



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office-Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

February 4, 2004

MEMORANDUM

TO: Patricia G. Arcuri
Acting Regional Director, FEMA Region III

FROM: 
Gary Barard
Field Office Director

SUBJECT: Audit of the State of West Virginia
Administration of Disaster Assistance Funds
Audit Report No. DA-12-04

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

On July 29, 2003 your office responded to the draft report. Based upon your response, Findings A.3 and B.3 are closed and require no additional action. Finding B.2 is resolved, but requires an additional response describing actions taken to implement the recommendations. However, your response did not fully address the recommendations in Findings A.1, A.2 and B.1. Therefore, these findings remain unresolved pending an additional response from FEMA Region III.

Please advise the Atlanta Field Office-Audit Division by April 6, 2004 of the action taken. Should you have any questions, please contact George Peoples or me at (770) 220-5242.

Attachments



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February 4, 2004

Department of Homeland Security
Office of Inspector General
Washington, DC 20528

Leon Snead & Company, P.C. conducted an audit of the West Virginia Office of Emergency Services (Grantee) to assess its compliance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and applicable Federal regulations. The audit was conducted at the request of the Department of Homeland Security (DHS), Office of Inspector General.

The audit objectives were to determine if the Grantee administered grant programs in accordance with Federal regulations, and accounted for, reported and used FEMA program funds properly. We found that the Grantee needed to improve its procedures for: (1) managing administrative allowances; (2) performing financial management functions; (3) disbursing disaster funds; (4) documenting its internal controls and monitoring procedures; (5) preparing State Administrative Plans; and (6) ensuring subgrantees comply with Single Audit Act requirements.

The audit was performed under the authority of the Inspector General Act of 1978, as amended, and in accordance with generally accepted government auditing standards, the Office of Inspector General audit guide and 44 CFR. Although the audit report comments on certain financial related information, we did not perform a financial audit the purpose of which would be to render an opinion on financial statements. The scope of the audit consisted of financial and program activities for eight Presidential disaster declarations open as of September 30, 2001. We reviewed 239 Public Assistance, Hazard Mitigation and Individual and Family Grant projects or applicants with Federal share costs of about \$26 million.

An exit conference was held to discuss the findings and recommendations included in the report with officials from FEMA Region III on February 11, 2003, and the Grantee on February 13, 2003. We have included the written comments from Region III and the Grantee in Attachment B.

Leon Snead & Company, P.C. appreciates the cooperation and assistance received from the Grantee and FEMA personnel.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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I. EXECUTIVE SUMMARY

Leon Snead and Company, P.C. has completed an audit of disaster assistance grant programs administered by the West Virginia Office of Emergency Services (Grantee). The audit objectives were to determine if the Grantee administered FEMA grant programs in accordance with Federal regulations, and accounted for, reported and used program funds properly. This report focuses on the Grantee's systems and procedures for assuring that grant funds were managed, controlled, and expended in accordance with Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and applicable Federal regulations.

Our audit focused on eight disasters open as of September 30, 2001. These disasters had total obligations of about \$134 million (Federal share \$100.5 million), and total expenditures of about \$127 million (Federal share \$95.5 million). We reviewed 239 Public Assistance (PA), Hazard Mitigation (HM) and Individual and Family Grant (IFG) Program projects or applicants with a Federal share about \$26.4 million. We completed our fieldwork on September 12, 2002.

Our findings regarding financial and program management are summarized below, and discussed in detail in the Findings and Recommendations section of this report. Except for the findings contained in this audit report, nothing came to our attention during the audit that questioned the accuracy of information contained in the financial reports submitted to FEMA.

Financial Management

- The Grantee was not fully complying with the most recent FEMA guidance regarding administrative allowances.
- The Grantee's internal procedures regarding drawdowns, making disbursements to subgrantees, and reconciling drawdowns and actual expenditures needed strengthening.
- The Grantee did not document or evaluate its internal and management control systems to ensure that all system requirements were included and the personnel responsible for each control function was identified.

Program Management

- State Administrative Plans were not prepared in accordance with applicable requirements.

- Project files did not include sufficient evidence to support appropriate project monitoring.
- Procedures for ensuring Single Audits are performed of subgrantees had not been established.

II. INTRODUCTION

WEST VIRGINIA OFFICE OF EMERGENCY SERVICES

The West Virginia Office of Emergency Services (Grantee) is an office within the Department of Military Affairs and Public Safety. Its mission is to protect life and property, and is responsible for managing and administering disaster relief for West Virginia. Grantee operations are managed in accordance with the West Virginia Emergency Operations Plan (EOP), which provides state-level emergency operations in response to disasters affecting West Virginia.

The Director is appointed by the Governor of West Virginia. As of September 12, 2002, the Grantee was authorized 34 permanent employees of which 29 were actually on-board, and included four divisions: Administrative Support Services; Operations; Mitigation/Recovery; and Technical Hazards.

Our audit concentrated on the PA, HM, and IFG Programs. Four permanent employees managed these programs on a daily basis. Other Grantee employees assisted in carrying out emergency functions during disasters.

THE DISASTER ASSISTANCE PROGRAMS

The Robert T. Stafford Disaster Relief and Emergency Assistance Act governs disasters declared by the President. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to the state, as the grantee, and to state agencies, local governments, eligible private nonprofit organizations, Indian Tribes, and Alaska Native Villages as subgrantees. The Code of Federal Regulations (44 CFR) provides further guidance on the requirements for and administration of disaster relief grants. On October 30, 2000, the President signed the Stafford Act amendments into law (Public Law 106-390). The amendments are effective only for disasters declared after October 2000.

Public Assistance Grants

Public Assistance Grants are awarded for the repair or replacement of facilities, removal of debris, and emergency protective measures necessary as a result of a disaster. To receive a public assistance grant, a designated representative of the organization must sign a Notice of Interest. After the applicant completes the Notice of Interest, FEMA schedules an inspection of the damaged facilities. Inspection teams consist of FEMA, state, and local officials. The inspection team prepares a Project Worksheet (PW), formally called a Disaster Survey Report (DSR), identifying the eligible scope of work and estimated costs. PWs are sent to FEMA for review and approval. FEMA approval serves as the basis for obligating Public Assistance Grant funds.

Hazard Mitigation Grants

Hazard Mitigation Grants are awarded to states to help reduce the potential of future damage to facilities. The State must submit a letter of intent to participate in the program, and subgrantees must submit a hazard mitigation grant proposal. The State is responsible for setting priorities for selecting specific projects, but final approval must come from FEMA. FEMA also approves sub grants for local governments, eligible private non-profit organizations, Indian Tribes, and Alaska Native Villages. The amount of assistance available under this program must not exceed 20 percent of the total assistance provided under the other assistance programs.

Individual Assistance Grants

Individual and Family Grants are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related necessary expenses and needs. To obtain assistance under this grant, the Governor of the State must express intent to implement the program. This expressed intent includes an estimate of the size and cost of the program. The grantee is responsible for monitoring the program to ensure the objectives and requirements are met. FEMA provides an administrative fee to the grantee for administrative costs that cannot exceed 5 percent of the Federal grant program payments.

Administrative Funds

Administrative funds provided to the grantee before October 30, 2000, could consist of three types of assistance to cover the costs of overseeing the Public Assistance and Hazard Mitigation Grant Programs. First, an administrative allowance was provided to cover "extraordinary" costs directly associated with managing the program, such as overtime 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 administering the programs. Third, FEMA could award an administrative allowance for activities indirectly associated with the administration of the programs.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The Office of Inspector General (OIG) engaged Leon Snead & Company, P.C. to determine if West Virginia (1) administered the FEMA Disaster Assistance Grant Programs according to Federal regulations, and (2) accounted for, reported and used FEMA program funds properly.

SCOPE

This audit included reviewing financial and program activities for the PA, HM and IFG programs. The universe subject to audit included 8 declared disasters in which about \$134 million (Federal share \$100.5 million) were controlled by the Grantee (See Attachment A). The cut-off date for the audit was September 30, 2001. The specific disasters open as of September 30, 2001 are as follows:

<u>Disaster Number</u>	<u>Disaster Type</u>	<u>Date Declared</u>	<u>Assistance Provided</u>
1096*	Flooding	01/25/96	PA, HM, IFG
1115*	Flooding & Heavy Rains	05/23/96	PA, HM, IFG
1132*	Heavy Rains, High Winds, Flooding & Slides	08/14/96	PA, HM, IFG
1137*	Hurricane, Heavy Rains, High Winds, Flooding & Slides	09/11/96	PA, HM, IFG
1168*	Heavy Rains, High Winds, Flooding & Slides	03/07/97	PA, HM, IFG
1229 *	Severe Storms, Flooding & Tornadoes	07/01/98	PA, HM, IFG
1319*	Severe Storms, Flooding & Landslides	02/28/00	PA, HM, IFG
1378*	Severe Storms, Flooding & Landslides	06/03/01	PA, HM, IFG
Footnote *	Disasters included in our tests.		

The eight disasters included in our audit scope had obligations of about \$134 million (Federal share \$100.5 million), and total expenditures of about \$127 million (Federal share \$95.5 million). We tested 139 PA projects in 4 disasters, 25 HM projects in 7 disasters, and 75 IFG applicants in 2 disasters with a total Federal share of about \$26.4 million.

The audit included the functional areas of financial and program management. Emphasis was placed on current Grantee procedures and practices for program administration and oversight. Our fieldwork was conducted from July 23, 2002 through September 12, 2002.

METHODOLOGY

The audit was performed under the authority of the Inspector General Act of 1978, as amended, and in accordance with generally accepted government auditing standards as prescribed by the Comptroller General of the United States (Yellow Book-1994 Revision), the Office of Inspector General Audit Guide and 44 CFR.

We interviewed key officials and reviewed documents at the FEMA Region III office in Philadelphia, Pennsylvania, to understand how the region oversees disaster programs in West Virginia. The audit was conducted at the Grantee's office in Charleston, West Virginia. We conducted interviews and reviewed documents to gain an understanding of the Grantee's organizational structure and basic procedures for managing disaster assistance grant programs.

We selected and tested records of individual recipients and representative projects to determine whether disaster assistance projects and programs had been conducted in compliance with applicable regulations.

We focused on evaluating the Grantee's systems and procedures and identifying systemic causes of internal control weaknesses or noncompliance situations. We reviewed the program management process, including application, approval, monitoring and reporting. Our financial management review included policies and procedures relating to cash management, cost matching, disbursing and reporting. We also evaluated compliance with the standards for financial management systems set forth in 44 CFR 13.20, and reviewed Single Audits performed by the State Auditor.

We were not engaged to, and did not, perform a financial statement audit, the objective of which would have been the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters within the audit scope. Had we performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified and does not extend to any Grantee or State of West Virginia financial statements. The audit also did not include interviews with subgrantees, or technical evaluations of repairs of damages caused by disasters.

IV. FINDINGS AND RECOMMENDATIONS

We found that the Grantee needed to improve its procedures for: (1) managing administrative allowances; (2) performing financial management functions; (3) disbursing disaster funds; (4) documenting its internal controls and monitoring procedures; (5) preparing State Administrative Plans; and (6) ensuring subgrantees complied with Single Audit Act requirements. Except for the findings contained in this audit report, nothing came to our attention during the audit that questioned the accuracy of the information contained in the financial reports submitted to FEMA.

A. FINANCIAL MANAGEMENT

A.1 Statutory Administrative Allowances

Sufficient records were not available to fully support the statutory administrative allowances paid to the Grantee. This condition occurred because Grantee officials were not aware of the most current FEMA policy clarification regarding the use of and record keeping for administrative allowances.

For PA and HM projects, FEMA provides grantees an allowance for extraordinary costs incurred during a disaster. Eligible costs include overtime pay and travel costs, but do not include regular time pay for state employees {44 CFR 206.228(a)(2) and 44 CFR 206.439(a)(1)}. These regulations also provide that FEMA will pay subgrantees necessary costs for requesting, obtaining and administering federal assistance programs.

In a July 1, 2002, memorandum FEMA clarified its existing policy on the use of grantee and subgrantee administrative allowances. This memorandum stated: (1) grantees and subgrantees must maintain records of how administrative funds were spent; (2) records documenting expenditures were subject to audit; and (3) any surplus administrative funds must be returned to FEMA. FEMA Headquarters and Region III officials informed us that the July 1, 2002, memorandum restated long-standing requirements for the PA and HM programs that were intended to apply to all federal disasters.

We reviewed the "Account Status Report" for July 31, 2002, from the states' accounting system. Although this report did not segregate administrative funds by program, it showed the total amount of administrative funds that were on-hand for each disaster. Our review of the report showed that the Grantee had approximately \$360,000 of unused administrative funds for the eight disasters that were open as of September 30, 2001.

These disasters and the amount of unspent administrative funds were as follows:

Disaster Number	Amount
1096	\$51,952
1115	13,594
1132	3,139
1137	30,913
1168	11,590
1229	95,254
1319	44,421
1378	111,503
Total	\$362,366

Grantee officials informed us that they were not aware of the current records keeping requirements for administrative allowances until we provided them the July 1, 2002, FEMA memorandum. They believed, based on their previous discussions with FEMA officials, that administrative allowances were considered “block grants”, and therefore, these funds could be retained and used in the future for various emergency-related needs.

Conclusions and Recommendations

Sufficient records were not available to support the administrative allowances paid to the Grantee. If additional records cannot be identified to support the expenditure of allowable costs for each open disaster, the Grantee must return the unused funds to FEMA.

The Director, FEMA Region III should ensure the Grantee:

1. Documents and maintains sufficient records, by program and disaster, to support that allowable costs have been incurred in amounts equal to or greater than the administrative allowances paid.
2. In coordination with Region III program officials, reviews any unused administrative funds, and if appropriate, return unneeded funds to FEMA.

Management Response and Auditor's Analysis

The Grantee responded that adequate documentation was maintained to support the expenditure of statutory administrative allowances; administrative allowances have been properly treated as block grants; and the allowances were used to support various emergency-related needs. The Grantee further stated that after receiving the July 1, 2002, FEMA memorandum on the use and record keeping requirements for administrative allowances, accounting and expenditure

procedures were revised to incorporate this guidance. Since that time, administrative allowances were only expended for extraordinary costs incurred during a specific disaster, and records were segregated by program area. Finally, the Grantee stated that all administrative allowances prior to September 30, 2002, were properly handled and no funds should be returned to FEMA.

For the PA program, the Acting Director, FEMA Region III stated that the Grantee would be directed to provide all available documentation and billings relating to the use of administrative allowances. The Director further stated that if adequate supporting documentation is available the "block grant" argument presented by the Grantee could be supported. Regarding the HM program, the Director stated that since 1996 the Grantee had been informed of the appropriate use of administrative allowances, and the July 1, 2002, guidance did not establish new or additional requirements. This memorandum provided an opportunity to clearly specify that surplus administrative funds must be returned to FEMA, and Grantees could not retain unspent funds and use them for other purposes.

Management's planned actions to obtain and review supporting documentation for the use of statutory administrative allowances under the PA program are adequate to resolve the condition. This should also be done for the HM program to facilitate resolution of the finding. The finding cannot be closed until these actions have been completed and unused funds, if any, are returned to FEMA.

A.2 Financial Management Controls

The Grantee did not have the expenditure data needed to reconcile drawdowns and expenditures for the IFG program, and apparently drew down funds against the wrong program (for PA and HM). As a result, drawdowns and actual expenditures for the PA, HM and IFG programs under certain disasters were "out-of-balance". In addition, expenditures for a HM project exceeded the authorized amount by approximately \$67,500 and over \$1 million was disbursed to a subgrantee before the funds were actually needed. We attributed these conditions to staff shortages and the high workload associated with recent disasters.

Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub grant. Accounting records must be supported by source documentation, such as cancelled checks, paid bills and payroll records, and grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for disaster assistance (44 CFR 13.20). In addition, payment procedures should minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. (44 CFR 13.21)

The Grantee performed quarterly reconciliations of its actual expenditures with drawdowns from the Federal letter-of-credit system, SMARTLINK. The purpose of these reconciliations was to determine whether Grantee expenditures were the same as the amount of funds drawn down from the SMARTLINK system. The Grantee made disbursements on the same days that funds were drawn down from SMARTLINK; consequently, drawdowns and expenditures should agree. However, our review of SMARTLINK drawdowns and Grantee expenditures revealed the following out-of-balance conditions as of June 30, 2002:

<u>Disaster</u>	<u>Program</u>	SMARTLINK Drawdowns	Grantee Expenditures	<u>Difference</u>
1378	PA	\$24,765,086	\$25,112,725	\$347,639
1378	IFG	14,265,314	13,944,325	320,989
1229	HM	1,966,085	2,033,208	67,123
1229	PA	6,645,774	6,578,651	67,123
1132	IFG	975,320	975,043	277
1319	IFG	965,528	995,836	30,308

The discrepancies shown above were attributed to the following factors.

- For Disasters 1378, 1132 and 1319 (IFG program), the West Virginia Department of Health and Human Resources (DHHR) was responsible for administering the IFG program. At DHHR's request, the Grantee drew down the necessary funds from the SMARTLINK system and transferred the funds to DHHR. DHHR then disbursed the funds to eligible recipients. DHHR, however, was not providing disbursement data to the Grantee. Consequently, the Grantee could not reconcile drawdowns and expenditures for the IFG program.
- For Disaster 1229, \$67,123 for HM program expenditures was erroneously drawn down against the PA program.
- For Disaster 1378 (PA program), the Grantee had not completed its research efforts to resolve the differences at the completion of our fieldwork.

The Grantee disbursed \$1,086,839 to a HM subgrantee prior to the time the subgrantee needed the funds. A property acquisition project for Fayette County was approved on July 23, 2002. The subgrantee estimated that the project would be completed by January 2004. The project plan showed that the subgrantee would begin making property acquisitions between six to nine months after project approval. Nevertheless, \$1,086,839 was disbursed to Fayette County on

August 1, 2002, approximately six months before the subgrantee estimated it would begin making project acquisitions.

Funds for Disaster 1096 for the HM program were overdrawn by \$67,586. The Grantee had drawn down \$6,026,777, but the total amount of funds authorized was \$5,959,191. FEMA Region III was working with the Grantee to resolve the issue and make the necessary adjustments.

Conclusions and Recommendations

Although the Grantee had implemented internal control procedures for financial management functions, these controls needed to be further strengthened. Additional control procedures were needed to ensure actual expenditure data is used for financial management reports for the IFG program; drawdowns of program funds do not exceed the authorized amount; funds are not disbursed to subgrantees before they are needed; and "out-of-balance" conditions between drawdowns and actual expenditures are resolved as soon as possible.

The Director, FEMA Region III should direct the Grantee to:

1. Obtain actual disbursement data from DHHR and utilize this information when preparing and reconciling financial reports.
2. Establish appropriate procedures to ensure drawdowns do not exceed authorized amounts.
3. Develop procedures to minimize the time elapsing between the transfer of funds and disbursement by subgrantees.
4. Ensure effective procedures are established to promptly resolve out-of-balance conditions between drawdowns and actual expenditures

Management Response and Auditor's Analysis

The Grantee responded that a system was implemented to obtain disbursement data from DHHR. In addition, the Grantee stated that every account for the eight open disasters included in our review were audited and reconciled, and controls were established to ensure accounts are balanced on a monthly basis. The Acting Director, Region III stated that the Region has reviewed the Grantee's written policy addressing these issues.

Management's actions are adequate to resolve and close recommendations 1, 2 and 4. However, the Region's response did not address recommendation 3 regarding procedures to minimize the time elapsing between the transfer of

funds and disbursement by subgrantees. The finding remains unresolved, pending the Region's response to recommendation 3.

A.3 Internal Control System Documentation

The Grantee did not document and evaluate the internal and management control systems to ensure that its controls were adequate and being followed. We attributed this condition to a shortage of staff, and the workload associated with several recent disasters.

Effective control and accountability must be maintained for all grantee and subgrantee cash, real and personal property and other assets {44 CFR 13.20 (a)(3)}. Good internal control management procedures also require that systems be documented and evaluated to ensure all control procedures are followed and the personnel responsible for each control function are identified.

Grantee officials were knowledgeable of operational procedures and controls, and they recognized the need to document existing control systems. These control procedures, however, had not been documented into an operations manual, and were not periodically evaluated to determine their effectiveness.

We did not identify any material internal control weaknesses. We noted, however, that the transition for new Grantee personnel was made more difficult due to the lack of operational and internal control documentation.

Conclusions and Recommendations

The Grantee needs to document its internal and management control systems to ensure all system requirements are included and the personnel responsible for each control function are identified. Periodic evaluations of the control system should also be performed.

The Director, FEMA Region III, should request the Grantee to prepare written procedures describing its internal and management control systems, and to periodically evaluate the effectiveness of these control systems.

Management Response and Auditor's Analysis

The Grantee responded that a written policy on all internal and management control systems was developed and all personnel responsible for each control function was identified. Regional officials reviewed and evaluated the policy and determined that it adequately addressed the finding.

The actions taken by management are adequate to resolve the condition, and the finding is closed.

B. PROGRAM MANAGEMENT

B.1 State Administrative Plans

The State Administrative Plans for the HM and PA programs did not include all required elements. The IFG Administrative Plan did not include sufficient guidance for reconsidering recipient benefits. The Grantee needs to ensure current and future Administrative Plans are prepared in accordance with existing requirements, and the Plans include specific procedures for performing essential program activities and functions.

State Administrative Plans for the HM, PA and IFG programs must include certain elements, including specific procedures for performing essential program functions and activities (44 CFR 206.437; 44 CFR 206.207; and 44 CFR 206.131). The HM Desk Reference provides additional requirements for HM Administrative Plans (HM Desk Reference, Section 2, pages 7 through 13).

We compared the current Administrative Plans for the HM, PA and IFG programs with applicable preparation requirements. Our comparison determined that:

1. The HM plan did not include procedures for: (a) conducting environmental and flood plain reviews; (b) establishing priorities for selecting mitigation projects; (c) monitoring and evaluating mitigation projects; (d) providing technical assistance to subgrantees; and (e) conducting cost/benefit analyses.
2. The PA Administrative Plan did not include procedures for determining staffing and budgeting requirements for program management.
3. The IFG Administrative Plan did not include sufficient procedures for reviewing and processing reconsiderations of recipient benefits. The IFG Plan addressed recipient reconsiderations, but the Plan did not include adequate guidelines for reviewing, approving and documenting reconsiderations.

Although the current Administrative Plans did not include the procedures identified above, we did not identify specific instances in which the required functions were not being performed.

Conclusions and Recommendations

The current State Administrative Plans for the HM, PA and IFG programs were not prepared in accordance with applicable requirements. Without complete Administrative Plans, FEMA might not be aware of changes in conditions affecting the management of disaster assistance programs.

The Director, FEMA Region III should ensure that future administrative plans for the HM, PA and IFG programs include all required elements.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III responded that the Grantee revised its Administrative Plan for the Individuals and Households Program (formerly the IFG program) for Disaster 1474, to include procedures for reviewing and processing considerations. The Director also confirmed that the PA State Administrative Plan for Disaster 1455 was revised to include a staffing plan. In addition, the Director responded that a revised HM State Administrative Plan was provided to the Region III Hazard Mitigation Officer on July 15, 2003. The Plan included procedures for conducting environmental and flood plain reviews; monitoring and evaluating mitigation projects; providing technical assistance to subgrantees; and conducting cost/benefit analyses. However, the Director did not comment on the need to have procedures established in the plan for selecting mitigation projects.

Accordingly, the recommendation remains unresolved pending a response from the Region regarding this issue.

B.2 Subgrantee Monitoring

Project files did not include sufficient evidence to support adequate project monitoring. Consequently, FEMA could not be assured that complete and accurate project status information was reported. We attributed this condition to staff shortages and insufficient documentation of subgrantee monitoring activities.

Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantee monitoring must cover each program, function and activity (44 CFR 13.40). Effective procedures and practices for project monitoring are essential for establishing a good internal control system.

The Grantee required HM and PA subgrantees to prepare and submit quarterly status reports for ongoing projects. Our review of HM and PA project files and discussions with program managers, however, revealed that:

- No procedures had been established to monitor the receipt of subgrantee status reports for HM projects. No methodology or

process had been developed to (a) identify when status reports were required from individual subgrantees; (b) determine if and when status reports were received; and (c) assess the accuracy and completeness of status reports.

- Although PA subgrantees were required to provide quarterly project status reports for small and large projects, many PA project files did not include status reports. If a subgrantee did not submit a project status report, the PA Officer stated that she telephoned the subgrantee and obtained the needed information verbally. This verbal information was not documented in the project files.

Conclusions and Recommendations

HM and PA project files did not include adequate documentation of significant events and activities relating to ongoing projects. Project file documentation needs to be improved to ensure effective monitoring of subgrantees.

The Director, FEMA Region III should ensure the Grantee:

1. Develops and implements appropriate procedures for monitoring the receipt of quarterly status reports for HM projects.
2. Documents quarterly project status data received from PA subgrantees.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III responded that the State's response to monitoring PA applicants was not sufficient. Therefore, Region III officials will work with the Grantee to develop a regular project status reporting format for PA applicants. For the HM program, the Grantee responded that a system to track subgrantee reporting was instituted, and Project Officers were instructed on how to review the accuracy of quarterly project reports. The Director responded that the State's actions regarding the HM program were adequate.

Management's actions are adequate to resolve the conditions, but the finding cannot be closed until an acceptable reporting format for PA applicants has been established.

B.3 Single Audit Act Compliance

The Grantee had not established procedures for ensuring that subgrantees fully complied with Single Audit Act requirements. Consequently, single audits of subgrantees may not have been performed when required.

Subgrantee audits must be performed in accordance with Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations." OMB Circular A-133 requires grantees to: (1) identify the amount of federal funds awarded to subgrantees; (2) advise subgrantees of federal audit requirements; (3) ensure audits of subgrantees that expended \$300,000 or more of federal funds in a fiscal year are performed; (4) issue management decisions on audit findings within six months after receipt of the audit; and (5) consider whether subgrantee audits require adjusting grantee records (44 CFR 13.26).

The Grantee did not maintain information regarding the amount of federal funds provided to subgrantees. Consequently, subgrantees that expended \$300,000 or more of federal funds in a fiscal year could not be identified, and the Grantee could not ensure single audits were performed when required. Furthermore, the West Virginia Single Audit for the year ended June 30, 2001, reported that the State had not complied with regulations concerning subgrantee audits.

Conclusions and Recommendations

The Grantee did not maintain information on the amount of federal funds awarded to subgrantees, and internal procedures for ensuring subgrantees complied with Single Audit Act requirements had not been implemented. As a result, Single Audits of subgrantees may not have been performed when required.

The Director, FEMA Region III should require the Grantee to establish and implement appropriate procedures for ensuring subgrantee audits are performed in accordance with 44 CFR and OMB requirements.

Management Response and Auditor's Analysis

The Grantee responded that a system was being developed to ensure Single Audits of subgrantees are conducted when required. The Acting Director, FEMA Region III confirmed that an adequate process was developed and has directed the Grantee to implement the process by incorporating it into their official policies and procedures.

Management's actions are adequate to resolve the condition, and the finding is resolved and closed.

V. ATTACHMENTS

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A

As of September 30, 2001

All Disasters Numbers 1096 through 1378
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	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$63,774,859	\$20,093,074	\$16,641,088	\$100,509,021
Local Match/State Share	<u>\$21,258,286</u>	<u>\$6,697,691</u>	<u>\$5,547,029</u>	<u>\$33,503,006</u>
Total Award Amount	<u>\$85,033,145</u>	<u>\$26,790,765</u>	<u>\$22,188,117</u>	<u>\$134,012,027</u>
 <u>Source of Funds</u>				
Federal Share	\$60,890,479	\$20,029,184	\$14,598,614	\$95,518,277
Local Match/State Share	<u>\$20,296,827</u>	<u>\$6,676,393</u>	<u>\$4,866,206</u>	<u>\$31,839,426</u>
Total Source of Funds	<u>\$81,187,306</u>	<u>\$26,705,577</u>	<u>\$19,464,820</u>	<u>\$127,357,703</u>
 <u>Application of Funds</u>				
Federal Share	\$61,102,164	\$19,686,354	\$14,667,744	\$95,456,262
Local Match/State Share	<u>\$20,367,389</u>	<u>\$6,545,005</u>	<u>\$4,888,912</u>	<u>\$31,801,306</u>
Total Application of Funds	<u>\$81,469,553</u>	<u>\$26,231,359</u>	<u>\$19,556,656</u>	<u>\$127,257,568</u>
 <u>Balance of Federal Funds On Hand</u>				
	<u>-\$282,247</u>	<u>\$474,218</u>	<u>-\$91,836</u>	<u>\$100,135</u>

Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs

Attachment-1

As of September 30, 2001

Disaster Number 1096 - Declaration Date January 25, 1996 - Flooding
--

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$21,695,688	\$2,753,565	\$5,989,392	\$30,438,645
Local Match/State Share	\$7,231,896	\$917,855	\$1,996,464	\$10,146,215
Total Award Amount	\$28,927,584	\$3,671,420	\$7,985,856	\$40,584,860
<u>Source of Funds</u>				
Federal Share	\$21,577,922	\$2,753,599	\$5,888,573	\$30,220,094
Local Match/State Share	\$7,192,641	\$917,866	\$1,962,858	\$10,073,365
Total Source of Funds	\$28,770,563	\$3,671,465	\$7,851,431	\$40,293,459
<u>Application of Funds</u>				
Federal Share	\$21,577,922	\$2,753,599	\$5,890,580	\$30,222,101
Local Match/State Share	\$7,192,641	\$917,866	\$1,963,527	\$10,074,034
Total Application of Funds	\$28,770,563	\$3,671,465	\$7,854,107	\$40,296,135
<u>Balance of Federal Funds On Hand</u>				
	\$0	\$0	-\$2,676	-\$2,676

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-2

As of September 30, 2001

Disaster Number 1115 - Declaration Date May 23, 1996 - Flooding
--

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$5,349,476	\$1,523,148	\$1,982,319	\$8,854,943
Local Match/State Share	\$1,783,159	\$507,716	\$660,773	\$2,951,648
Total Award Amount	\$7,132,635	\$2,030,864	\$2,643,092	\$11,806,591
<u>Source of Funds</u>				
Federal Share	\$5,349,476	\$1,523,148	\$1,930,814	\$8,803,438
Local Match/State Share	\$1,783,159	\$507,716	\$643,605	\$2,934,480
Total Source of Funds	\$7,132,635	\$2,030,864	\$2,574,419	\$11,737,918
<u>Application of Funds</u>				
Federal Share	\$5,349,476	\$1,523,148	\$1,930,814	\$8,803,438
Local Match/State Share	\$1,783,159	\$507,716	\$643,605	\$2,934,480
Total Application of Funds	\$7,132,635	\$2,030,864	\$2,574,419	\$11,737,918
<u>Balance of Federal Funds On Hand</u>				
	\$0	\$0	\$0	\$0

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-3

As of September 30, 2001

Disaster Number 1132 - Declaration Date August 14, 1996 - Flooding

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$1,567,717	\$379,639	\$631,471	\$2,578,827
Local Match/State Share	<u>\$522,572</u>	<u>\$126,546</u>	<u>\$210,490</u>	<u>\$859,608</u>
Total Award Amount	<u>\$2,090,289</u>	<u>\$506,185</u>	<u>\$841,961</u>	<u>\$3,438,435</u>
<u>Source of Funds</u>				
Federal Share	\$1,567,717	\$379,639	\$632,013	\$2,579,369
Local Match/State Share	<u>\$522,572</u>	<u>\$126,546</u>	<u>\$210,671</u>	<u>\$859,789</u>
Total Source of Funds	<u>\$2,090,289</u>	<u>\$506,185</u>	<u>\$842,684</u>	<u>\$3,439,158</u>
<u>Application of Funds</u>				
Federal Share	\$1,567,717	\$379,639	\$632,013	\$2,579,369
Local Match/State Share	<u>\$522,572</u>	<u>\$126,546</u>	<u>\$210,334</u>	<u>\$859,452</u>
Total Application of Funds	<u>\$2,090,289</u>	<u>\$506,185</u>	<u>\$842,347</u>	<u>\$3,438,821</u>
<u>Balance of Federal Funds On Hand</u>				
	<u>\$0</u>	<u>\$0</u>	<u>\$337</u>	<u>\$337</u>

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-4

As of September 30, 2001

Disaster Number 1137 - Declaration Date September 11, 1996 - Hurricane

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$11,399,790	\$731,133	\$2,069,837	\$14,200,760
Local Match/State Share	<u>\$3,799,930</u>	<u>\$243,711</u>	<u>\$689,946</u>	<u>\$4,733,587</u>
Total Award Amount	<u>\$15,199,720</u>	<u>\$974,844</u>	<u>\$2,759,783</u>	<u>\$18,934,347</u>
<u>Source of Funds</u>				
Federal Share	\$11,399,790	\$731,490	\$2,046,441	\$14,177,721
Local Match/State Share	<u>\$3,799,930</u>	<u>\$243,830</u>	<u>\$682,147</u>	<u>\$4,725,907</u>
Total Source of Funds	<u>\$15,199,720</u>	<u>\$975,320</u>	<u>\$2,728,588</u>	<u>\$18,903,628</u>
<u>Application of Funds</u>				
Federal Share	\$11,399,790	\$731,282	\$2,046,441	\$14,177,513
Local Match/State Share	<u>\$3,799,930</u>	<u>\$243,761</u>	<u>\$682,147</u>	<u>\$4,725,838</u>
Total Application of Funds	<u>\$15,199,720</u>	<u>\$975,043</u>	<u>\$2,728,588</u>	<u>\$18,903,351</u>
<u>Balance of Federal Funds On Hand</u>				
	<u>\$0</u>	<u>\$277</u>	<u>\$0</u>	<u>\$277</u>

Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs

Attachment A-5

As of September 30, 2001

Disaster Number 1168 - Declaration Date March 7, 1997 - Flooding

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$4,900,885	\$2,041,971	\$2,708,845	\$9,651,701
Local Match/State Share	<u>\$1,633,628</u>	<u>\$680,657</u>	<u>\$902,948</u>	<u>\$3,217,233</u>
Total Award Amount	<u>\$6,534,513</u>	<u>\$2,722,628</u>	<u>\$3,611,793</u>	<u>\$12,868,934</u>
<u>Source of Funds</u>				
Federal Share	\$4,900,885	\$2,042,050	\$2,398,403	\$9,341,338
Local Match/State Share	<u>\$1,633,628</u>	<u>\$680,683</u>	<u>\$799,468</u>	<u>\$3,113,779</u>
Total Source of Funds	<u>\$6,534,513</u>	<u>\$2,722,733</u>	<u>\$3,197,871</u>	<u>\$12,455,117</u>
<u>Application of Funds</u>				
Federal Share	\$4,900,885	\$2,042,050	\$2,398,403	\$9,341,338
Local Match/State Share	<u>\$1,633,628</u>	<u>\$680,683</u>	<u>\$799,468</u>	<u>\$3,113,779</u>
Total Application of Funds	<u>\$6,534,513</u>	<u>\$2,722,733</u>	<u>\$3,197,871</u>	<u>\$12,455,117</u>
<u>Balance of Federal Funds On Hand</u>				
	\$0	\$0	\$0	\$0

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-6

As of September 30, 2001

Disaster Number 1229 - Declaration Date July 1, 1998 - Flooding				
	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$6,557,319	\$2,098,618	\$1,969,318	\$10,625,255
Local Match/State Share	<u>\$2,185,773</u>	<u>\$699,539</u>	<u>\$656,439</u>	<u>\$3,541,751</u>
Total Award Amount	<u>\$8,743,092</u>	<u>\$2,798,157</u>	<u>\$2,625,757</u>	<u>\$14,167,006</u>
<u>Source of Funds</u>				
Federal Share	\$6,079,175	\$2,098,618	\$1,682,642	\$9,860,435
Local Match/State Share	<u>\$2,026,392</u>	<u>\$699,539</u>	<u>\$560,881</u>	<u>\$3,286,812</u>
Total Source of Funds	<u>\$8,105,567</u>	<u>\$2,798,157</u>	<u>\$2,243,523</u>	<u>\$13,147,247</u>
<u>Application of Funds</u>				
Federal Share	\$6,012,052	\$2,098,618	\$1,749,765	\$9,860,435
Local Match/State Share	<u>\$2,004,018</u>	<u>\$682,427</u>	<u>\$583,255</u>	<u>\$3,269,700</u>
Total Application of Funds	<u>\$8,016,070</u>	<u>\$2,781,045</u>	<u>\$2,333,020</u>	<u>\$13,130,135</u>
<u>Balance of Federal Funds On Hand</u>				
	<u>\$89,497</u>	<u>\$17,112</u>	<u>-\$89,497</u>	<u>\$17,112</u>

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-7

As of September 30, 2001

Disaster Number 1319 - Declaration Date February 28, 2000 - Flooding

	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$5,136,709	\$800,000	\$1,289,906	\$7,226,615
Local Match/State Share	<u>\$1,712,236</u>	<u>\$266,667</u>	<u>\$429,969</u>	<u>\$2,408,872</u>
Total Award Amount	<u>\$6,848,945</u>	<u>\$1,066,667</u>	<u>\$1,719,875</u>	<u>\$9,635,487</u>
<u>Source of Funds</u>				
Federal Share	\$4,660,232	\$735,640	\$19,728	\$5,415,600
Local Match/State Share	<u>\$1,553,411</u>	<u>\$245,213</u>	<u>\$6,576</u>	<u>\$1,805,200</u>
Total Source of Funds	<u>\$6,213,643</u>	<u>\$980,853</u>	<u>\$26,304</u>	<u>\$7,220,800</u>
<u>Application of Funds</u>				
Federal Share	\$4,660,232	\$735,640	\$19,728	\$5,415,600
Local Match/State Share	<u>\$1,553,411</u>	<u>\$245,213</u>	<u>\$6,576</u>	<u>\$1,805,200</u>
Total Application of Funds	<u>\$6,213,643</u>	<u>\$980,853</u>	<u>\$26,304</u>	<u>\$7,220,800</u>
<u>Balance of Federal Funds On Hand</u>				
	\$0	\$0	\$0	\$0

**Schedule of Source and Application of Funds
West Virginia Office of Emergency Services
Disaster Assistance Grant Programs**

Attachment A-8

As of September 30, 2001

Disaster Number 1378 - Declaration Date June 3, 2001 - Flooding				
	Public Assistance Grants	Individual & Family Grants	Hazard Mitigation Grants	Total Disaster Grants
<u>Award Amounts</u>				
Federal Share	\$7,167,275	\$9,765,000	\$0	\$16,932,275
Local Match/State Share	<u>\$2,389,092</u>	<u>\$3,255,000</u>	<u>\$0</u>	<u>\$5,644,092</u>
Total Award Amount	<u>\$9,556,367</u>	<u>\$13,020,000</u>	<u>\$0</u>	<u>\$22,576,367</u>
<u>Source of Funds</u>				
Federal Share	\$5,355,282	\$9,765,000	\$0	\$15,120,282
Local Match/State Share	<u>\$1,785,094</u>	<u>\$3,255,000</u>	<u>\$0</u>	<u>\$5,040,094</u>
Total Source of Funds	<u>\$7,140,376</u>	<u>\$13,020,000</u>	<u>\$0</u>	<u>\$20,160,376</u>
<u>Application of Funds</u>				
Federal Share	\$5,634,090	\$9,422,378	\$0	\$15,056,468
Local Match/State Share	<u>\$1,878,030</u>	<u>\$3,140,793</u>	<u>\$0</u>	<u>\$5,018,823</u>
Total Application of Funds	<u>\$7,512,120</u>	<u>\$12,563,171</u>	<u>\$0</u>	<u>\$20,075,291</u>
<u>Balance of Federal Funds On Hand</u>				
	<u>-\$371,744</u>	<u>\$456,829</u>	<u>\$0</u>	<u>\$85,085</u>

Attachment B

**WEST VIRGINIA OFFICE OF EMERGENCY SERVICES
COPY OF MANAGEMENT COMMENTS**

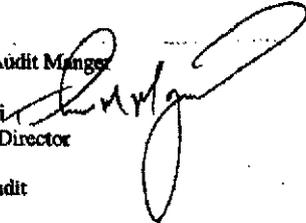


Federal Emergency Management Agency

Region III
One Independence Mall, Sixth Floor
615 Chestnut Street
Philadelphia, PA 19106-4404

ARP

AUG 14 2003

MEMORANDUM FOR: Gary J. Barard
Eastern District Audit ManagerFROM: *for* Patricia G. Arcuri 
Acting Regional Director

SUBJECT: West Virginia Audit

This is a follow-up to our comments provided for finding A2, A3, and B4 under the West Virginia Audit. We have reviewed additional information provided by the State for these findings and submit the following additional comments:

A2 - Financial Management Controls

After reviewing the additional information provided by the State, we believe this process adequately addresses this finding. We recommended to the State that this process be incorporated into their official Policy and Procedures.

A3 - Internal Control System Documentation

After Reviewing the State's written policies we believe that they adequately address this finding.

B4 - Single Audit Act Compliance

After reviewing the additional information provided by the State, we believe their process adequately addresses this finding. We recommended to the State that this process be incorporated into their official Policy and Procedures.

We will be conducting a Grant Management site visit in West Virginia in early September to validate the information provided, and provide necessary technical assistance. Additionally, we continue to monitor the State's Quarterly reports for accuracy and consistency. If you have any questions regarding this information, please contact Nicholas Matarazzo at (215) 931-5674.



Federal Emergency Management Agency

Region III
One Independence Mall, Sixth Floor
615 Chestnut Street
Philadelphia, PA 19106-4404

ORD

JUL 29 2003

MEMORANDUM FOR: Gary J. Barard
Eastern District Audit Manager

FROM: 
Patricia G. Arcuri
Acting Regional Director

SUBJECT: Response to Draft Audit Report - State of West Virginia
Administration of Disaster Assistance Funds

This is in response to your January 8, 2003 memorandum by which you transmitted the draft audit report of the State of West Virginia Office of Emergency Services' (OES) administration of disaster assistance grants. I appreciate your patience and understanding as continual disaster response activities precluded OES's response until June 20, 2003, a copy of which is attached. I shall address the recommendations in the order in which they appear in the draft report.

A1. Statutory Administrative Allowances

The draft audit report states, "sufficient records were not available to support the administrative allowances paid to the Grantee." The State disputes that statement and indicates that documentation is available with detailed receipts, and that the records are kept by disaster and are fully segregated by program.

Public Assistance

The State will need to provide source documentation to the OIG auditors for review and concurrence in order to avoid this item being considered a finding. If this issue is brought forward as a finding by the OIG in the final report we will ask the State to bring forward all available documents and billings against disaster related activities, which these costs were applied against. With supporting source documentation we can support the "block grant" argument as brought forward by the State.

Hazard Mitigation

Under the Hazard Mitigation Grant Program (HMGP), the administrative costs are assigned on a project-by-project basis. The calculation of the administrative costs is based on a sliding scale created by regulation for grants awarded to the subgrantee. These costs are automatically calculated by FEMA's information system (NEMIS), and are obligated as projects are approved. The State receives a breakdown of these costs on the obligation report that accompanies the HMGP project approval letter. The administrative costs are used to cover State expenses including overtime pay, per diem, and travel of State employees performing grant administrative tasks. The West Virginia State Hazard Mitigation Officer has been informed of the appropriate use of these funds since 1996 through bi-annual FEMA/State Hazard Mitigation meetings, telephone inquiries, training sessions for new staff, and field visits to monitor their HMGP progress. In July 2002, our office informed the State of the guidance on statutory administrative allowance as a means to provide clarification for the use of and reporting requirements for the Grantee and Subgrantee administrative costs. This was not an introduction to a new federal grant requirement but an opportunity to specify that surplus administrative funds must be returned to FEMA. The States could no longer retain unspent funds and use them for another purpose. We believe that the States have been adequately informed of the appropriate use of the administrative costs for HMGP projects.

A2. Financial Management Controls

The State's response indicates that a system has been put in place to obtain disbursement data. We confirmed that a written policy also exists. We have requested a copy of the written policy to review. Upon receipt of the document we will comment accordingly.

A3. Internal Control System Documentation

The State's response indicates that they have developed a written policy to resolve this issue. We have requested a copy of the written policy to review. Upon receipt of the document we will comment accordingly.

B1. Ineligible Project Costs

We have no comment. The OES response indicates this item has been removed from the audit finding.

B2. State Administrative PlansHazard Mitigation Plan

The State has revised its Hazard Mitigation (HM) Administrative Plan to address the concerns outlined in the December 2002 audit report. The revised plan was delivered to the Region III Mitigation Office on July 15, 2003. The current revisions in the Administrative Plan include procedures for collecting the data for 1) conducting the benefit cost analysis; 2) completing the environmental and historical reviews; 3) monitoring and evaluating mitigation projects; and 4) providing technical assistance to subgrantees. Although the State's response to this section indicates that the items "a", "d" and "e" are FEMA responsibilities, the revised Administrative Plan does outline steps for accomplishing these tasks. These tasks are (a) collecting information to enable FEMA to complete environmental and historic reviews; (d) providing technical assistance to subgrantees, (e) collecting supporting data for use in calculating the benefit-cost ratio.

Public Assistance Administrative Plan

The State has taken corrective measures in accordance with their response.

Individual Assistance Administrative Plan

We concur with the State's response. DHHR has revised their Administrative Plan for the Individuals and Households Program for 1474-DR to include procedures for reviewing and processing reconsiderations.

B3. Subgrantee MonitoringHazard Mitigation

We are satisfied with the State's response. The revised HM Administrative Plan does include subgrantee-monitoring duties as it relates to quarterly report requirements.

Public Assistance

The State's response does not satisfy the OIG findings concerning the management of the Grants Management process. We will work with OES to develop a regular reporting format for the subgrantees to report to OES on the status of their respective projects within a specific disaster.

B4. Single Audit Act Compliance

The State's response indicates that they are still trying to come up with a system to resolve this issue. We have requested that a system be implemented with a written policy to address this issue. Upon receipt of the document we will comment accordingly.

The State has promised to mail the requested items. Upon receipt, we will review the documents to determine their adequacy in addressing the identified DHS IG Audit findings. In addition we will conduct a Grants Management site visit with West Virginia in August to follow-up on outstanding audit items, validate information provided, and provide necessary technical assistance. Additionally, we will continue to monitor the State's quarterly reports for accuracy and constituency.

We will inform you of our progress in these areas. Please contact Steve Adukaitis, our Audit Follow-up Official on 215/931-5659, if you have any questions.

Attachment

STATE OF WEST VIRGINIA
DEPARTMENT OF MILITARY AFFAIRS
AND PUBLIC SAFETY

BOB WISE
GOVERNOR

JOE MARTEN
CABINET SECRETARY



STEPHEN S. KAPPA
DIRECTOR

OFFICE OF EMERGENCY SERVICES
Building 1, Room EB-80
1900 Kanawha Blvd., E.
Charleston, WV 25305-0380
(304) 558-5380 FAX (304) 344-4538

June 20, 2003

To: Steven Adukaitis, FEMA Region III
From: Lee Gray, Director of Administration
Subject: Audit Response

A handwritten signature in black ink, appearing to be "Lee Gray", written over the "From:" line of the memo.

Please find attached West Virginia's Office of Emergency Services response to "Audit of Disaster Assistance" conducted September, 2002.

Please call me with any questions.

**AUDIT OF DISASTER ASSISTANCE
GRANT MANAGEMENT PROGRAM****WEST VIRGINIA OFFICE OF EMERGENCY SERVICES
RESPONSE TO AUDIT FINDINGS****A. FINANCIAL MANAGEMENT****A.1 Statutory Administrative Allowances**

Findings indicate that adequate records were not available to fully support the statutory administrative allowances paid to the Grantee and subgrantees. This statement is incorrect. West Virginia Office of Emergency Services (WVOES) has detailed records as to what the administrative allowances were expended on. These records are kept by disaster and are fully segregated from PA & HM disaster payments. Documentation is available with detailed receipts. State Code dictates that no expenditure can be paid unless full and complete documentation is submitted to the state Auditor's office. The issue is the allowability of what the allowances were expended on. We have been under the understanding, for many years, that administrative allowances were to be treated as "block grants". We understood that the allowances were available to support various emergency-related needs and have treated them as such.

When the audit was initiated in September, 2002, this office was informed, by Leon Snead & Company, P.C., of a FEMA memorandum that was dated July 1, 2002. About this same time we actually received the memorandum in the mail. It was also at this time that accounting and expenditure procedures, at WVOES were changed to incorporate the guidance. From this time forward we have followed the guidance to the fullest. Administrative allowances are only expended for extraordinary costs incurred during a particular disaster and they are program specific.

This agency takes the position that all administrative allowances prior to the September 30, 2002 date have been properly handled and we should not be required to return any amount. This is based on our understanding of the requirements, at the time of the audit, from FEMA program managers. This agency has, and will continue, to maintain the proper records for all disasters and administrative requirements from October 1, 2002.

A.2 Financial Management Controls

Financial management controls have been weak in the past. Due to staff shortages records were rarely balanced. Problems arose from incorrect postings of draw-downs to the wrong funds. The correct amounts were drawn down on the same

day of the expenditures, however when posting to the state accounting system deposits or expenditures were on occasion posted to the wrong account. This created accounts that were constantly out of balance.

This office has undertaken the huge job of auditing every account from the 8 open disasters covered under this audit. We have gone back to the very first entry (deposit/expenditure) and have reconciled each of the disaster accounts. We are very close to being completed with this project. We have also hired an additional administrative technician. The office has had 2 administrative employees for many years and is now staffed with 4.

Financial controls are no longer a problem with this agency. We have taken great steps to get all accounts in balance and have developed controls to keep them in balance on a monthly basis.

A system has been put in place to obtain disbursement data from DHHR to use in the quarterly reconciliation process.

A.3 Internal Control System Documentation

We have developed a written policy on all internal and management control systems to ensure all system requirements are included and the personnel responsible for each control function is identified.

A. FINANCIAL MANAGEMENT

B.1 Ineligible Project Costs

The issue of the City of Milton receiving approximately \$5,000.00 in ineligible reimbursements for Uniform Relocation Assistance was resolved during a meeting with representatives from Leon Snead & Co. The reimbursement was found to be eligible and was removed from the audit finding.

B.2 State Administrative Plan

Public Assistance (PA) - The Public Assistance Plan has been changed to include a staffing plan (chart). Since this audit we have had a new disaster (DR1455) and FEMA has reviewed and approved our State Admin. Plan.

Hazard Mitigation (HM) - Items designated "a" and "e" are the responsibility of FEMA and the state is not expected to be proficient in these areas. Item "b" had been established in written form and was communicated to subgrantees and the prioritization board following each HM eligible disaster event, but was absent from the HM Section 404 plan. Item "c" had been established in the HM Desk Reference, but was also not included in the Section 404 plan. The HM Section

404 plan has been updated to include items "b" and "c" and has been submitted to FEMA for approval. Item "d" is also mentioned in the Desk Reference but is too unique for specific inclusion in the Administrative Plan. With regards to item "d" FEMA agrees with our philosophy and has stated that it would not be necessary to include this item in our section 404 plan revision.

Individual Assistance (IA) - DHHR is in the process of reviewing their procedures and will formulate a plan of action to correct their finding.

B.3 SubGrantee Monitoring

Public Assistance (PA) - A policy has been implemented requiring all applicants to sign off on our progress reports quarterly even if the projects are not complete. Any verbal information is noted in the file. This will provide the needed documentation to satisfy audit findings.

Hazard Mitigation (HM) - A system to track subgrantee reporting has been instituted and appears to be working well. Additionally, Project Officers have been instructed on how to review the accuracy of each report. This process has also been included in the State's Section 404 plan revision.

B.4 Single Audit Act Compliance

As stated in the audit findings, PA, HM and IA programs include the basis requirements concerning the performance of Single Audits. Due to the limited size of this agency we are still addressing how to resolve the issue of moving into full compliance.

We are able to implement a procedure to track the total dollars awarded to subgrantees and to identify those that would be required to comply with Single Audit Act requirements. Both PA and HM require certification, by signature, on all awards, that each subgrantee is in compliance with Single Audit Act requirements. We are still in discussion as to how to comply at the state level for compliance beyond this level.