



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Dallas Field Office - Audit Division
3900 Karina Street, Room 224
Denton, Texas 76208

December 11, 2003

MEMORANDUM

TO: Edward G. Buikema, Regional Director
FEMA Region V

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: Grant Management: Indiana's Compliance
With Disaster Assistance Program's Requirements
Audit Report Number DD-06-04

This memorandum transmits the results of the subject audit performed by Soza & Company, Ltd., an independent accounting firm under contract with the Office of Inspector General. In summary, Soza & Company determined that Indiana's State Emergency Management agency (SEMA) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On October 28, 2003, you responded to the draft audit report, stating that you agreed with the majority of the nine recommendations included in the report. The attached report includes your response, in its entirety, as Attachment B. Your comments are also paraphrased and presented after each finding in the report, along with additional comments from the auditors.

The actions described in your response were sufficient to resolve and close Recommendation A.1.1. Your response did not adequately address the condition cited for Recommendation B.1.2. The remaining seven recommendations (A.1.2, A.2, B.1.1, B.2, B.3.1, B.3.2, and B.3.3) cannot be resolved until you provide target completion dates for the planned actions.

Please advise this office by January 12, 2004, of actions taken or planned to implement Recommendation B.1.2. Any planned actions should include target completion dates. Also, please provide target completion dates for planned actions related to Recommendations A.1.2, A.2, B.1.1, B.2, B.3.1, B.3.2, and B.3.3

We would like to thank your staff and the MSP-EMD staff for the courtesies extended to the auditors during their fieldwork. Should you have any questions concerning this report, please contact Paige Hamrick or me at (940) 891-8900.



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November 21, 2003

Federal Emergency Management Agency
Office of the Inspector General
500 C Street SW, Room 506
Washington, D.C. 20472

In accordance with Contract No. GS-23F-9843H, dated May 1, 2002, Soza & Company, Ltd. conducted an audit of the State of Indiana's State Emergency Management Agency to assess its compliance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 106-390, as amended) and applicable Federal regulations.

The audit objectives were to determine if Indiana's State Emergency Management Agency (SEMA) administered the grant programs in accordance with Federal regulations, and accounted for, reported, and used the Federal Emergency Management Agency's (FEMA) funds properly. We identified several program management findings related to compliance with Federal regulations, as well as financial management issues primarily related to the financial records and internal controls. This report presents the results of our audit and includes recommendations to help improve the State of Indiana's administration of the Federal Emergency Management Agency's disaster assistance programs.

Our audit was conducted in accordance with the applicable *Government Auditing Standards*, 1994 Revision, as amended. Although the audit report comments on cost claimed by the State of Indiana, we did not perform a financial statement audit, the purpose of which would be to render an opinion on the financial statements. The scope of this audit consisted of program and financial activities for seven (7) Presidential disaster declarations and one (1) emergency declaration that occurred between June 4, 1990 and January 24, 2001 and were financially open at September 30, 2001. The audit included the Public Assistance (PA), Hazard Mitigation (HM) and Individual and Family Grant (IFG) programs for each disaster, as applicable.

We appreciate the cooperation and assistance received from both Indiana's State Emergency Management Agency (SEMA) and the Federal Emergency Management Agency (FEMA) Region V personnel. Where applicable, we have considered the views of SEMA and FEMA Region V officials when writing this report. FEMA regional office and SEMA officials generally concurred with our findings and recommendations, and are taking corrective actions to resolve the findings discussed in the report.

If you have any questions, or if we can be of any further assistance, please contact Terry H. Byce at (703) 813-1900 ext. 7400.

Sincerely,

Terry H. Byce, CPA, CISA, CGRM
Director, Financial and Business Service Group
Soza & Company, Ltd.
Fairfax, VA

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I. EXECUTIVE SUMMARY

Soza & Company, Ltd. completed an audit of the administration of disaster assistance grant programs by the Indiana State Emergency Management Agency (SEMA). The objectives of this audit were to determine if SEMA administered the Federal Emergency Management Agency (FEMA) Disaster Assistance Grant Programs in accordance with the Robert T. Stafford Act and appropriate Federal regulations; properly accounted for and expended the FEMA disaster assistance funds; and operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities. This report focuses on the systems and procedures within SEMA for assuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and the requirements set forth in Chapter 44 of the Code of Federal Regulations, *Emergency Management and Assistance*, (44 CFR). The Federal share of the funds obligated and expended for each of the disasters included in the audit scope are presented in Attachment A of this report.

Our audit included seven major disasters declared by the President of the United States and one emergency declaration between June 4, 1990, and January 24, 2001, that were financially open at September 30, 2001. The following provides an outline of which programs had been implemented within each of the eight disasters:

DISASTER No.	DECLARATION DATE¹	TYPE OF DISASTER	PROGRAMS IMPLEMENTED
869	June 4, 1990	Severe Storms, Flooding, and Tornadoes	PA, IFG, and HM
899	March 29, 1991	Severe Winter Storms	PA and HM
1002	September 9, 1993	Severe Storms and Flooding	IFG
1125	July 3, 1996	Severe Storms and Flooding	PA, IFG, and HM
1165	March 6, 1997	Severe Storms and Flooding	PA, IFG, and HM
1217	May 8, 1998	Severe Winter Storms	PA and HM
1234	July 22, 1998	Severe Storms, Flooding, and Tornadoes	PA and HM
EM-3162	January 24, 2001	Snow Emergency	PA

In accordance with our agreement with the Federal Emergency Management Agency – Office of Inspector General (FEMA – OIG), our audit focused on SEMA’s program and financial management procedures and practices. During the audit, we emphasized the need to identify the causes of each reportable condition. In addition, we have also made recommendations that, if implemented properly, would improve SEMA’s management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings reported below are discussed in the body of the report.

In view of the nature and significance of the findings, we concluded that Indiana’s State Emergency Management Agency (SEMA) did not comply, in all material respects, with

¹ Disaster Nos. 869 and 899 involved litigation. As a result, these disasters were financially open as of September 30, 2001.

applicable laws and regulations relative to the findings. Accordingly, we conclude that management and financial controls could be improved to better protect assets and prevent or detect errors and fraud.

Program Management

1. For the Individual and Family Grant (IFG) Program, SEMA did not complete grant award activity within 180 days of the disaster declaration or submit the final reports to FEMA Region V within 90 days of the completion of the grant award activity.
2. SEMA's administrative plans for the IFG and Hazard Mitigation (HM) programs referred to complying with the Single Audit Act of 1984 instead of the Single Audit Act of 1996.

Financial Management

1. SEMA has not implemented a consistent methodology to prepare the Form 20-10, *Financial Status Report*.
2. SEMA does not track the management grants and administrative allowances in accordance with applicable regulations.
3. SEMA does not have adequate controls and procedures in place surrounding the following: physical asset verifications, separation of duties between asset purchasing and inventory reconciliation, and access to the SMARTLINK system.

Where applicable, we have considered the views of SEMA and FEMA Region V officials when writing this report. The full comments from the FEMA regional office are attached to this report (Attachment B).

II. Introduction

State agencies are the first to respond, once a disaster has occurred. However, depending on the size and severity of the disaster, the State's Governor may request the President of the United States to declare a major disaster; which would make relief grants available through the Federal Emergency Management Agency (FEMA). After the President declares the disaster, FEMA provides financial assistance, through a designated agency within the affected State, by implementing one or more grant programs.

Indiana's State Emergency Management Agency (SEMA) is Indiana's lead agency for the coordination of emergency management programs and response measures. Its mission is fourfold: to prepare the citizens of the State of Indiana with the knowledge and expertise necessary before a disaster strikes; to respond during a disaster; to assist with recovery efforts after a disaster; and to mitigate by taking the necessary steps to prevent or lessen the effects of a disaster before and after one occurs. SEMA is the State of Indiana's designated agency that is responsible for allocating and disbursing funds received under FEMA's grant programs.

SEMA is comprised of two divisions, Emergency Management and Emergency Medical Services. The Emergency Management Division is responsible for managing FEMA's grant programs within the State and responding to disasters as they occur. The Emergency Medical Services Division is part of Indiana's pre-hospital emergency care system that responds to medical emergencies as necessary.

The Robert T. Stafford Relief and Emergency Assistance Act, as amended, governs disasters declared by the President of the United States. 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. On October 20, 2000, the President signed the Stafford Act amendments into law (Public Law 106-390). These amendments are effective only for disasters declared after October 2000. In addition, Title 44, Code of Federal Regulations (CFR), *Emergency Management and Assistance*, provides further guidance as to the requirements for the implementation, administration, and management of disaster relief grants.

Our audit concentrated on SEMA's Emergency Management Division's use, management, and reporting of FEMA program funds received under the Public Assistance (PA), Individual and Family Grant (IFG), and Hazard Mitigation (HM) programs. Three permanent employees managed these programs on a daily basis, and other SEMA employees assisted them in carrying out their functions during active and inactive disasters.

Public Assistance Grants:

The Public Assistance (PA) grants are awarded for the repair and replacement of facilities, removal of debris, and the implementation of emergency protective measures necessary after a disaster occurs. In order for a subgrantee to receive funds through the PA grant, a designated representative of the subgrantee must complete FEMA Form 90-49, *Request for Public Assistance*. FEMA and SEMA personnel will review the *Request for Public Assistance* and determine if the subgrantee is eligible to receive funds under the PA grant program. If the subgrantee is eligible, FEMA will assign a Public Assistance Coordinator (PAC) to the subgrantee, who serves as the subgrantee's customer service representative and will be responsible for managing the subgrantee's projects. In addition, SEMA may assign a State Applicant Liaison (liaison), to the subgrantee, who is responsible for ensuring that the subgrantee's needs are met. Once the PAC and liaison have been assigned, the three parties schedule a "Kickoff Meeting," where the subgrantee's specific eligibility and documentation needs are discussed. After the "Kickoff Meeting" the PAC verifies the initial eligibility of the subgrantee and subsequently prepares the *Project Worksheet* (PW)². FEMA will then review the PW, and if approved, they will obligate the necessary funds. The total costs of the projects are shared by FEMA and SEMA, with FEMA covering at least 75 percent of the eligible costs. The remaining funds are paid by non-Federal sources, to include SEMA and/or local governments and agencies.

² Prior to the use of Project Worksheets, Disaster Survey Reports were used.

Title 44 CFR, provides that PA projects be classified as either “small” or “large³.” The classification is based on a project threshold, which is adjusted annually to incorporate changes in the Consumer Price Index⁴ for All Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for 2001 is \$50,600⁵; therefore projects costing less than \$50,600 are classified as “small,” whereas projects costing \$50,600 or more are considered “large” projects.

In order to prevent unnecessary delays, the Federal share of the costs for small projects are disbursed soon after FEMA’s approval. However, for large projects, progress payments are made to the subgrantees based on actual costs as documented. After a large project has been completed, SEMA evaluates and reports the final cost to FEMA, who will then adjust the amount of the large project to reflect the actual costs incurred.

Individual and Family Grants:

The Individual and Family Grant (IFG) program provides financial assistance to individuals and families who have sustained damage or developed serious needs because of a natural or man-made disaster. Subgrantees wishing to obtain assistance under this program may be required to apply to the Small Business Administration (SBA) first for a disaster loan. If the SBA determines that the subgrantee is not eligible for a SBA loan, SBA will refer most subgrantees to the IFG program for consideration. In order to obtain assistance through this grant, the Governor of the State must specifically express the intent to implement this program. This expressed intent must include an estimate of the size and cost of the program. SEMA is responsible for monitoring the IFG program and ensuring that the program objectives and requirements are met. The total costs of the program are shared by FEMA and SEMA, with FEMA covering 75 percent of the allowable costs. The remaining funds are paid by non-Federal sources from funds made available by SEMA.

Hazard Mitigation Grants:

The Hazard Mitigation (HM) Grant program is awarded to States to help reduce the potential damages from future disasters. SEMA must submit a letter of intent to participate in the program, and subgrantees must submit a hazard mitigation grant proposal to SEMA. Even though SEMA is responsible for setting the priorities for the selection of specific projects, the final approval must come from FEMA. FEMA also awards grants to local governments, eligible private non-profit organizations, Indian Tribes, and Alaska Native Villages. The amount of assistance available under this program must not exceed 20⁶ percent of the total assistance provided under the other assistance programs. The total costs of the program are shared by FEMA and SEMA, with FEMA covering 75 percent of the program costs. The remaining funds are paid by non-Federal sources.

³ As per 44 CFR 206.203.

⁴ From: www.bls.gov/opub/mpbbs/oplc.pdf

⁵ From: www.fema.gov/diz01/d1361n48.shtm

⁶ Recent amendments to the Stafford Act, Section 322, increased this percentage from 15 to 20 percent.

Administrative Funds:

Under the PA and HM programs, FEMA may grant three types of administrative funds to SEMA for overseeing the program.

Administrative Cost Allowance: Provided to SEMA to cover any extraordinary costs that are directly associated with administering the program. This allowance amount is determined by using a statutorily mandated sliding scale percentage⁷ that is applied to the total amount of Federal assistance awarded under each program for each disaster. This allowance is intended only for extraordinary costs; for example, costs incurred for preparing Project Worksheets or final inspection reports, processing project applications, conducting final audits and related field inspections, overtime, per diem, and travel expenses. However, the administrative cost allowance does not include provisions for regular time for employees.⁸

State Management Costs: Provided to cover only ordinary or regular expenses directly associated with the program.⁹

Indirect Costs: Provided for activities indirectly associated with the program administration.¹⁰

For the IFG program, up to five percent of the Federal share of total program costs may be allocated for administrative costs.¹¹

III. Objectives, Scope, and Methodology

Objectives:

The FEMA – OIG engaged Soza & Company to determine if the Indiana State Emergency Management Agency (SEMA):

1. Administered the FEMA Disaster Assistance Grant Programs in accordance with the Stafford Act and appropriate Federal regulations;
2. Properly accounted for and expended FEMA disaster assistance funds; and
3. Submitted accurate financial expenditure reports for the Disaster Assistance Grant Programs.

⁷ As per 44 CFR 206.228(a)(2)(i) and 206.439(b)(1)(i).

⁸ As per 44 CFR 206.228(a)(2)(i) and 206.439(b)(1)(i).

⁹ As per 44 CFR 206.228(a)(3) and 206.439(b)(2)(i).

¹⁰ As per 44 CFR 206.228(b).

¹¹ As per 44 CFR 206.131(a).

Scope:

The scope of our audit included seven major disasters and one emergency declaration, under which FEMA awarded 17 grants. These disasters were declared between June 4, 1990, and January 24, 2001.

The cut-off date for the audit was October 1, 2001. However, we also reviewed more current activities related to the conditions found during our audit to determine whether SEMA had taken appropriate corrective actions.

Methodology:

We conducted our audit in accordance with the FEMA Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs provided by the Office of Inspector General (OIG).

Our audit work included interviewing key FEMA officials and reviewing documents at the FEMA Region V office in Chicago, Illinois to gain an understanding of the internal controls in place as well as to determine current issues and concerns regarding the State of Indiana's administration and management of the disaster assistance programs.

The majority of the audit work was conducted at SEMA's office in Indianapolis, Indiana. We interviewed key SEMA officials and reviewed documents to gain an understanding of SEMA's organizational structure, internal control system, and policies and procedures that were followed. We also reviewed representative samples of program files and supporting documentation to determine if prescribed policies and procedures were budgeted, controlled, and expended adequately and financial reports were prepared accurately and on a timely basis.

As we progressed to the fieldwork phase of the audit, we adjusted our scope, depending on the program being tested, in order to obtain reasonable coverage over each grant program. The details of our methodology are documented in our audit workpapers and are tailored to each individual situation. For each disaster selected, we reviewed the appropriate documentation to determine whether the disaster assistance programs had been implemented in accordance with the applicable regulations. Furthermore, we reviewed SEMA's current systems and procedures to identify any internal control weaknesses or noncompliance situations. Where applicable, we have considered the views of FEMA Region V and SEMA officials when writing this report.

We also reviewed prior audits performed within the time frame of the disasters included in our audit scope, which included OMB Circulars No. A-128 and A-133 audit reports performed by Indiana's State Board of Accounts. FEMA Region V and SEMA officials indicated that there were no FEMA – OIG audits performed on the State of Indiana within the past 5 years. Our audit scope did not include interviews with or visits to SEMA's subgrantees or project sites; therefore we did not evaluate

the technical procedures used in estimating and processing the repairs caused by disaster-related damage.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified, and does not extend to any financial statements of Indiana's State Emergency Management Agency or the State of Indiana.

IV. Findings and Recommendations

The audit results are summarized in two major sections: Program Management and Financial Management. These sections contain findings and related conclusions and recommendations.

Based on the number and nature of our findings, we conclude that management controls and financial controls should be improved to better protect assets and prevent errors and fraud. In view of the nature and significance of the findings, we concluded that Indiana's State Emergency Management Agency (SEMA) did not comply, in all material respects, with applicable laws and regulations relative to the findings.

A. Program Management

1. SEMA Did Not Complete Grant Award Activity or Submit the Final Reports in a Timely Manner

SEMA did not complete the grant award activity or submit the final reports and vouchers to the Regional Director within the required timeframes. Specifically, the following was noted regarding the four disasters that included the Individual and Family Grant Program (Disaster Nos. 869, 1002, 1125, and 1165):

- SEMA did not complete the grant award activity, for any of the four disasters, within 180 days of the declaration date. Specifically, SEMA took between 223 and 704 days to complete the grant award activity for these four disasters.
- For two of the four disasters (Disaster Nos. 1002 and 1125), SEMA did not submit the final reports to the FEMA Regional Director within 90 days of the completion of all grant award activity. Specifically, the agency took 287 and 690 days to submit the final reports to the FEMA Regional Director.

- The final closeout letter could not be located for Disaster Nos. 869 and 1165. Therefore, we could not verify whether the final reports for these disasters were submitted.

According to 44 CFR 206.131(j)(iii), “The State shall complete all grant award activity, including eligibility determinations, disbursement, and disposition of State level appeals, within 180 days following the declaration date. The Regional Director shall suspend all grant awards disbursed after the specified completion date....”

Further, 44 CFR 206.131(j)(iv) also requires States to complete all administrative activities and submit final reports and vouchers to the Regional Director within 90 days of the completion of all grant award activity.

SEMA officials said that the delays occurred because they were administering multiple disasters concurrently with limited resources available. Therefore, fulfillment of the administrative requirements (e.g., completing grant award activity within the deadlines) under the program was delayed. SEMA management emphasized that, generally, if the State were administering only one disaster, it would have sufficient staffing to complete all requirements under the FEMA program. However, in instances where there is more than one disaster, SEMA does not have the staffing available to complete the administrative requirements.

Delayed completion of grant award activity and submission of the final reports and vouchers impedes SEMA’s and FEMA Region V’s ability to effectively monitor and closeout the grant.

Conclusions and Recommendations

We recommend that SEMA implement procedures to:

1. Ensure that it notifies the FEMA Regional Director, in writing, of delays in completing grant award activity, and
2. Modify its staffing plan to ensure sufficient resources exist to manage grant activity, especially during times of multiple disasters.

Management’s Response

FEMA Region V and SEMA concur with this finding. Because of an amendment to the Stafford act under DMA 2000, the State of Indiana has chosen the “FEMA Option” for Individual and Household Program (IHP) administration of future IA declarations. Under the “FEMA Option,” all payments will be processed directly by FEMA and a bill for collection will be sent to the State for its cost share, thus, eliminating the need to submit final IFG financial reports to FEMA. However,

FEMA Region V will require SEMA to provide written justification for delays in completing all other grant award activities. Additionally, SEMA will also have to submit a staffing plan that ensures that there is adequate resources to manage multiple disasters.

Auditor's Additional Comment

The actions described by management adequately address the condition cited for Recommendation 1; therefore, this recommendation is resolved and closed. However, to resolve Recommendation 2, FEMA Region V should provide a target date for completion of the staffing plan. The recommendation can be closed when FEMA Region V determines that the State's staffing plan ensures adequate resources are available, when needed, to manage multiple disasters.

2. SEMA's Administrative Plans Referred to Outdated Legislation

The 2001 Administrative Plans for the Individual and Family Grant and Hazard Mitigation contained outdated criteria. Specifically, these plans referred to compliance with Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. However, the Single Audit Act of 1984 was replaced by the Single Audit Act Amendments of 1996, and OMB Circular A-128 was superseded by OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

According to 44 CFR 206, States are required to prepare Administrative Plans to ensure that grantees are prepared for future disasters, and that stated policies and procedures will effectively accomplish the intended goals of the grant. In addition, SEMA is required to comply with OMB Circular No. A-133.

OMB Circular No. A-133 states, "This Circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 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 awards." The Circular further states, "Federal agencies shall apply the provisions of the sections of this Circular to non-Federal entities, whether they are recipients expending Federal awards received directly from Federal awarding agencies, or are subrecipients expending Federal awards received from a pass-through entity (a recipient or another subrecipient)."

Under the requirements of OMB Circular No. A-133, single audits are required if subgrantees *expend* \$300,000 or more in any given fiscal year. SEMA's Hazard Mitigation Administrative Plan requires a single audit to be performed when subgrantees *receive* more than \$100,000 in Federal funding each year; however, OMB Circular No. A-133 increased this threshold to \$300,000 and refers to when an entity expends rather than receives Federal funds.

SEMA management indicated that 44 CFR 14.2 (a) refers to OMB Circular No. A-128 rather than OMB Circular No. A-133. Although the 44 CFR 14.2 (a) of Title 44, CFR, does refer to OMB Circular No. A-128, it also states “including any amendments published in the FEDERAL REGISTER by OMB.” Therefore, SEMA should have considered and cited any amendments to OMB Circular A-128 (i.e., OMB Circular A-133) when updating the disaster grant Administrative Plans.

Applying outdated legislation and requiring a Single Audit for all entities receiving more than \$100,000 of Federal funds places additional and perhaps unnecessary demands on SEMA’s resources. Also additional demands are being placed on its subgrantees that may not be warranted.

Conclusions and Recommendations

We recommend that SEMA update all Administrative Plans to reflect current reporting requirements, such as OMB Circular No. A-133, including modifying the dollar threshold for single audits and the terminology from “receive” to “expend” Federal funds.

Management’s Response

FEMA Region V and SEMA concur with this finding. SEMA assured FEMA Region V that Administrative Plans have been updated to reflect all reporting requirements. SEMA will submit Administrative Plans to the region for approval. Once the region receives these plans, they will either issue an approval letter or letter stating what corrective actions are necessary to approve the plan.

Auditor’s Additional Comment

The actions described by management adequately address the condition cited. However, to resolve the recommendation, FEMA Region V should provide a target date for the submission of the revised Administrative Plans. Further, the recommendation cannot be closed until FEMA Region V verifies that the State’s Administrative Plans comply with current reporting requirements.

B. Financial Management**1. SEMA's Financial Reporting of Program Status Was Not Properly Completed or Supported**

SEMA accounting records and reporting of program status were inaccurate or incomplete. Specifically, we noted the following:

- The Forms 20-10 for Disaster Nos. 869 and 1125 for Public Assistance and 1165 for the Individual and Family Grant contained calculation errors and were not accurate. For example, the “Federal Share of Outlays” amount did not equal the “Net Outlays” less the “Recipient Share of Outlays.”
- There were two instances where the State’s share was included with the Federal share instead of being recorded separately on the Form 20-10.
- Although the amounts reported as Federal and State disbursements for Disaster No. 1125 on Form 20-10 agreed with the records maintained by the Public Assistance program director, the amounts did not agree with the accounting records maintained by the Fiscal Services Division.
- There were two Forms 20-10 that were incorrectly marked as “Final.” This designation should be used only when the disaster is closed and funds are no longer available for disbursement.
- The Schedule of Source and Application of Funds (see Attachment A) reflect a total Balance of Federal Funds on Hand for the Public Assistance, Individual and Family, and Hazard Mitigation Programs in the amount of \$279,902. Given the issues identified above, SEMA was unable to determine the accuracy of the Balance of Federal Funds on Hand.

According to 44 CFR 13.20(b)(1) and (2), “Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant...Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

In addition, the State of Indiana Accounting Manual, page 1:5, states, “Controls over receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making.”

44 CFR 13.20(a)(7) requires that grantees receiving advances by electronic transfer make draw downs as close as possible to the time disbursements are made. FEMA Manual 2700.1, Advance Financing Payment Systems, states that grantees funded through SmartLink should have no more cash on hand than anticipated for 3 days.

SEMA had not implemented a consistent method to report the status of its programs, such as the Form 20-10, *Financial Status Report*, and the Schedule of Source and Application of Funds. Formal written procedures on how to report the status of SEMA's programs did not exist. SEMA management said that the combination of lack of procedures, along with the manual preparation of the Forms and Schedules, contributed to the errors mentioned above.

Improper completion of the Form 20-10 and the Schedule of Source and Application of Funds reduces the accuracy and reliability of the information recorded on the form. Since these documents are used to determine the amount of funds that the State of Indiana disbursed, there is an increased risk that FEMA does not have sufficient assurance that SEMA disbursed FEMA grant funds in accordance with regulations.

Conclusions and Recommendations

We recommend that SEMA implement formal written procedures to ensure that:

1. Forms 20-10, *Financial Status Report*, are accurate, current, complete, and supported by the agency's accounting records.
2. The status of program funds properly reflect the source and application of the funds for each disaster in order for SEMA to determine if excess Federal funds are on hand. If so, SEMA should return the excess cash to FEMA as soon as possible.

Management's Response

FEMA Region V and SEMA concur with the first finding and recommendation. SEMA assures the region that they have new software that will correctly calculate and prepare FF 20-10. FEMA Region V will verify that the software will correct reporting deficiencies. Furthermore, the region will require SEMA to provide FEMA with a copy of the software and written procedures that substantiate the accuracy of the software and the methods that will be used to input financial information.

Although SEMA disagrees with the finding that the Schedule of Source and Application of Federal Funds are not accurate or reliable, FEMA Region V will require SEMA to implement formal written procedures to ensure accuracy and consistency when completing this schedule. The Region's response included updated Schedules of Source and Application of Federal Funds for three of the

disasters in the audit scope (Nos. 1125, 165, and 1234). [These updated schedules are not included with Attachment B to this report (Region's comments)].

Auditor's Additional Comment

The actions described by management adequately address the condition in regard to the preparation of FEMA Form 20-10 (Recommendation 1). However, to resolve this recommendation, FEMA Region V should provide a target completion date for the review of the software application and written procedures. Further, the recommendation cannot be closed until FEMA Region V verifies that the software application and written procedures will correct reporting deficiencies.

The actions described above do not adequately address the condition cited for Recommendation 2. To resolve the recommendation, FEMA Region V should provide a target completion date for SEMA's implementation of formal written procedures to ensure accuracy and consistency when completing Schedules of Source and Application of Funds. The recommendation can be closed when the Region verifies that the procedures are in place. Further, SEMA did not provide the Region with updated Schedules for Disaster Nos. 869 and 899. Therefore, the auditors could not determine the total balance of funds on hand; and, therefore, could not determine if there was excess cash that should be returned to FEMA.

2. SEMA Did Not Track Management Grants and Administrative Allowances in Accordance with Applicable Regulations

SEMA's accounting records did not separately identify the amounts SEMA received in the form of management grants and administrative allowances for Hazard Mitigation Disaster Nos. 1165, 1217, and 1234 and Individual and Family Grant Disaster No. 1002. Therefore, SEMA was unable to support whether it had actually received funds under the management grants and administrative allowances, in accordance with FEMA regulations.

Additionally, SEMA did not capture the actual costs charged against the management grants and administrative allowances for any of the Public Assistance Disasters selected for testing (Disaster Nos. 869, 899, 1125, 1165, 1217, 1234, and EM-3162). Therefore, SEMA could not support whether the administrative allowance was used for proper expenditures.

SEMA did not have: (1) procedures in place to separately record amounts received as management grants and administrative allowances and (2) a mechanism to capture the amounts received and actual costs charged against the management grants and administrative allowances.

In regard to the Public Assistance Grant, 44 CFR 206.228(a)(iii)(2) states, "Under section 406(f)(2) of the Stafford Act, we will pay you, the State, an allowance to

cover the extraordinary costs that you incur to formulate Project Worksheets for small and large projects, to validate small projects, to prepare final inspection reports, project applications, final audits, and to make related field inspections by State employees. Eligible costs include overtime pay and per diem and travel expenses, but do not include regular time for your State employees.”

In regard to the Hazard Mitigation Grant, 44 CFR 206.439(b)(1)(i) states, “Pursuant to 406(f)(2) of the Stafford Act, an allowance will be provided to the State to cover the extraordinary costs incurred by the State for preparation of applications, quarterly reports, final audits, and related field inspections by State employees, including overtime pay and per diem and travel expenses, but not including regular time for such employees.”

In regard to the Individual and Family Grant program, 44 CFR 206.131(a) states, “The total Federal grant under this section will be equal to 75 percent of the actual cost of meeting necessary expenses or serious needs of individuals and families, plus State administrative expenses not to exceed 5 percent of the Federal grant....”

Further, 44 CFR 13.20(a)(2) and (b)(6) require the tracing of grant funds to a level of expenditures adequate to establish that such funds have not been used in violation of applicable statutes and that accounting records are supported by such documentation as cancelled checks, paid bills, payrolls, and time and attendance records.

In addition, SEMA management stated that the State’s statutory administrative allowance, which is based on a formula defined in 44 CFR 206, captures the estimated expenditures and is pre-approved by FEMA. As a result, SEMA management indicated that the level of effort and resources needed to track every administrative cost for the disaster outweighed the benefits received.

By not having procedures and a mechanism in place to ensure that management grants and administrative allowances are properly recorded and monitored, there is a potential that these funds may be used for unallowable purposes or that the accounting records may be incomplete or misstated.

Conclusions and Recommendations

We recommend that SEMA implement procedures to ensure that management grants and administrative allowances are properly recorded and monitored on an individual disaster basis and that costs claimed are actual expenses supported by the accounting records.

Management’s Response

FEMA Region V and SEMA concur with this finding and recommendation. SEMA has assured the regional office that expenditures and revenue for management grants and administrative allowances are now being identified by disaster number, in accordance with FEMA regulations and recommendations given by Soza & Company. The regional office will require SEMA to provide documentation that they are implementing these recommendations during a site visit that will be conducted this year.

Auditor's Additional Comment

The actions described by management adequately address the conditions cited. However, to resolve the recommendation, FEMA Region V should provide a target completion date for the review. Further, the recommendation cannot be closed until FEMA Region V verifies the proper procedures are in place and effective.

3. SEMA Did Not Have Adequate Controls and Procedures Surrounding Assets

During our testing of the protection of assets, separation of duties, and password security we identified the following conditions:

Protecting Assets

SEMA did not properly document the most recent physical asset verification. Specifically, 8 of the 19 assets purchased with FEMA-approved grant funds did not have the date identified as to when these assets were physically verified. Therefore, we were unable to determine if these eight assets were verified annually. In addition, the physical asset verifications were performed via phone calls and email messages instead of by actual physical verifications.

According to 44 CFR 13.31(b), "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures." The State of Indiana Accounting Manual, page 10:6 states, "Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from their asset control system. The physical inventory helps ensure the asset inventory is accurate, helps ensure assets have not left the agency without authorization, and helps identify unused assets. Evidence that a physical inventory was taken should be maintained."

The State of Indiana Accounting Manual, page 1:5 states, "Each agency, department, institution, or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among

other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system.”

SEMA officials said that they properly performed the required asset verifications. However, they were unaware that verifications, as outlined in the State’s Accounting Manual, needed to be physically performed and documented.

Improperly performing and documenting the physical verification of the assets prevents SEMA from ensuring that the assets exist and are in working condition. In addition, there is an increased risk that the assets may be subjected to misuse or fraud.

Separation of Duties

SEMA did not have adequate separation of duties in place for managing assets. Specifically, one individual was responsible for submitting asset additions and deletions to the Auditor of the State’s asset listing report, and reconciling this listing with the agency’s records.

The State of Indiana Accounting Manual, page 1:5 states, “Each agency, department, institution, or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system.”

SEMA officials stated that according to its State Accounting Manual there is no requirement to separate these functions. Furthermore, SEMA officials stressed that they believed that they were following the State of Indiana’s requirements and noted that the State Board of Accounts had never cited SEMA for a lack of separation of duties.

Separating the responsibility for submitting asset additions and deletions to the Auditor of the State’s asset listing report from reconciliation of the listing with the agency’s records provides an added control surrounding assets. This separation of duties helps prevent an individual from removing property from the accounting records without anyone aware of the removal. Another example of separation of duties is ensuring that the person who deposits cash is not the same individual reconciling the bank statements.

Improper separation of duties increases the risk that the assets may be subject to misuse or fraud and not be detected in a timely manner.

Password Security

SEMA's internal controls over access to the drawdown of funds were not adequate to ensure the proper identification of the individual processing the transaction. Specifically, all three users of the SMARTLINK system used the same password and username to access the system.

The National Institute of Standards and Technology (NIST) prescribes standards for computer security of which password-based access control is a part.

OMB Circular No. A-130, *Management of Federal Information Resources*, 8(a)(1)(g) states, "Protect government information commensurate with the risk and magnitude of harm that could result from the loss, misuse, or unauthorized access to or modification of such information...."

The State of Indiana Accounting Manual, page 1:5 states, "Each agency, department, institution, or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system."

SEMA management stated that because the Assistant Controller verified the drawdowns of FEMA funds by periodically reviewing the SMARTLINK system, separate passwords were not necessary.

There is an increased risk that if improper transactions occur, management may not be able to identify the individual responsible for the transaction in a timely manner. Separate logons for each user provide an audit trail to identify the individual who processed the transactions within the system. Individual passwords allow management to more readily determine when a transaction was processed and who processed it.

Conclusions and Recommendations

We recommend that SEMA:

1. Implement procedures to ensure that all physical asset verifications include, at a minimum: the date the physical inventory was taken; the name of the individual(s) who performed the physical inventory; any differences and the reasons why differences exist; and evidence that a supervisory review was performed over the physical inventory verification.

2. Implement an internal control process to ensure the adequate separation of duties regarding the recording and reconciling of asset additions and deletions. In addition, this process should be documented in the State's Accounting Manual.
3. Implement an internal control process to ensure that all users of the SMARTLINK system are provided with individual usernames and passwords to access the system.

Management's Response

FEMA Region V and SEMA concur with this finding and recommendations for one and two. SEMA assures the region that the responsibility of performing physical asset verification rests with an individual outside the fiscal office. In addition, this person will work under the advisement of the aforementioned recommendations. Region V will verify the accuracy of this when conducting a site visit with SEMA.

However, with respect to finding three, SEMA believes that this matter has been resolved because in the presence of Soza & Co., SEMA contacted the Payment Management System (PMS) and asked about the use of multiple users. PMS stated that multiple passwords were unnecessary because Smartlink draws are wired to the State of Indiana and the probability of misappropriation of funds is highly unlikely. SEMA assures Region V that Smartlink draws are performed by the Assistant Controller and Controller. Both persons are located in the same office and it is easy to verify who has made the draws. Region V tried to confirm with PMS that multiple passwords were unnecessary. The region is waiting for a reply from this agency. Once we are notified either way, we will ensure that the State complies with PMS' decision.

Auditor's Additional Comments

With respect to the conditions concerning physical asset verifications and the separation of duties (Recommendations 1 and 2), we consider the actions described by management to adequately address the conditions cited. However, to resolve the recommendations, FEMA Region V should provide a target completion date for its planned site visit with SEMA. Further, the recommendation cannot be closed until FEMA Region V verifies the proper procedures are in place and effective.

However, in response to the condition regarding access to the Smartlink system (Recommendation 3), we agree that further clarification is necessary, and once a determination is made by the Department of Treasury it should be implemented at the State level. To resolve the recommendation, FEMA Region V should provide a target completion date for ensuring the State complies with PMS' decision. Further, the recommendation cannot be closed until FEMA Region V verifies the proper procedures are in place and effective.

Attachments**Attachment A-1**

Soza & Company, Ltd. performed the procedures outlined in the *Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs* dated March 2001 related to the Source and Application of Funds Schedules shown below. The sufficiency of the procedures is the sole responsibility of the FEMA OIG. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

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

**Summary Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

All Disasters Numbers 869 through 1234, and Emergency Declaration Number 3162
--

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$44,762,602	\$2,405,886	\$6,519,054	\$53,687,542
Local Match/State Share	\$2,731,574	\$2,140,980	\$907,163	\$5,779,717
Total Award Amount	\$47,494,176	\$4,546,866	\$7,426,217	\$59,467,259
Source of Funds				
Federal Share	\$47,266,101	\$3,827,401	\$5,071,534	\$56,165,036
Total Administrative Allowance	\$1,568,725	\$0	\$190,764	\$1,759,489
Local Match/State Share	\$3,296,124	\$2,140,980	\$907,163	\$6,344,267
Total Source of Funds	\$52,130,950	\$5,968,381	\$6,169,461	\$64,268,792
Application of Funds				
Federal Share	\$46,919,370	\$3,815,708	\$5,150,056	\$55,885,134
Total Administrative Allowance	\$1,480,811	\$40,926	\$262,774	\$1,784,512
Local Match/State Share	\$6,664,660	\$1,124,038	\$410,395	\$8,199,093
Total Application of Funds	\$55,064,841	\$4,980,672	\$5,823,226	\$65,868,739
Balance of Federal Funds on Hand	\$346,731	\$11,693	(\$78,522)	\$279,902

Soza & Company, Ltd.

Attachment A-2

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Disaster Number 869 - Declaration Date June 4, 1990 - Severe Storms, Flooding, and Tornadoes

	Public Assistance	Individual Family	& Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$3,091,806	\$100,000	\$410,020	\$3,601,826
Local Match/State Share	\$1,165,018	\$1,087,264	\$0	\$2,252,282
Total Award Amount	\$4,256,824	\$1,187,264	\$410,020	\$5,854,108
Source of Funds				
Federal Share	\$6,895,828	\$1,518,492	\$384,615	\$8,798,935
Total Administrative Allowance	\$199,654	\$0	\$25,405	\$225,059
Local Match/State Share	\$1,729,568	\$1,087,264	\$0	\$2,816,832
Total Source of Funds	\$8,825,050	\$2,605,756	\$410,020	\$11,840,826
Application of Funds				
Federal Share	\$6,816,622	\$1,514,373	\$384,615	\$8,715,610
Total Administrative Allowance	\$275,184	\$0	\$25,405	\$300,589
Local Match/State Share	\$2,199,515	\$369,050	\$0	\$2,568,565
Total Application of Funds	\$9,291,321	\$1,883,423	\$410,020	\$11,584,764
Balance of Federal Funds on Hand	\$79,206	\$4,119	\$0	\$83,325

Attachment A-3

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Disaster Number 899 - Declaration Date March 29, 1991 - Severe Winter Storms

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$19,353,326	\$0	\$1,663,964	\$21,017,290
Local Match/State Share	\$155,446	\$0	\$0	\$155,446
Total Award Amount	\$19,508,772	\$0	\$1,663,964	\$21,172,736
Source of Funds				
Federal Share	\$18,818,855	\$0	\$1,643,647	\$20,462,502
Total Administrative Allowance	\$606,637	\$0	\$2,686	\$609,323
Local Match/State Share	\$155,446	\$0	\$0	\$155,446
Total Source of Funds	\$19,580,938	\$0	\$1,646,333	\$21,227,271
Application of Funds				
Federal Share	\$18,739,997	\$0	\$1,588,412	\$20,328,409
Total Administrative Allowance	\$474,513	\$0	\$79,750	\$554,263
Local Match/State Share	\$766,766	\$0	\$0	\$766,766
Total Application of Funds	\$19,981,276	\$0	\$1,668,162	\$21,649,438
Balance of Federal Funds on Hand	\$78,858	\$0	\$55,235	\$134,093

Attachment A-4

Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001

Disaster Number 1002 - Declaration Date September 9, 1993 - Severe Storms and Flooding

	Public Assistance	Individual Family	& Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$0	\$640,805	\$0	\$640,805
Local Match/State Share	\$0	\$253,715	\$0	\$253,715
Total Award Amount	\$0	\$894,520	\$0	\$894,520
Source of Funds				
Federal Share	\$0	\$650,349	\$0	\$650,349
Total Administrative Allowance	\$0	\$0	\$0	\$0
Local Match/State Share	\$0	\$253,715	\$0	\$253,715
Total Source of Funds	\$0	\$904,064	\$0	\$904,064
Application of Funds				
Federal Share	\$0	\$650,349	\$0	\$650,349
Total Administrative Allowance	\$0	\$0	\$0	\$0
Local Match/State Share	\$0	\$213,602	\$0	\$213,602
Total Application of Funds	\$0	\$863,951	\$0	\$863,951
Balance of Federal Funds on Hand	\$0	\$0	\$0	\$0

Attachment A-5

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Disaster Number 1125 - Declaration Date July 3, 1996 - Severe Storms and Flooding
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	Public Assistance	Individual Family	& Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$5,722,262	\$324,276	\$984,405	\$7,030,943
Local Match/State Share	\$129,009	\$225,000	\$0	\$354,009
Total Award Amount	\$5,851,271	\$549,276	\$984,405	\$7,384,952
Source of Funds				
Federal Share	\$5,599,496	\$311,755	\$805,115	\$6,716,366
Total Administrative Allowance	\$166,309	\$0	\$46,271	\$212,580
Local Match/State Share	\$129,009	\$225,000	\$0	\$354,009
Total Source of Funds	\$5,894,814	\$536,755	\$851,386	\$7,282,955
Application of Funds				
Federal Share	\$5,536,104	\$310,181	\$805,115	\$6,651,400
Total Administrative Allowance	\$170,434	\$14,096	\$46,271	\$230,801
Local Match/State Share	\$871,973	\$103,394	\$0	\$975,367
Total Application of Funds	\$6,578,511	\$427,671	\$851,386	\$7,857,568
Balance of Federal Funds on Hand	\$63,392	\$1,574	\$0	\$64,966

Attachment A-6

Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001

Disaster Number 1165 - Declaration Date March 6, 1997 - Severe Storms and Flooding

	Public Assistance	Individual Family	& Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$3,507,553	\$1,340,805	\$2,036,225	\$6,884,583
Local Match/State Share	\$640,563	\$575,001	\$672,788	\$1,888,352
Total Award Amount	\$4,148,116	\$1,915,806	\$2,709,013	\$8,772,935
Source of Funds				
Federal Share	\$3,392,143	\$1,346,805	\$1,505,262	\$6,244,210
Total Administrative Allowance	\$115,410	\$0	\$116,402	\$231,812
Local Match/State Share	\$640,563	\$575,001	\$672,788	\$1,888,352
Total Source of Funds	\$4,148,116	\$1,921,806	\$2,294,452	\$8,364,374
Application of Funds				
Federal Share	\$3,343,206	\$1,340,805	\$1,639,019	\$6,323,030
Total Administrative Allowance	\$118,724	\$26,830	\$111,349	\$256,903
Local Match/State Share	\$1,470,319	\$437,992	\$375,580	\$2,283,891
Total Application of Funds	\$4,932,249	\$1,805,627	\$2,125,948	\$8,863,824
Balance of Federal Funds on Hand	\$48,937	\$6,000	(\$133,757)	(\$78,820)

Attachment A-7

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Disaster Number 1217 - Declaration Date May 8, 1998 - Severe Winter Storm
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	Public Assistance	Individual & Family	Hazard & Mitigation	Totals
Award Amounts				
Federal Share	\$4,479,849	\$0	\$647,492	\$5,127,341
Local Match/State Share	\$580,612	\$0	\$84,375	\$664,987
Total Award Amount	<u>\$5,060,461</u>	<u>\$0</u>	<u>\$731,867</u>	<u>\$5,792,328</u>
Source of Funds				
Federal Share	\$4,276,476	\$0	\$390,359	\$4,666,835
Total Administrative Allowance	\$203,373	\$0	\$0	\$203,373
Local Match/State Share	\$580,612	\$0	\$84,375	\$664,987
Total Source of Funds	<u>\$5,060,461</u>	<u>\$0</u>	<u>\$474,734</u>	<u>\$5,535,195</u>
Application of Funds				
Federal Share	\$4,276,476	\$0	\$390,359	\$4,666,835
Total Administrative Allowance	\$148,127	\$0	\$0	\$148,127
Local Match/State Share	\$580,612	\$0	\$34,815	\$615,427
Total Application of Funds	<u>\$5,005,215</u>	<u>\$0</u>	<u>\$425,174</u>	<u>\$5,430,389</u>
Balance of Federal Funds on Hand	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Attachment A-8

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Disaster Number 1234 - Declaration Date July 22, 1998 - Severe Storms, Tornadoes, and Flooding

	Public Assistance	Individual & Family	Hazard & Mitigation	Totals
Award Amounts				
Federal Share	\$4,944,568	\$0	\$776,948	\$5,721,516
Local Match/State Share	\$13,765	\$0	\$150,000	\$163,765
Total Award Amount	<u>\$4,958,333</u>	<u>\$0</u>	<u>\$926,948</u>	<u>\$5,885,281</u>
Source of Funds				
Federal Share	\$4,795,081	\$0	\$342,536	\$5,137,617
Total Administrative Allowance	\$149,487	\$0	\$0	\$149,487
Local Match/State Share	\$13,765	\$0	\$150,000	\$163,765
Total Source of Funds	<u>\$4,958,333</u>	<u>\$0</u>	<u>\$492,536</u>	<u>\$5,450,869</u>
Application of Funds				
Federal Share	\$4,718,743	\$0	\$342,536	\$5,061,279
Total Administrative Allowance	\$165,974	\$0	\$0	\$165,974
Local Match/State Share	\$775,475	\$0	\$0	\$775,475
Total Application of Funds	<u>\$5,660,192</u>	<u>\$0</u>	<u>\$342,536</u>	<u>\$6,002,728</u>
Balance of Federal Funds on Hand	<u>\$76,338</u>	<u>\$0</u>	<u>\$0</u>	<u>\$76,338</u>

Attachment A-9

**Schedule of Source and Application of Funds
Indiana State Emergency Management Agency
Disaster Assistance Grant Program
As of September 30, 2001**

Emergency Number 3162 - Declaration Date January 24, 2001 - Snow Emergency

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts				
Federal Share	\$3,663,238	\$0	\$0	\$3,663,238
Local Match/State Share	\$47,161	\$0	\$0	\$47,161
Total Award Amount	<u>\$3,710,399</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,710,399</u>
Source of Funds				
Federal Share	\$3,488,222	\$0	\$0	\$3,488,222
Total Administrative Allowance	\$127,855	\$0	\$0	\$127,855
Local Match/State Share	\$47,161	\$0	\$0	\$47,161
Total Source of Funds	<u>\$3,663,238</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,663,238</u>
Application of Funds				
Federal Share	\$3,488,222	\$0	\$0	\$3,488,222
Total Administrative Allowance	\$127,855	\$0	\$0	\$127,855
Local Match/State Share	\$0	\$0	\$0	\$0
Total Application of Funds	<u>\$3,616,077</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,616,077</u>
Balance of Federal Funds on Hand	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>




Federal Emergency Management Agency

Region V
536 South Clark Street, 6th Floor
Chicago, IL 60605-1521

OCT 28 2003

MEMORANDUM FOR: Tonda L. Hadley, Field Director
Office of Inspector General, Audits Division
Department of Homeland Security

FROM: Edward G. Buikema 
Regional Director

SUBJECT: Performance Audit of the State of Indiana's Compliance
with Disaster Assistance Program Requirements

Attached is FEMA Region V's response to the findings and recommendations that were reported in the aforementioned audit dated May 1, 2002. We have taken the State of Indiana's response under advisement and continue to collaborate with the State to resolve any outstanding deficiencies. In addition, the region will meet with the State during this fiscal year to follow-up on any remaining issues.

If you have any questions or concerns, please call Michael Moline, Director, Administration and Resource Planning Division, at 312-408-5368.

cc: Mr. Patrick R. Ralston, Director, Indiana State Emergency management Agency
cc: Ms. Erin D. Singshinsuk, Perot Systems Government Services

Attachments

Attachment

FEMA Region V's Response to Indiana's Audit Report

Findings A.1. “SEMA did not complete grant award activity or submit the Final Reports in a timely manner...Specifically, ..the four disasters that included the Individual and Family Grant Program (IFG)”

Recommendation A.1: “...SEMA should implement procedures to: 1.) Ensure that it notifies the FEMA Regional Director, in writing, of delays in completing grant award activity, and 2.) Modify its staffing plan to ensure sufficient resources exist to manage grant activity, especially during times of multiple disasters.”

Region V's Response: FEMA Region V and SEMA concur with this finding. Because of an amendment to the Stafford act under DMA 2000, the State of Indiana has chose the “FEMA Option” for Individual and Household Program (IHP) administration of future IA declarations. Under the “FEMA Option,” all payments will be processed directly by FEMA and a bill for collection will be sent to the State for its cost share. Thus, eliminating the need to submit final IFG financial reports to FEMA. However, SEMA will be required by FEMA Region V to provide written justification for delays in completing all other grant award activities. Additionally, SEMA will also have to submit a staffing plan That ensures that there is adequate resources to manage multiple disasters.

Findings A.2. “SEMA's Administrative Plans referred to outdated legislation”

Recommendation A.2: “...SEMA (should) update all Administrative Plans to reflect current reporting requirements, such as OBM Circular No. A-133, including modifying the dollar threshold for single audits and the terminology from “receive” to “expend” Federal funds.”

Region V's Response: FEMA Region V and SEMA concur with this finding. SEMA assures FEMA Region V that Administrative Plans have been updated to reflect all reporting requirements. SEMA will submit Administrative Plans to the region for approval. Once the region receives these plans, they will either issue an approval letter or letter stating what corrective actions are necessary to approve the plan.

Findings B.1. “SEMA's financial reporting of program status not properly completed or supported.”

Recommendation B.1: “...SEMA (should) implement formal written procedures to ensure that:

- Forms 20-10, Financial Status Report, are accurate, current, complete, and supported by the agency's accounting records.
- The Schedule of Source and Application of Funds properly reflect the current status of its funds for each of the disasters, and if SEMA determines there is excess cash of Federal Funds on Hand, SEMA should return the excess cash to FEMA as soon as possible.

Region V's Response: FEMA Region V and SEMA concur with the first finding and recommendation. SEMA assures the region that they have new software that will correctly calculate and prepare FF 20-10. FEMA Region V will verify that the software will correct reporting deficiencies. Furthermore, the region will require SEMA to provide FEMA with a copy of the software and written procedures that

substantiate the accuracy of the software and the methods that will be used to input financial information.

Although SEMA disagrees with the finding that the Schedule of Source and Application of Federal Funds are not accurate or reliable, FEMA Region V will require SEMA to implement formal written procedures to ensure accuracy and consistency when completing this schedule.
(Attached is SEMA's updated version of the Schedule of Source and Application of Funds which they assure FEMA is accurate.)

Findings B. 2. **“SEMA does not track management grants and administrative allowances in accordance with applicable regulations”**

Recommendation B.2 “...SEMA (should) implement procedures to ensure that management grants administrative allowances are properly recorded and monitored on an individual disaster basis and that costs claimed are actual expenses supported by the accounting records.”

Region V's Response: FEMA Region V and SEMA concur with this finding and recommendation. SEMA has assured the regional office that expenditures and revenue for management grants and administrative allowances are now being identified by disaster number, in accordance with FEMA regulations and recommendations given by Soza & Co. The regional office will require SEMA to provide documentation that they are implementing these recommendations during a site visit that will be conducted this year.

Findings B.3. **“SEMA did not have adequate controls and procedures surrounding assets.”**

Recommendation B.3: “...SEMA (should)

- 1.) Implement procedures to ensure that all physical asset verifications include, at a minimum: the date the physical inventory was taken; the name of the individual(s) who performed the physical inventory; any differences and the reasons why differences exist; and evidence that a supervisory review was performed over the physical inventory verification.
- 2.) Implement an internal control process to ensure the adequate separation of duties regarding the recording and reconciling of asset additions and deletions. In addition, this process should be documented in the State's Accounting Manual.
- 3.) Implement an internal control process to ensure that all users of the SMARTLINK system are provided with individual usernames and passwords to access the system.

Region V's Response: FEMA Region V and SEMA concur with this finding and recommendations for one and two. SEMA assures the region that the responsibility of performing physical asset verification rests with an individual outside the fiscal office. In addition, this person will work under the advisement of the aforementioned recommendations. Region V will verify the accuracy of this when conducting a site visit with SEMA.

However with respect to finding three, SEMA believes that this matter has been resolved because in the presence of Soza & Co., SEMA contacted the Payment Management System (PMS) and asked about the use of multiple users. PMS stated that multiple passwords were unnecessary because Smartlink draws are wired to the State of Indiana and the probable of misappropriation of funds is

highly unlikely. SEMA assures Region V that Smartlink draws are performed by the Assistant Controller and Controller. Both persons are located in the same office and it is easy to verify who has made the draws. Region V tried to confirm with PMS that multiple passwords were unnecessary. The region is waiting for a reply from this agency. Once we are notified either way, we will ensure that the State complies with PMS' decision.