrective action has been taken.

E. Report Attachments

This report contains the following attachments (see Section V, Attachments):

- Sources and Application of Funds

**Financial-Related Audit
Disaster Assistance Grant Program Management
State of Washington**

- Schedule of Questioned Costs
- List of Other Audit Reports and Internal Control Reviews
- Management Response

II. Introduction

STATE AND LOCAL GOVERNMENTS SHARE THE RESPONSIBILITY for protecting their citizens from disasters and for helping them to recover when a disaster strikes. In some cases, a disaster is beyond the capabilities of a state or local government to respond. In 1988, the Stafford Act was enacted to support state and local governments, and their citizens, when disasters overwhelm them. This law, as amended, establishes a process for requesting and obtaining a Presidential disaster declaration, defines the type and scope of assistance available from the federal government, and sets the conditions for obtaining that assistance. FEMA is tasked with coordinating the response.

A. FEMA's Role in Disaster Assistance

Under the Stafford Act, a governor may request that the President declare a major disaster or an emergency if an event is beyond the combined response capabilities of the state and affected local governments. Based upon the findings of a joint federal, state, and local preliminary damage assessment (PDA) indicating the damages are of sufficient severity and magnitude to warrant assistance under the Stafford Act, the President may grant a major disaster or emergency declaration.

No direct federal assistance is authorized before a Presidential declaration. However, FEMA can use limited pre-declaration authorities to move initial response resources—i.e., critical goods typically needed in the immediate aftermath of a disaster such as food, water, emergency generators, and emergency teams—closer to potentially affected areas. FEMA also can activate essential command and control structures to lessen or avert the effects of a disaster and to improve the timeliness of disaster operations. Additionally, when an incident poses a threat to life and property that cannot be effectively dealt with by the state or local governments, FEMA may request the Department of Defense to mobilize its resources before a declaration to perform any emergency work “essential for the preservation of life and property” under the Stafford Act.

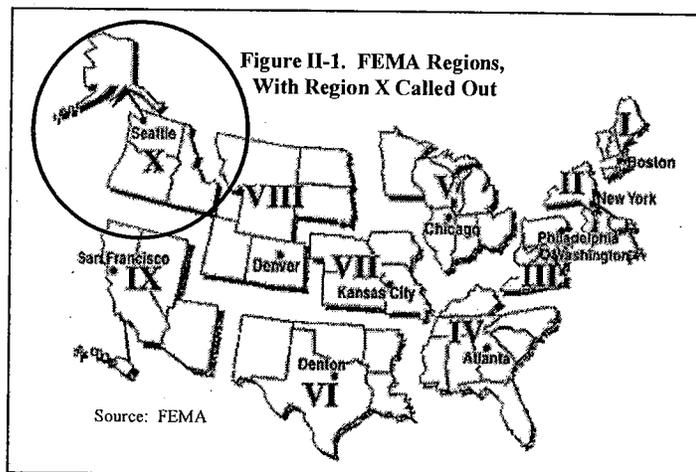
Following a declaration, the President may direct any federal agency to use its authority and resources in support of state and local assistance to the extent that provision of the support does not conflict with other agency emergency missions. This authority has been further delegated to the FEMA Director; the FEMA Associate Director, Response and Recovery; the FEMA Regional Director; and the Federal Coordinating Officer (FCO). FEMA Director, on behalf of the President, appoints an FCO, who is responsible for coordinating the timely delivery of federal disaster assistance to the affected state, local governments, and disaster victims.

In many cases, the FCO also serves as the Disaster Recovery Manager (DRM) to administer the financial aspects of assistance authorized under the Stafford Act. The FCO works closely with the State Coordinating Officer (SCO), appointed by the Governor to oversee disaster operations for the state, and the Governor's Authorized Representative (GAR), empowered by the Governor to execute all necessary documents for disaster assistance on behalf of the state.

The state must commit to pay a share of the cost to receive certain types of federal assistance under the Stafford Act. In extraordinary cases, the President may choose to adjust the cost share or waive it for a specified time period. The Presidential declaration notes any cost share waiver, and a FEMA-State Agreement is signed, further stipulating the division of costs among federal, state, and local governments as well as other conditions for receiving assistance.

FEMA's Region X provides the majority of the assistance for the State of Washington (figure II-1). Region X also administers the federal emergency preparedness, damage prevention, and response and recovery programs for the states of Alaska, Idaho, and Oregon. FEMA Region X is headquartered at the Federal Regional Center (FRC) in

Bothell, Washington. FEMA Region X employs 85 full-time employees, and can draw on a cadre of over 300 "reservists" during a Presidential disaster declaration.



B. Federal Laws, Rules, and Regulations Governing Disaster Assistance

The primary federal laws, rules, and regulations governing disaster assistance and federal grant management are listed below:

- **The Stafford Act** – Congress enacted this act to provide an orderly and continuing means of assistance by the federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage that result from disasters. The act calls for:
 - Revising and broadening the scope of existing disaster relief programs;
 - Encouraging the development of comprehensive disaster preparedness and assistance plans, programs, capabilities, and organizations by the states and by local governments;

- Achieving greater coordination and responsiveness of disaster preparedness and relief programs;
 - Encouraging individuals, states, and local governments to protect themselves by obtaining insurance coverage to supplement or replace governmental assistance;
 - Encouraging hazard mitigation measures to reduce losses from disasters, including development of land use and construction regulations; and
 - Providing federal assistance programs for both public and private losses sustained in disasters.
- **44 CFR, Emergency Management and Assistance** – 44 CFR contains rules, policies, and procedures issued by FEMA in the form of regulations that are applicable to, among other things, the implementation and administration of federal disaster assistance programs by FEMA.
 - **The OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments** – This circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments.
 - **OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments** – This circular establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state, local, and federally recognized Indian tribal governments.
 - **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations** – This circular was issued pursuant to the Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments of 1996, Public Law 104-156. It sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal award funds.

C. FEMA Disaster Assistance Programs Subject to Audit

As noted earlier, our audit was limited to the following three programs, which are described in this section:

- Public Assistance;
- Hazard Mitigation; and
- Individual and Family Grant.

Public Assistance Program

The PA program, authorized under section 406 of the Stafford Act, is oriented to public entities and can fund the repair, restoration, reconstruction, or replacement of public infrastructure damaged or destroyed by a disaster. Eligible applicants include state governments, local governments and any other political subdivision of the state, Native American tribes and Alaska Native Villages. Certain private nonprofit (PNP) organizations may also receive assistance.

Eligible PNPs include educational, utility, irrigation, emergency, medical, rehabilitation, and temporary or permanent custodial care facilities, as well as other PNP facilities that provide essential services of a governmental nature to the general public. PNPs that provide "critical services" (i.e., power, water, sewer, wastewater treatment, communications, or emergency medical care) may apply directly to FEMA for a disaster grant. All other PNPs must first apply to the Small Business Administration (SBA) for a disaster loan. If the PNP is declined for an SBA loan, or the loan does not cover all eligible damages, the applicant may reapply for FEMA assistance.

As soon as practicable after the declaration, the state, assisted by FEMA, conducts the Applicant Briefings for state, local, and PNP officials to inform them of the assistance available and how to apply for it. A Request for Public Assistance (RPA) must be filed with the state within 30 days after the area is designated eligible for assistance. Following the applicant briefing, a kickoff meeting is conducted where damages will be discussed, needs assessed, and a plan of action put in place.

A combined federal, state, and local team proceeds with project formulation, which is the process of documenting the eligible facility, the eligible work, and the eligible cost for fixing the damages to every public or PNP facility identified by state or local representatives. The team prepares a project worksheet (PW) for each project. Projects fall into the following categories:

- Category A: Debris removal;
- Category B: Emergency protective measures;
- Category C: Road systems and bridges;
- Category D: Water control facilities;
- Category E: Public buildings and contents;
- Category F: Public utilities; and
- Category G: Parks, recreational, and other.

For insurable structures within special flood hazard areas (SFHA), primarily buildings, assistance from FEMA is reduced by the amount of insurance settlement that could have been obtained under a standard National Flood Insurance Program (NFIP) policy. For structures located outside of a SFHA, FEMA will reduce the amount of eligible assistance by any available insurance proceeds.

FEMA reviews and approves the PWs and obligates the federal share of the costs, which cannot be less than 75 percent, to the state. The state then disburses funds to local applicants. Projects falling below a certain threshold are considered "small." The threshold is adjusted annually for inflation. For fiscal year 2001, that threshold was \$50,600. For small projects, payment of the federal share of the estimate is made upon approval of the project and no further accounting to FEMA is required.

For large projects, payment is made on the basis of actual costs determined after the project is completed, although interim payments may be made as necessary. Once FEMA obligates funds to the state, further management of the assistance, including disbursement to subgrantees, is the responsibility of the state. FEMA will continue to monitor the recovery progress to ensure the timely delivery of eligible assistance and compliance with the law and regulations.

To be eligible for PA program funding, the work must be required as the result of the disaster, be located within the designated disaster area, and be the legal responsibility of an eligible applicant. Work that is eligible for supplemental federal disaster grant assistance is classified as either emergency work or permanent work.

Hazard Mitigation Grant Program

The HM grant program, authorized under section 404 of the Stafford Act, allows communities to apply for mitigation funds through the state. Hazard mitigation refers to sustained measures enacted to reduce or eliminate long-term risk to people and property from natural hazards and their effects. In the long term, mitigation measures reduce personal loss, save lives, and reduce the cost to the nation of responding to and recovering from disasters. When a federal disaster has been declared, the federal government can provide up to 75 percent of the cost of this mitigation work, with some restrictions.

The state, as grantee, is responsible for notifying potential applicants of the availability of funding, defining a project selection process, ranking and prioritizing projects for funding, and forwarding projects to FEMA for approval. The applicant, or subgrantee carries out approved projects. The state or local government must provide a 25 percent match, which can be fashioned from a combination of cash and in-kind sources. Federal funding from other sources cannot be used for the 25 percent non-federal share with one exception. Funding provided to states under

the Community Development Block Grant program from the Department of Housing and Urban Development can be used for the non-federal share.

The amount of funding available for the HM grant program under a disaster declaration is finite and limited to 15 percent of FEMA's estimated total disaster costs for all other categories of assistance, less administrative costs. In addition, states may use a set-aside of up to five percent of the total HM grant program funds available for mitigation measures at their discretion. To be eligible, a set-aside project must be identified in a state's hazard mitigation plan and fulfill the goal of the HM grant program.

Eligible mitigation measures under the HM grant program include acquisition or relocation of property located in high hazard areas, elevation of flood-prone structures, seismic rehabilitation of existing structures, strengthening of existing structures against wildfire, and flood proofing activities that bring a structure into compliance with minimum NFIP requirements and state or local code. Up to seven percent of the HM grant program funds may be used to develop state or local mitigation plans.

All HM grant program projects, including set-aside projects, must comply with the National Environmental Policy Act and all relevant Executive Orders. HM grant program funds cannot be given for acquisition, elevation, or construction if the site is located in a designated SFHA, and the community is not participating in the NFIP. FEMA's primary emphasis for HM grant program funds, where appropriate, is the acquisition and demolition, relocation, elevation, or flood proofing of flood-damaged or flood-prone properties.

Individual and Family Grant Program

The IFG program, authorized by section 411 of the Stafford Act, provides funds for the necessary expenses and serious needs of disaster victims that cannot be met through insurance or other forms of disaster assistance, including low interest loans from the SBA. The maximum amount of each grant is annually adjusted to reflect changes in the Consumer Price Index. For fiscal year 2001, each individual or family may receive up to \$14,400 through the IFG program.

Among the needs that can be met through the IFG program are housing, personal property, medical, dental, funeral, transportation, and required flood insurance premiums. To obtain assistance, applicants may be required to apply to the SBA for a disaster loan. If the SBA determines the applicant to be ineligible for a loan, or if the loan amount is insufficient, the applicant is referred to the IFG program. The state administers the program and pays 25 percent of the grant amount; the federal government provides the remaining 75 percent. The Governor may request a loan for the state's share.

IFG recipients who live in special flood hazard areas and receive assistance as the result of flood damages to their home or personal property are provided flood insurance coverage for 37

months under a NFIP group flood insurance policy. The 37-month coverage is at no cost to the grantee and includes a \$200 deductible applicable separately to real property, structure, and personal property. This flood insurance must be kept active forever on property that is owned, or for as long as renters live in the flood-damaged rental unit, if those individuals are to receive federal assistance for any future flood-related losses to insurable real or personal property.

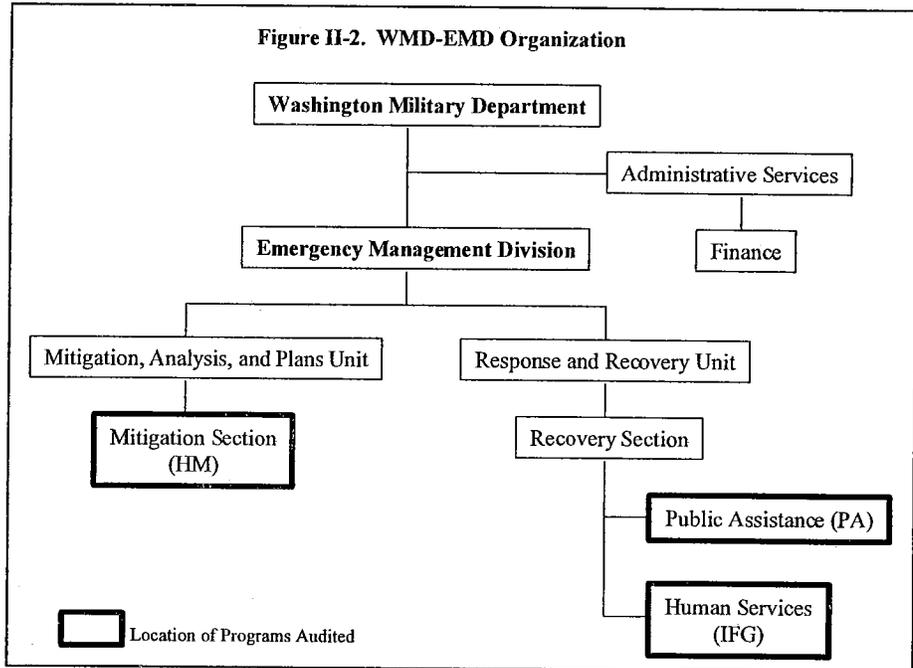
D. Overview of State Subject to Audit and Responsible State Department

The state department responsible for the administration of emergency management services is the WMD, which includes the EMD, the Washington Army National Guard, and the Washington Air National Guard. The Adjutant General, Major General Timothy J. Lowenberg, serves as WMD’s director; Glen L. Woodbury is the director of EMD. See figure II-2.

EMD coordinates emergency management programs with local governments, public agencies, private organizations, businesses, communities, and individuals to

prepare for, respond to, and recover from emergencies. In addition to the Director’s Office, there are four units within EMD: Enhanced 911; Mitigation, Analysis and Planning; Response and Recovery, and Policy, Programs and Training.

EMD conducts its emergency operations from the Emergency Operations Center (EOC) located within EMD’s building on Camp Murray, also headquarters of WMD, near Tacoma, Washington.



III. Objectives, Scope, and Methodology

THIS SECTION DESCRIBES THE AUDIT OBJECTIVES, the scope of the audit, and the methodology used to carry out the work.

A. Objectives

FEMA Office of Inspector General (OIG) engaged KPMG to determine whether the State of Washington (the grantee):

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and other applicable federal regulations, functioning appropriately to fulfill its responsibilities,
- Properly accounted for and expended FEMA disaster assistance funds, and
- Submitted accurate financial reports.

B. Scope

The scope of our audit was limited to three disaster assistance programs:

- Public Assistance;
- Hazard Mitigation; and
- Individual and Family Grant.

KPMG was initially requested to review 8 disasters and 15 funded programs. However, after consultation with the OIG our scope was increased to 9 disasters and 20 funded programs, as identified in the Table II-1. Further, our testing was limited to those programs that (a) were open during the period of our review, October 1, 2000, and September 30, 2001, and (b) had financial activity during the period.

Our audit scope did not include interviews with subgrantees (local governments or PNPs) or subrecipients (individuals). Nor did it include technical evaluations of the repairs of damages caused by the disasters.

Table III-1. Disasters and Programs Reviewed

Disaster Number	Type of Disaster	Date Declared	HM Grant		
			PA Program	Program	IFG Program
1079	Flooding and Wind	01/03/96	X	X	
1100	Flooding	02/09/96	X	X	
1152	Ice Storm	01/07/97	X	X	
1159	Winter Storm (Ice, Snow, and Flooding)	01/17/97	X	X	
1172	Flooding	04/02/97	X	X	X
1182	Flooding	07/21/97		X	
1252	Flooding	10/05/98	X	X	
1255	Landslide	10/16/98	X	X	X
1361	Nisqually Earthquake	03/01/01	X	X	X

X – Indicates that the program was not closed at the time of our review. However, this does not necessarily mean there was financial activity during that time.

KPMG notes that during our work related to the IFG program, we encountered delays in obtaining records for review owing to our inability to gain direct access to National Emergency Management Information System (NEMIS). Owing to our inability to obtain the necessary access to NEMIS, we were required to request the necessary records from Region X, which Region X had to provide in printed form. Significant time was required and several eMail exchanges, telephone conversations, mailings, and follow-up requests were needed in order to obtain additional and / or corrected information. This process lead to delays in completing the audit work related to the IFG program in an efficient manner.

KPMG Did Not Conduct a Financial Statement Audit, or an Audit in Accordance with OMB Circular A-133

KPMG LLP was not engaged to, and did not, perform a “financial statement audit,” the objective of which would be to express an opinion on the financial statements. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of this audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters may have come to our

attention that would have been reported. This report relates only to the accounts and items specified. This report does not extend to any financial statements of the State of Washington, WMD, or EMD and should not be used for that purpose. Nor does this work entail an audit in accordance with OMB Circular A-133.

C. Methodology

We carried out our audit steps and procedures in accordance with the OIG's *Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs*, dated March 2001. The audit guide includes audit steps and procedures for audit planning and fieldwork. As requested by the OIG, KPMG added, modified, or deleted audit steps and procedures as necessary.

We conducted our fieldwork primarily at three locations in the State of Washington. Initial fieldwork began with an entrance conference at Region X in Bothell on June 25, 2002. The majority of our fieldwork was performed at EMD headquarters at Camp Murray. The third location of our fieldwork was in Olympia, Washington, at the Recovery Field Office.

Evidence

The evidence we collected during our review may be categorized as physical, documentary, testimonial, or analytical. Each of these is discussed below.

Physical Evidence -- Physical evidence for this audit was obtained by our direct inspection or observation of people, property, or events. Such evidence for this audit was primarily isolated to our physical inspection of property—i.e., fixed assets—maintained by WMD and EMD.

Documentary Evidence -- Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. The majority of our evidence was documentary. Documentary evidence for this audit included the following:

- Rules and regulations governing the disaster assistance grant programs under review
- Organization charts and background information on Region X and EMD
- Various program correspondence files, project files, and program/project reports
- Presidential disaster declarations, FEMA-State Agreements, and State Administrative Plans

- FSRs and CTRs
- Various financial systems and their reports of both Region X and EMD
- Various financial records of EMD (e.g., journal entries, program disbursement approvals; revenue receipts [deposits]; purchase orders, requisitions, warrants; etc.)
- Various financial statement audit reports, schedule of federal financial assistance audit reports, internal control reviews and certifications, cost plans, etc., of WMD and EMD
- Supporting documentation necessary to gain an understanding of the control environment of WMD and EMD

As discussed earlier, we reviewed earlier audit reports and internal control reviews and certifications that were conducted or issued during the timeframe of our audit scope, or that we believed to be important in determining the control environment at WMD and EMD. These audit reports and internal control review and certifications included the State Auditor's Office OMB Circular A-133 "Single Audit" financial statement and schedule of federal financial assistance audits and the OIG's prior audit of the State of Washington's WMD's EMD dated September 26, 2000. For a complete listing of audit and internal control reviews, see Attachment C.

Testimonial Evidence -- Testimonial evidence is obtained through inquiries, interviews, or questionnaires. For this review we interviewed several senior-level individuals at both Region X and EMD that had program and financial management responsibilities.

Analytical Evidence -- Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments. For this evaluation we analyzed the following:

- The financial reporting process to Region X by EMD
- Cash management procedures, i.e., a comparison of drawdowns to disbursements, the advancing of funds, etc.
- Comparison of how certain rules and regulations were implemented by Region X and EMD
- Whether cost share matching requirements were met
- Program and financial management compliance/transaction testing

Standards

Our audit was performed in accordance with the standards applicable to a “financial-related audit” as defined in the Government Auditing Standards issued by the Comptroller General of the United States. A financial-related audit’s purpose may include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity’s internal control structure over financial reporting and safeguarding assets is suitably designed and implemented to achieve the control objectives.

In addition to the above guidelines, the Department of Homeland Security, Office of Inspector General, provided to KPMG an audit guide and report format for use in carrying out this work. These two documents identified the audit steps we were required to follow as well as the format and content of this report.

IV. Findings and Recommendations

THIS SECTION PRESENTS OUR FINDINGS under the headings of “program management” and “financial management.” The following lists summarize the discussions that follow:

Program Management:

1. EMD’s Public Assistance Administrative Plan Contains Inadequate Procedures
2. EMD Did Not Appear to Conduct Interim On-Site Monitoring of Construction Projects in Progress
3. EMD Approved a Time Extension Request 16 Months After the Subgrantee’s Request

Financial Management:

4. Expenditures Reported on Quarterly FSRs for All Programs Did Not Reconcile with the State’s Official Accounting Records
5. Interim and Final FSRs Were Not Submitted in a Timely Manner
6. The Grantee Did Not Meet Its Matching Requirements for 45 of the 56 Program Quarters Tested
7. WMD Made Drawdowns in Excess of What Was Required
8. WMD State Procurement Regulations Do Not Support Federal Requirements
9. WMD is Not Tracking Property Adequately and Does Not Meet Federal Requirements

A. Program Management Findings

Finding 1 – EMD’s Public Assistance Administrative Plan Contains Inadequate Procedures

44 CFR requires that the grantee include “procedures” for carrying out the required activities. KPMG observed that the administrative plan for PA contains largely inadequate procedures. Of 18 requirements noted in the CFR, we determined that 14 were inadequate from the point of clearly stating the steps required to carry out the procedure.

A common problem noted in the administrative plan's description of procedures is that the procedure "begs the question"—in other words, the plan states that a particular activity will be carried out, without stating *how* it will be carried out (what the steps are).

Observations and Recommendations. Because EMD's PA administrative plan contains inadequate procedures, KPMG recommends that EMD describe in detail the specific steps that must be carried out to meet the criteria specified in the CFR. Moreover, tools that support the step(s) should be identified, along with their location. Tools can include lists of contacts, checklists, computer directories and files on EMD's server, computerized forms, key contacts, etc. The plan could also identify means for measuring whether the goals have been met.

In addition, KPMG recommends that EMD indicate performance goals—e.g., within how many days they will carry out a particular activity (return calls or e-mails, pay a drawdown request, perform a monitoring visit, etc.).

We note that the *Public Assistance Guidelines and Procedures*, developed for the Nisqually Earthquake, provide detailed procedures and sample forms lacking in the Administrative Plan. One approach to addressing this finding would be to combine these two documents, either by reference in the Administrative Plan or through synthesizing the latter post-Nisqually document into the Administrative Plan.

Management's Response and Auditor's Reaction. The FEMA Regional Director concurs. The grantee notes in its response that the purpose of a "plan" is to outline requirements rather than to identify the specifics of how to do something. It also notes that this plan is not used by applicants, as that information is provided elsewhere. Finally, it notes that the FEMA region approved its plan. KPMG reiterates the requirement that the plan must identify "procedures." Moreover, our comments are not intended to suggest that the plan should be a guide for applicants (or subgrantees), but rather a description for FEMA of its procedures for adequately managing the federal program. In any case, the grantee has undertaken or completed a number of modifications to its plan to address KPMG's comments. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 2 – EMD Did Not Appear to Conduct Interim On-Site Monitoring of Construction Projects in Progress
--

Of 10 projects reviewed, KPMG did not find direct evidence of interim on-site project monitoring in the form of memos-to-file or trip reports. It is noted that ample evidence was seen in project files that indicates EMD provided technical assistance to subgrantees in the form of in-office consultations via telephone and written correspondence.

Criteria

Criteria are standards used to determine whether a program met or exceeded expectations. Our criteria were based on what was reasonable, attainable, and relevant to the areas subject to audit. Our criteria for this review included the following:

- Specific rules and regulations as prescribed by the Stafford Act and Title 44 of the CFR
- Guidelines, policies, and procedures as issued by the FEMA in the administration of grant programs
- State of Washington rules, regulations, policies, and procedures as promulgated by the Legislature and the Office of Financial Management (OFM)
- EMD's programs rules, regulations, policies, and procedures associated with the administration of their various grant programs
- Observations from other related audits we have conducted

Sampling and Testing

Our sampling and testing work included the following:

- A representative sample of expenditure transactions for all three grant programs was selected and testing was performed to determine whether these transactions were supported by the appropriate documents
- A representative sample of drawdown transactions for all three grant programs was selected and testing was performed to determine whether these transactions were supported by the appropriate documents
- A representative number of small and large PA program projects was tested for various compliance requirements
- A sample of federally funded HM grant program project files was tested for various compliance requirements
- A number of rejected and approved HM grant program projects was tested for various compliance requirements
- A representative sample of "management grant" expenditure transactions for the PA program and HM grant program was selected, and testing was performed to determine whether these transactions were supported by the appropriate documents
- A sample of IFG program payments was tested for timeliness and sufficiency of supporting documents

Observations and Recommendations. Based upon lack of direct evidence, we conclude that for the projects reviewed, EMD either did not conduct interim site visits for construction projects, or it failed to adequately document such trips in the files. EMD has indicated that, before the Nisqually Earthquake, it had no procedure for project monitoring. The current policy addresses the need for periodic project site visits. We recommend that these procedure articulate the specific tasks that should be accomplished during an interim on-site visit, and include a standard checklist and narrative form for documenting the visit (we were told that such a form exists but did not receive the requested copy).

Management's Response and Auditor's Reaction. The FEMA Regional Director concurs. The grantee does not concur with this finding, stating that 44 CFR 13.40 does not prescribe the manner in which a grantee chooses to perform its monitoring functions. It also notes updated monitoring guidelines developed for the Nisqually Earthquake. KPMG recognizes that these guidelines were not in place, or not as complete, for the projects reviewed. We maintain our position that site inspections by the grantee are an important activity for ensuring a subgrantee's compliance with the federally approved scope of work and cost estimate for construction projects. Indeed, EMD recognizes the importance of site inspections in its own internal monitoring guidelines, which state that "[monitoring] does mean intermediate and final inspections..." (KPMG emphasis) This internal guide also indicates that the grantee will make quarterly site visits at a minimum. Finally, we would reiterate that our finding states that we could not determine whether such visits were made, and that our recommendation is that the grantee standardize its methods for conducting, as well as documenting, site visits. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 3 -- EMD Approved a Time Extension Request 16 Months After the Subgrantee's Request

On July 1, 1998, King County requested a time extension for a project (DSR 74419). EMD responded to this letter on October 27, 1999—one year and four months later.

Observations and Recommendations. EMD failed to respond in a timely way to a subgrantee's request for a project time extension. KPMG recommends that EMD articulate its procedures for responding to correspondence, and its turnaround goal for authorizing or declining time extension requests. These procedures and performance criteria can be articulated in the PA Administrative Plan. They would include identification of responsible persons, a flow diagram and process description, performance measures, and means for measuring success.

Management's Response and Auditor's Reaction. The FEMA Regional Director concurs. The grantee states in its response that this was an isolated incident and not indicative of a systemic problem. The Regional Director, in his comments, agrees with this position.

Moreover, the grantee points out that, since that disaster, procedures have been developed for the review and approval of time extensions. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

B. Financial Management Findings

Finding 4 – Expenditures Reported on Quarterly FSRs for All Programs Did Not Reconcile with the State’s Official Accounting Records

The total federal and state share of expenditures reported on the quarterly FSRs for all programs (PA, HM, and IFG) that EMD submitted to FEMA did not reconcile with the State’s official accounting records, the AFRS, and additional supporting schedules, for all quarters tested. As an example, supported expenditure amounts varied from the amounts reported on the FSR from under reporting of \$22,442.38 to over reporting of \$5,895,421.61.

It was not possible to determine how the amounts on the FSR were developed, since WMD did not retain supporting documentation to substantiate the expenditures reported on the FSRs submitted to FEMA. When conducting our testing, WMD had to “recreate” the support for the FSRs to assist in our testing.

It should be noted that General Ledger Account “5199” accruals were not classified in the State’s accounting records as program expenditures. The improper classification of these program expenditures can create inaccuracies in financial reporting.

Observations and Recommendations. Expenditures reported on quarterly FSRs for all programs did not reconcile with the State’s official accounting records. Current policies and procedures should be expanded to properly instruct employees on how to complete an FSR using the grantee’s official accounting records. Training on the proper procedures for FSR completion could also be provided. In addition, accounts should be classified in the AFRS so that all program expenditures associated with the administration of federal grants are easily identifiable and supportable. Finally, supporting documentation used in the preparation of the FSR should be retained and reconciled to the amounts reported on the FSR.

Management’s Response and Auditor’s Reaction. The FEMA Regional Director and grantee concur. The grantee has indicated that FSRs are now being completed from official reconciled AFRS program management reports, and that all accounting transactions related to specific disasters are being identified by proper program accounting codes in AFRS. The grantee states, moreover, that all FSRs are backed up with reconciled AFRS program management reports and are attached for review when signed by the program manager or accounting manager. It states that these actions will be formalized into written policy and procedures by December 31,

2003. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 5 – Interim and Final FSRs Were Not Submitted in a Timely Manner

Interim FSRs were submitted from 1 day to 22 days late (14 instances), while final FSRs were submitted from 149 to 178 days late (4 instances). It should be noted that in several cases WMD submitted their interim and final reports on or before the due date.

Observations and Recommendations. It does not appear that WMD had policies or procedures in place to ensure that all FSRs were submitted by their due date. The WMD should develop a policy and procedure to ensure that all FSRs are submitted in a timely manner.

Management's Response and Auditor's Reaction. The FEMA Regional Director and grantee concur. The grantee has indicated that all FSRs are now completed in the required time, and that if additional time is needed it will request an extension from the FEMA regional office. The grantee states that these actions will be formalized into written policy and procedures by December 31, 2003. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 6 – The Grantee Did Not Meet Its Matching Requirements for 45 of the 56 Program Quarters Tested

In assessing why the grantee did not meet its matching requirements in the majority of the quarters tested, review of the current policy and procedure dated February 20, 2001, indicates that accounting staff is relying on the program manager to monitor the matching requirements of the grant. In addition, the policy and procedures rely on the use of percentages to obtain amounts rather than the grantee's official accounting records. Finally, the policy and procedures do not require that supporting workpapers be developed and retained to validate the amounts reported on the FSR.

Observations and Recommendations. Based on the above, the grantee did not meet its matching requirements for 45 of the 56 program quarters tested. Accounting staff should ensure compliance with matching requirements and not rely on program managers for this function. Therefore, WMD should review their current procedures for determining the matching requirements and ensure that new policies and procedures are developed to address the need to have the supporting accounting records be the source of information for determining that matching requirements are met.

Management's Response and Auditor's Reaction. The FEMA Regional Director and grantee concur, with the RD's supporting the grantee's comment that the specific area causing problems in the reporting of matching has to do with the match provided by local municipalities (subgrantees). The grantee also notes that the program manager's spreadsheets provided the matching information that was not readily available from accounting records, and that accounting staff are reviewing possible methods in AFRS to record the subgrantee match. It states that procedures will be developed by December 31, 2003. Because the grantee has not identified the method for recording subgrantee match in AFRS and the procedures for doing so, KPMG considers this finding unresolved at the time of report publication.

Finding 7 – WMD Made Drawdowns in Excess of What Was Required

Based on our testing, we determined that the WMD's drawdown of federal fund was not based on actual expenditures from the grantee's official accounting records. The failure to use actual expenditures as a basis for drawdowns led WMD to request funds in excess of what was necessary, or not request sufficient funds that were allowable, for the various programs that we reviewed. For example, drawdowns in excess of expenditures ranged from \$27,165 to \$524,153, while drawdowns less than expenditures ranged from \$3,462 to \$992,881, for the period. The net impact of all drawdowns for the period was drawdowns in excess of expenditures of \$78,595.

Observations and Recommendations. Due to inaccurate information compiled for FSRs, WMD made drawdowns in excess of amounts required or needed. Also, there did not appear to be any reconciliation between information on the FSR, the CTR, or Smartlink, the federal system used to make drawdowns, that could have been used to ensure that funds were drawn to the extent necessary. It should be noted that WMD is conservative in its estimation of expenditures as it relates to the preparation of the FSR. However, failure to compile accurate FSR information, led to drawdowns that were not necessary or supported. We recommend that WMD reconcile information from their FSRs, CTRs, and Smartlink to ensure that the grantee only requests a drawdown to the extent necessary to fund program operations and meet matching requirements.

Management's Response and Auditor's Reaction. The FEMA Regional Director and grantee concur. The grantee has indicated that drawdowns are now being made after the close of each fiscal month from the AFRS management reports used for completing FSRs. Only actual expenditures are matched with a drawdown against approved FEMA allotments. In addition, the grantee notes that program managers provide written approval for drawdowns of management and other administrative costs. The drawdown report (SF 272) from Smartlink is reconciled to the respective FSR. Finally, the grantee has indicated that these actions will be formalized into written policy and procedures by December 31, 2003. Pending follow-up audit work to be

conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 8 – WMD State Procurement Regulations Do Not Support Federal Requirements

WMD procurement staff was unaware of federal regulations associated with FEMA's federal grant agreements associated with procurement regulations. Due to this unfamiliarity with the federal government requirements, the terms and conditions for grant agreements / contracts / purchase orders / and other procurement vehicles for the State of Washington may not comply with those of the federal government.

KPMG also noted that the following requirements are federal; and no corresponding state requirement could be located:

- Notice of awarding agency requirements and regulations pertaining to reporting.
- Access by the grantee, the subgrantee, the federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.
- Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.
- Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 United States Code (USC) 1857(h)), section 508 of the Clean Water Act (33 USC 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000)
- Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Public Law 94-163, 89 Statute 871).

Observations and Recommendations. Procurement staff should review, on an annual basis, federal procurement regulations and ensure they are in compliance with these. Submission to the Department of General Administration of a request to analyze how state procurement regulations comply with federal procurement rules and regulations is suggested.

Management's Response and Auditor's Reaction. The FEMA Regional Director and grantee concur. The grantee has indicated that it has updated sub-recipient pass-through contracts to include the appropriate federal regulatory language. Moreover, it notes that a new electronic purchase-order system scheduled to go on-line in July 2003 will include the federal requirements

in the on-line General Terms and Conditions. Finally, the grantee indicated that procurement staff will attend a class on federal requirements when available. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

Finding 9 – WMD is Not Tracking Property Adequately and Does Not Meet Federal Requirements

On the CAMS reports that we reviewed, 114 of the 661 pieces of like equipment, or 17 percent of the items, did not have a serial number to identify the asset. Nor were these items necessarily unique (able to be identified uniquely). For instance, an entire report page from CAMS listed multiple entries for the same type of Dell computer at the same price. None of the items had a serial number associated with it.

Upon inspection of the list of all assets belonging to the EMD, provided by the WMD, several items did not initially appear on the listing. The items missing were some of the more significant assets of the WMD—the building that houses EMD and their vehicles. When we inquired about their classification on the CAMS, WMD staff indicated that all assets belonging to EMD are classified in two different ways. Most physical assets located at and/or belonging to EMD are listed under the classification of EMD in CAMS. The exception to this are vehicles and buildings. All vehicles for the WMD are listed under the classification of "Motor Pool" and the physical location of each EMD vehicle is noted in a comments/remarks field. WMD management states that this is done for ease of control and the ability to see on one report the number, status, and location of all vehicles owned by the WMD. The building housing EMD is classified as "Camp Murray" which contains all buildings owned by the WMD and located on Camp Murray.

As part of our testing we also inquired as to the disposition process WMD uses for assets. WMD staff was unaware of the federal requirements associated with property management. CAMS does not carry information on the percentage of ownership when federal monies are used to acquire an asset. CAMS only reports asset mix by "state," "state-federal," or "federal"; no percentages are given. To determine asset mix at time of disposition, the accounting coding is used to determine the asset mix, if available.

Observations and Recommendations. The WMD should take measures necessary to ensure that federal requirements relating to the protection of assets are implemented. WMD's asset management system does not meet the requirements of the federal government in regards to maintaining information on the *federal percentage of participation and use and condition of the property*. Moreover, WMD's property ledger is incomplete and may not adequately identify or

segregate EMD assets for quick identification. Without proper identification, missing, stolen, or disposed inventory cannot be tracked.

WMD property management staff should:

- Review on at least an annual basis the requirements associated with the administration of federal programs to determine how to comply with these requirements in the administration of these programs.
- Comply with rules and regulations associated with the operation of the CAMS so that all data fields are complete and accurate.
- Ensure that all assets of EMD are separately identified in the CAMS for easy identification.
- Submit to the administrator of the CAMS system modifications to identify the condition of assets and percentage of federal ownership.
- Prepare end-of-inventory reports that completely document their compliance with rules and regulations associated with the conducting of an inventory associated with the operation of the CAMS.
- Better document biennial inventories.

Management's Response and Auditor's Reaction. The FEMA Regional Director and grantee concur. The grantee has indicated in its response that all assets, including vehicles, associated with EMD are now included in one report in CAMS. In addition, actions are underway to modify CAMS to include fields indicating percentage of state and federal funds. The grantee also stated that the fixed-asset inventory system for the 2001-2003 biennium will be properly documented and a formal report issued. Further, the grantee has stated that procurement staff will attend a course on federal requirements when available. Pending follow-up audit work to be conducted at a later date by KPMG or others, KPMG considers that appropriate corrective action has been taken.

C. Other Matters

During its audit work, KPMG sampled and reviewed DSRs related to the Kelso Landslide disaster (FEMA-DR-1255-WA). KPMG reviewed two DSRs, 61410 and 61411, that were written as Category "F" DSRs (*permanent work—utilities*). Based upon definitions in 44 CFR, it appears that these DSRs involved emergency work that should have been written as Category "B" DSRs (*emergency work—emergency protective measures*).

According to the DSR narrative, (a) there was no existing damage to the utilities, and (b) the work authorized in the DSRs was expressly intended to prevent further damage that may occur “in the next 5 years.” This latter phrase (quoted from the DSRs) is a direct quotation from 44 CFR §206.221(c): “Immediate threat means the threat of additional damage or destruction from an event which can reasonably be expected to occur within five years.” An “immediate threat” is a defining quality of emergency work (44 CFR §206.225(a)(3)(ii)).

When the City of Kelso requested an alternate project, these two DSRs were supplemented into DSRs 61402 and 61403, which formed the cost basis for the alternate project. KPMG further notes that if they were incorrectly categorized, they should not have been included in an alternate project (only permanent work being eligible for alternate projects).

In discussing these DSRs with both EMD and FEMA Region X, both parties agree that this was a FEMA-driven project and that EMD should not be held responsible for the disposition of these DSRs. As a result, we have not included these items as a “finding” in this report, but rather have addressed them in a management letter to the Region with the recommendation that the disaster be further reviewed.

We have included this item here as an “other matter” because we wish to note in this report that if funds are questioned and deobligated, regardless of where “fault” lies for authorizing the work, it is the State and the subgrantee that will be responsible for returning potentially already-spent federal funds.

V. Attachments

THIS SECTION CONTAINS THE FOLLOWING ATTACHMENTS:

- A. Sources and Application of Funds
- B. Schedule of Questioned Costs
- C. List of Other Audit Reports and Internal Control Reviews
- D. Management's Response

A. Sources and Application of Funds

Please see attachments A-1 through A-10 on the following pages.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A1

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Summary of All Disasters

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i>	<i>Public Assistance (PA) Program</i>	<i>Hazard Mitigation (HM) Program</i>	<i>Total</i>
	83.543	83.544	83.548	
<u>Award Amounts</u>				
Federal Share	\$ 3,391,310	\$ 179,096,014	\$ 35,947,826	\$ 218,435,150
State Share	565,218	29,849,336	5,991,304	36,405,858
Local Share	565,218	29,849,336	5,991,304	36,405,858
Award Amount Subtotal	<u>4,521,747</u>	<u>238,794,685</u>	<u>47,930,435</u>	<u>291,246,866</u>
<u>Source of Funds</u>				
Federal Share	2,373,772	168,788,310	31,120,612	202,282,694
State Share	515,219	34,891,497	5,012,948	40,419,663
Local Share	451,404	28,003,831	5,171,893	33,627,128
Source of Funds Subtotal	<u>3,340,394</u>	<u>231,683,637</u>	<u>41,305,453</u>	<u>276,329,484</u>
<u>Application of Funds</u>				
Federal Share	2,708,423	168,022,983	31,031,361	201,762,767
State Share	515,219	34,891,497	5,012,948	40,419,663
Local Share	451,404	28,003,831	5,171,893	33,627,128
Application of Funds Subtotal	<u>3,675,046</u>	<u>230,918,310</u>	<u>41,216,201</u>	<u>275,809,557</u>
<u>Balance of Federal Funds on Hand</u>				
	<u>\$ (334,652)</u>	<u>\$ 765,326</u>	<u>\$ 89,252</u>	<u>\$ 519,927</u>

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A2

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1079 -- Flooding and Wind -- January 3, 1996

<i>Program Title</i>	<i>Individual and Family Grant (IFG) Program</i>	<i>Public Assistance (PA) Program</i>	<i>Hazard Mitigation (HM) Program</i>	<i>Total</i>
<i>CFDA No.</i>	83.543	83.544	83.548	
<u>Award Amounts</u>				
Federal Share	\$ -	\$ 24,279,119	\$ 5,178,336	\$ 29,457,455
State Share	-	4,046,520	863,056	4,909,576
Local Share	-	4,046,520	863,056	4,909,576
Award Amount Subtotal	-	32,372,159	6,904,448	39,276,607
<u>Source of Funds</u>				
Federal Share	-	23,861,204	5,061,832	28,923,036
State Share	-	3,911,762	771,352	4,683,115
Local Share	-	3,976,470	843,639	4,820,108
Source of Funds Subtotal	-	31,749,436	6,676,823	38,426,259
<u>Application of Funds</u>				
Federal Share	-	23,858,818	5,061,832	28,920,651
State Share	-	3,911,762	771,352	4,683,115
Local Share	-	3,976,470	843,639	4,820,108
Application of Funds Subtotal	-	31,747,050	6,676,823	38,423,874
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ 2,385	\$ -	\$ 2,385

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.

Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A3

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1100 -- Flooding -- February 9, 1996

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i> 83.543	<i>Public Assistance (PA) Program</i> 83.544	<i>Hazard Mitigation (HIM) Program</i> 83.548	<i>Total</i>
<u>Award Amounts</u>				
Federal Share	\$ -	\$ 76,024,988	\$ 15,514,069	\$ 91,539,057
State Share	-	12,670,831	2,585,678	15,256,510
Local Share	-	12,670,831	2,585,678	15,256,510
Award Amount Subtotal	-	101,366,651	20,685,425	122,052,076
<u>Source of Funds</u>				
Federal Share	-	75,807,068	14,406,647	90,213,715
State Share	-	18,977,812	2,353,345	21,331,157
Local Share	-	12,571,555	2,401,108	14,972,663
Source of Funds Subtotal	-	107,356,435	19,161,099	126,517,534
<u>Application of Funds</u>				
Federal Share	-	75,429,330	14,406,647	89,835,977
State Share	-	18,977,812	2,353,345	21,331,157
Local Share	-	12,571,555	2,401,108	14,972,663
Application of Funds Subtotal	-	106,978,697	19,161,099	126,139,797
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ 377,738	\$ -	\$ 377,738

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A4

Schedule of Sources and Applications of Funds (Unaudited)
State of Washington's Military Department's
Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1152 -- Ice Storm -- January 7, 1997

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i>	<i>Public Assistance (PA) Program</i>	<i>Hazard Mitigation (HM) Program</i>	<i>Total</i>
	83.543	83.544	83.548	
<u>Award Amounts</u>				
Federal Share	\$ -	\$ -	\$ 1,340,653	\$ 1,340,653
State Share	-	-	223,442	223,442
Local Share	-	-	223,442	223,442
Award Amount Subtotal	-	-	1,787,537	1,787,537
<u>Source of Funds</u>				
Federal Share	-	-	1,236,390	1,236,390
State Share	-	-	185,586	185,586
Local Share	-	-	191,699	191,699
Source of Funds Subtotal	-	-	1,613,675	1,613,675
<u>Application of Funds</u>				
Federal Share	-	-	1,150,192	1,150,192
State Share	-	-	185,586	185,586
Local Share	-	-	191,699	191,699
Application of Funds Subtotal	-	-	1,527,476	1,527,476
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ -	\$ 86,198	\$ 86,198

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A5

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1159 -- Winter Storm -- January 17, 1997

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i>	<i>Public Assistance (PA) Program</i>	<i>Hazard Mitigation (HM) Program</i>	<i>Total</i>
	83.543	83.544	83.548	
<u>Award Amounts</u>				
Federal Share	\$ -	\$ 58,372,355	\$ 11,693,996	\$ 70,066,351
State Share	-	9,728,726	1,948,999	11,677,725
Local Share	-	9,728,726	1,948,999	11,677,725
Award Amount Subtotal	-	77,829,807	15,591,995	93,421,801
<u>Source of Funds</u>				
Federal Share	-	56,436,637	8,264,652	64,701,290
State Share	-	9,947,705	1,356,791	11,304,495
Local Share	-	9,393,847	1,377,442	10,771,289
Source of Funds Subtotal	-	75,778,189	10,998,885	86,777,074
<u>Application of Funds</u>				
Federal Share	-	56,363,081	8,264,652	64,627,734
State Share	-	9,947,705	1,356,791	11,304,495
Local Share	-	9,393,847	1,377,442	10,771,289
Application of Funds Subtotal	-	75,704,633	10,998,885	86,703,518
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ 73,556	\$ -	\$ 73,556

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A6

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1172 -- Flooding -- April 2, 1997

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i> 83.543	<i>Public Assistance (PA) Program</i> 83.544	<i>Hazard Mitigation (HM) Program</i> 83.548	<i>Total</i>
<u>Award Amounts</u>				
Federal Share	\$ -	\$ 5,687,545	\$ 1,009,556	\$ 6,697,101
State Share	-	947,924	168,259	1,116,184
Local Share	-	947,924	168,259	1,116,184
Award Amount Subtotal	-	7,583,393	1,346,075	8,929,468
<u>Source of Funds</u>				
Federal Share	-	5,578,129	988,780	6,566,909
State Share	-	995,296	160,819	1,156,115
Local Share	-	927,961	168,259	1,096,220
Source of Funds Subtotal	-	7,501,385	1,317,858	8,819,244
<u>Application of Funds</u>				
Federal Share	-	5,567,763	1,009,556	6,577,319
State Share	-	995,296	160,819	1,156,115
Local Share	-	927,961	168,259	1,096,220
Application of Funds Subtotal	-	7,491,019	1,338,634	8,829,654
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ 10,366	\$ (20,776)	\$ (10,410)

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A7

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1182 -- Flooding -- July 21, 1997

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i> 83.543	<i>Public Assistance (PA) Program</i> 83.544	<i>Hazard Mitigation (HM) Program</i> 83.548	<i>Total</i>
<u>Award Amounts</u>				
Federal Share	\$ 50,000	\$ -	\$ 80,276	\$ 130,276
State Share	8,333	-	13,379	21,713
Local Share	8,333	-	13,379	21,713
Award Amount Subtotal	66,667	-	107,035	173,701
<u>Source of Funds</u>				
Federal Share	27,165	-	79,301	106,466
State Share	4,928	-	12,761	17,689
Local Share	4,528	-	13,217	17,744
Source of Funds Subtotal	36,620	-	105,279	141,900
<u>Application of Funds</u>				
Federal Share	27,165	-	79,301	106,466
State Share	4,928	-	12,761	17,689
Local Share	4,528	-	13,217	17,744
Application of Funds Subtotal	36,620	-	105,279	141,900
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ -	\$ -	\$ -

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A8

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1252 -- Flooding -- October 5, 1998

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i> <i>83.543</i>	<i>Public Assistance (PA) Program</i> <i>83.544</i>	<i>Hazard Mitigation (HM) Program</i> <i>83.548</i>	<i>Total</i>
<u>Award Amounts</u>				
Federal Share	\$ -	\$ 1,602,651	\$ 286,725	\$ 1,889,376
State Share	-	267,109	47,788	314,896
Local Share	-	267,109	47,788	314,896
Award Amount Subtotal	-	2,136,868	382,300	2,519,168
<u>Source of Funds</u>				
Federal Share	-	1,568,315	238,795	1,807,110
State Share	-	239,777	38,135	277,912
Local Share	-	256,752	38,750	295,502
Source of Funds Subtotal	-	2,064,844	315,680	2,380,524
<u>Application of Funds</u>				
Federal Share	-	1,540,512	232,499	1,773,011
State Share	-	239,777	38,135	277,912
Local Share	-	256,752	38,750	295,502
Application of Funds Subtotal	-	2,037,041	309,384	2,346,425
<u>Balance of Federal Funds on Hand</u>				
	\$ -	\$ 27,803	\$ 6,296	\$ 34,099

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A9

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1255 -- Landslide -- October 16, 1998

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i> <i>83.543</i>	<i>Public Assistance (PA) Program</i> <i>83.544</i>	<i>Hazard Mitigation (HM) Program</i> <i>83.548</i>	<i>Total</i>
<u>Award Amounts</u>				
Federal Share	\$ 234,000	\$ 4,478,795	\$ 844,215	\$ 5,557,010
State Share	39,000	746,466	140,703	926,168
Local Share	39,000	746,466	140,703	926,168
Award Amount Subtotal	312,000	5,971,727	1,125,620	7,409,347
<u>Source of Funds</u>				
Federal Share	204,173	3,762,922	844,215	4,811,310
State Share	45,020	584,587	134,158	763,765
Local Share	39,804	603,595	137,780	781,179
Source of Funds Subtotal	288,997	4,951,103	1,116,153	6,356,253
<u>Application of Funds</u>				
Federal Share	238,824	3,621,568	826,681	4,687,073
State Share	45,020	584,587	134,158	763,765
Local Share	39,804	603,595	137,780	781,179
Application of Funds Subtotal	323,649	4,809,749	1,098,619	6,232,017
<u>Balance of Federal Funds on Hand</u>				
	\$ (34,652)	\$ 141,354	\$ 17,534	\$ 124,236

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

Financial-Related Audit
 Disaster Assistance Grant Program Management
 State of Washington

Attachment A10

Schedule of Sources and Applications of Funds (Unaudited)
 State of Washington's Military Department's
 Emergency Management Division
 For the Period Ended September 30, 2001*

Disaster Number 1361 -- Nisqually Earthquake -- March 1, 2001

<i>Program Title</i> <i>CFDA No.</i>	<i>Individual and Family Grant (IFG) Program</i>	<i>Public Assistance (PA) Program</i>	<i>Hazard Mitigation (HM) Program</i>	<i>Total</i>
	83.543	83.544	83.548	
<u>Award Amounts</u>				
Federal Share	\$ 3,107,310	\$ 8,650,561	\$ -	\$ 11,757,871
State Share	517,885	1,441,760	-	1,959,645
Local Share	517,885	1,441,760	-	1,959,645
Award Amount Subtotal	4,143,080	11,534,081	-	15,677,161
<u>Source of Funds</u>				
Federal Share	2,142,434	1,774,034	-	3,916,468
State Share	465,271	234,559	-	699,829
Local Share	407,072	273,652	-	680,724
Source of Funds Subtotal	3,014,777	2,282,245	-	5,297,022
<u>Application of Funds</u>				
Federal Share	2,442,434	1,641,910	-	4,084,344
State Share	465,271	234,559	-	699,829
Local Share	407,072	273,652	-	680,724
Application of Funds Subtotal	3,314,777	2,150,120	-	5,464,897
<u>Balance of Federal Funds on Hand</u>				
	\$ (300,000)	\$ 132,124	\$ -	\$ (167,876)

* -- This is a summary of the sources and application of funds from declaration of the disaster through September 30, 2001.
 Note, amounts may not foot due to rounding to the nearest whole dollar.

B. Schedule of Questioned Costs

Project	Comment	Questioned Cost (Federal Share)
None		\$0

Financial-Related Audit
Disaster Assistance Grant Program Management
State of Washington

C. List of Other Audit Reports and Internal Control Reviews

Date of Report	Date of Review	Issued By	Title of Report
3/30/2001	7/1/1999 to 6/30/2000	State Auditor's Office	Fiscal Year Ended June 30, 2000 State of Washington Single Audit Report [Note 1]
11/17/2000	7/1/1998 to 06/30/2000	State Auditor's Office	Military Department Audit Period July 1, 1998 through June 30, 2000 Report No. 6181
6/4/1999	7/1/1997 to 06/30/1998	State Auditor's Office	Military Department Audit Period July 1, 1997 through June 30, 1998 Report No. 6040
2/6/1998	7/1/1996 to 06/30/1997	State Auditor's Office	Report No. 5863 Military Department Agency No. 245 July 1, 1996 through June 30, 1997
9/26/2000	Disasters Open as of October 31, 1998 and New Grants Awarded Before December 31, 1998	OIG	Performance Audit Report: Management of Federal Emergency Management Agency Disaster Grants Awarded under the Stafford Act State of Washington's Emergency Management Division Olympia, Washington Audit Report Number W-45-00
6/1/2002	Not Indicated	Region X	Disaster Grants Management Site Visit and Review Summary Report prepared by Robert Little
3/1/2001	Not Indicated	WMD Internal Audit	Internal Audit Report" RE: Documentation for Compensation for Personnel Services Charged to Federal Funds
7/25/2000	Not Indicated	WMD Internal Audit	Final Internal Audit Report" RE: Monitoring Sub recipient Activities
8/21/2001	7/1/2000 to 6/30/2001	WMD Internal Audit	Washington State Military Department SFY 2001 Internal Control Review and Risk Assessment [Note 2]
7/25/2000	7/1/1999 to 6/30/2000	WMD Internal Audit	Washington State Military Department SFY 2000 Internal Control Review and Risk Assessment
[Note 1] --	"Single Audits" for the fiscal years 1995/96, 1996/97, 1997/98, and 1998/99 were also reviewed but not listed here. The "Single Audit" includes an opinion on the grantee's financial statements, the Schedule of Federal Financial Assistance, and opinions on the grantee's system of internal accounting and administrative controls, and on compliance with laws and regulations, and federal program requirements.		
[Note 2] --	Internal control certifications, i.e. certifications made by the management of WMD were also reviewed for fiscal years 1995/96, 1996/97, 1997/98, and 1998/99, 1999/00, and 2000/01 were also reviewed but not listed here.		

D. Management Response

This attachment contains written management responses to KPMG's report. Responses are presented from FEMA Region X and from the State of Washington Emergency Management Division. Note that the EMD response includes references to attachments ("tabs") supporting its assertions. Those attachments have not been copied here in the interest of reducing the paperwork burden but are available in the archived KPMG work papers.