

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Grant Management: Connecticut's Compliance With Disaster Assistance Program's Requirements



Audit Conducted By:
KPMG LLP

**Dallas Field Office
Office of Audits**

DD-07-06

March 2006



Homeland
Security

March 31, 2006

MEMORANDUM FOR: Kenneth L. Horah
Acting Regional Director, FEMA Region I
Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Audit of Disaster Assistance
State of Connecticut
Grant Program Management
Audit Report Number DD-07-06*

This memorandum transmits the results of the subject audit performed by KPMG LLP, an independent accounting firm under contract with the Office of Inspector General. In summary, KPMG LLP determined that the State of Connecticut's delivery of program services to entities and individuals appeared to be adequate. However, the State needs to improve its financial reporting and monitoring of grant monies.

On November 7, 2005, you responded to the draft report and included the State's response. You stated that that you concurred with the State's "recommendations" and that you had no additional comments at that time. Although the State's response addressed portions of the recommendations, it was not adequate to resolve them. Therefore, all the recommendations remain unresolved. In the body of the report, after each recommendation, we have described the steps necessary to resolve and close the recommendation. The attached report also includes your response, in its entirety, as Appendix E.

Please provide us your corrective action plan, with target completion dates, within 90 days of the final report date. We look forward to working with you in resolving our recommendations. If you have any questions concerning this report, please contact Paige Hamrick or me at (940) 891-8900.

cc: Ms. Martha Barksdale, Contracting Officer's Technical Representative
Mr. Christopher Lynch, Region I Audit Liaison
Mr. Michael L. Kulig, Partner, KPMG LLP

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Commonly Used Acronyms

CFR.....	Code of Federal Regulations
CTR.....	Cash Transaction Report
DEP.....	Department of Environmental Protection (<i>Managed the HM Program</i>)
DHS.....	Department of Homeland Security
DRM.....	Disaster Recovery Manager
DSR.....	Damage Survey Report
DSS.....	Department of Social Services (<i>Managed the IFG Program</i>)
EOC.....	Emergency Operations Center
FCO.....	Federal Coordinating Officer
FCTR.....	Federal Cash Transaction Report
FEMA.....	Federal Emergency Management Agency
FRC.....	Federal Regional Center
FSR.....	Financial Status Report
GAR.....	Governor’s Authorized Representative
HM.....	Hazard Mitigation
IFG.....	Individual and Family Grant
NEMIS.....	National Emergency Management Information System
NFIP.....	National Flood Insurance Program
OEM.....	Office of Emergency Management
OPM.....	Office of Policy and Management (<i>Managed the PA Program</i>)
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
PA.....	Public Assistance
PDA.....	Preliminary Damage Assessment
PNP.....	Private Non-Profit
PW.....	Project Worksheet
RPA.....	Request for Public Assistance
SBA.....	Small Business Administration
SCO.....	State Coordinating Officer
SFHA.....	Special Flood Hazard Area
USC.....	United States Code

I. Executive Summary

KPMG LLP HAS COMPLETED ITS AUDIT of the State of Connecticut's administration of federal disaster assistance grant programs for the federal fiscal year ending September 30, 2002. The objective of this audit was to determine whether the state (the grantee):

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

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

Our audit addressed three disaster assistance programs: the Public Assistance (PA) program, the Hazard Mitigation (HM) program, and the Individual and Family Grant (IFG) program. The scope of the audit was limited to one Presidential disaster declaration and one Presidential emergency declaration (Table 1 in Section III). Further, our testing was limited to those programs that were open during the period of our review, October 1, 2001, through September 30, 2002. The federal share of total funds awarded for the audited disasters through September 30, 2002, was \$10,230,725 (see attachment V-A, Sources and Application of Funds).

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

A. Program Management

Summary findings related to program management follow.

■ Finding 1

Condition: The administrative plans for the PA and HM programs were found to be missing required procedures.

Effect: Incomplete administrative plans require the Connecticut Office of Policy and Management (OPM) to rely on the institutional knowledge of one or more staff to carry out the programs. In the event those individuals are not available, grantee grant management may deteriorate as new staff attempt to implement the program with inadequate guidelines. Without specific detailed written procedures and performance measures, grant administration may be inconsistent.

B. Financial Management

Summary findings related to financial management follow.

■ **Finding 2**

Condition: The general ledger accounting records did not support the amounts reported on the Financial Status Reports (FSRs) by the State of Connecticut.

Effect: By OPM's not adequately documenting the expenditures on the quarterly financial reports, the reports lose value and credibility as an internal control over the proper use of federal funds.

■ **Finding 3**

Condition: OPM and Connecticut's Department of Environmental Protection (DEP) did not support expenditures under the administrative allowances awarded for both the PA and HM programs.

Effect: Failure to document expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

■ **Finding 4**

Condition: DEP did not adequately support labor costs claimed under the HM management grant and failed to have those costs properly approved by the Regional Director.

Effect: Failure to adequately support expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

C. FEMA and Connecticut Office of Emergency Management Comments

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

Region I responded to the draft report and included the State's response. The Region stated that it concurred with the State's "recommendations" and that it had no additional comments at that time. The response did not address some findings and did not contain action plans addressing the report's recommendations. Therefore, all recommendations in the report remain unresolved.

D. Report Attachments

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

- A. Sources and Application of Funds
- B. Schedule of Questioned Costs
- C. List of Other Audit Reports and Internal Control Reviews
- D. Differences by Quarter Between FSRs and State Accounting System—Federal, State, and Local Shares
- E. Management’s Response

II. Introduction

STATE AND LOCAL GOVERNMENTS SHARE THE RESPONSIBILITY for protecting their citizens from disasters and for helping them to recover when a disaster strikes. In some cases, a disaster is beyond the capabilities of a state or local government to respond. In 1988, the Stafford Act was enacted to support state and local governments and their citizens when disasters overwhelm them. This law, as amended, established a process for requesting and obtaining a Presidential disaster declaration, defined the type and scope of assistance available from the federal government, and set the conditions for obtaining that assistance. FEMA is tasked with coordinating the response.¹

A. FEMA's Role in Disaster Assistance

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

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

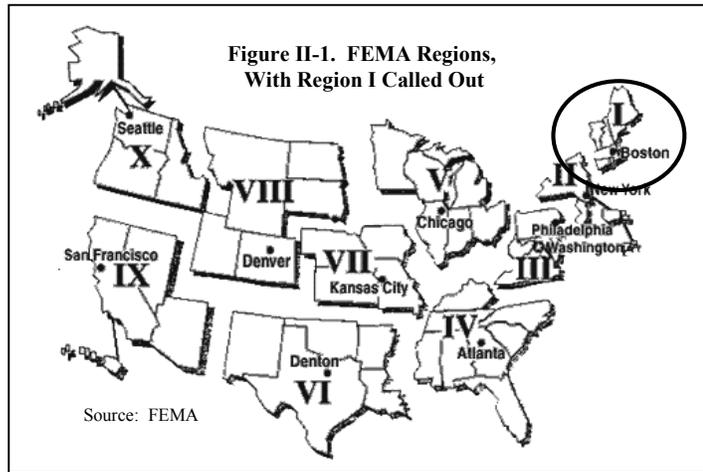
Following a declaration, the President may direct any federal agency to use its authority and resources in support of state and local assistance to the extent that provision of the support does not conflict with other agency emergency missions. This authority has been further delegated to the FEMA Director,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

¹ The sources of the information contained in this section include the FEMA website; FEMA publications such as the *Applicant Handbook* and *Public Assistance Policy Digest*; and regulations, statutes, and OMB circulars, including 44 CFR and the *Stafford Act*. Note that this section reflects FEMA's role in disaster assistance before publication of the *National Response Plan* in December 2004.

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

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

FEMA’s Region I provides the majority of the assistance for the State of Connecticut. Region I also administers the federal emergency preparedness, damage prevention, and response and recovery programs for the states of Maine, New Hampshire, Vermont, Rhode Island, Connecticut, and Massachusetts. FEMA Region I is headquartered in Boston, Massachusetts.



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

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

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

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

C. FEMA Disaster Assistance Programs Subject to Audit

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

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

Public Assistance Program

The PA program, authorized under section 406 of the Stafford Act, is oriented to public entities and can fund the repair, restoration, reconstruction, or replacement of public infrastructure damaged or destroyed by a disaster. Eligible applicants include state governments,

local governments, and any other political subdivision of the state, Native American tribes, and Alaska Native Villages.

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

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

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

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

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

FEMA reviews and approves the PWs and obligates the federal share of the costs, which cannot be less than 75 percent, to the state. The state then disburses funds to local applicants.

Projects falling below a certain threshold are considered “small.” The threshold is adjusted annually for inflation. For small projects, payment of the federal share of the estimate is made upon approval of the project, and no further accounting to FEMA is required (except certification that the project was completed in accordance with FEMA approvals).

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

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

Hazard Mitigation Grant Program

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

The state, as grantee, is responsible for notifying potential applicants of the availability of funding, defining a project selection process, ranking and prioritizing projects for funding, and forwarding projects to FEMA for approval. The applicant, or subgrantee, carries out approved projects. The state or local government must provide at least a 25 percent cost share, which can be fashioned from a combination of cash and in-kind sources. Federal funding from other sources cannot be used for the non-federal share, with some exceptions, such as funding provided to states under the Community Development Block Grant program from the Department of Housing and Urban Development.

The amount of funding available for the HM grant program under a disaster declaration is finite and limited to 15 percent of FEMA’s estimated total disaster costs for all other categories of assistance, less administrative costs. In addition, states may use a set-aside of up to 5 percent of the total HM grant program funds available for mitigation measures at their discretion. To be eligible, a set-aside project must be identified in a state’s hazard mitigation plan and fulfill the goal of the HM grant program.

Eligible mitigation measures under the HM grant program include acquisition or relocation of property located in high hazard areas, elevation of flood-prone structures, seismic rehabilitation of existing structures, strengthening of existing structures against wildfire, and flood proofing activities that bring a structure into compliance with minimum NFIP requirements and state or local code. Up to 7 percent of the HM grant program funds may be used to develop state or local mitigation plans.

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

Individual and Family Grant Program

The IFG program, authorized by section 411 of the Stafford Act, provides funds for the necessary expenses and serious needs of disaster victims that cannot be met through insurance or other forms of disaster assistance, including low interest loans from the SBA. The maximum amount of each grant is annually adjusted to reflect changes in the Consumer Price Index.²

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

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

² Note that the program this section describes ended in October 2002 and was replaced by the Individuals and Households Program.

D. State Department Responsible for Administering Disaster Programs

The state departments and offices responsible for the administration of emergency management services for the State of Connecticut are the Office of Policy and Management (OPM), the Department of Environmental Protection (DEP), and the Department of Social Services (DSS).

OPM is responsible for administration of the PA program, DEP is responsible for administration of the HM program, and DSS is responsible for administration of the IFG program.

We understand that administration of the PA program will be transitioned to the state Office of Emergency Management, which previously only had the grant administrative responsibility of preparing the Financial Status and Federal Cash Transaction reports (FSRs and FCTRs).

III. Objectives, Scope, and Methodology

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

A. Objectives

The Department of Homeland Security (DHS), Office of Inspector General (OIG), engaged KPMG to determine whether the State of Connecticut (the grantee):

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

B. Scope

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

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

KPMG was requested to review one emergency and one disaster as identified in the Table III-1. Our testing was limited to those programs that were open during the period of our review: October 1, 2001, through September 30, 2002.

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

Table III-1. Disaster and Programs Reviewed

Disaster Number	Type of Disaster	Date Declared	PA Program	HM Grant Program	IFG Program
DR-1092	Blizzard of 1996	01/24/1996	X		
DR-1302	Tropical Storm Floyd	09/23/1999	X	X	X

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

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

KPMG LLP was not engaged to, and did not, perform a “financial statement audit,” the objective of which would be to express an opinion on the financial statements. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of this audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters may have come to our attention that would have been reported. This report relates only to the accounts and items specified. This report does not extend to any financial statements of the State of Connecticut or OPM and should not be used for that purpose. Nor does this work entail an audit in accordance with OMB Circular A-133.

C. Methodology

We carried out our audit steps and procedures in accordance with the FEMA OIG’s *Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs*, dated March 2001. The audit guide included audit steps and procedures for audit planning and fieldwork.

We conducted our fieldwork primarily at two locations. Initial fieldwork began with an entrance conference at Region I in Boston on September 9, 2003. Data collection was performed at OPM offices in Hartford, Connecticut. Data analysis occurred in Hartford as well as in KPMG offices.

Evidence

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

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

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

- Rules and regulations governing the disaster assistance grant programs under review;
- Organization charts and background information on Region I and OPM;
- Various program correspondence files, project files, and program/project reports;
- Presidential disaster declarations, FEMA–State Agreements, and state administrative plans;
- FSRs and FCTRs;
- Various financial systems and their reports of both Region I and OPM;
- Various financial records of OPM (e.g., journal entries, program disbursement approvals; revenue receipts [deposits]; purchase orders, requisitions, warrants; etc.);
- Various financial statement audit reports, schedule of federal financial assistance audit reports, internal control reviews and certifications, cost plans, etc., of OPM; and
- Supporting documentation necessary to gain an understanding of the control environment of OPM.

As discussed earlier, we reviewed audit reports and internal control reviews and certifications that we believed to be relevant to understanding the control environment at OPM. Attachment C contains a list of audit and internal control reports KPMG reviewed as part of this audit.

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

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

- The financial reporting process to Region I by OPM;

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

Criteria

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

- Specific rules and regulations as prescribed by the Stafford Act and Title 44 of the CFR;
- Guidelines, policies, and procedures as issued by FEMA in the administration of grant programs;
- State of Connecticut rules, regulations, policies, and procedures;
- Observations from other related audits we have conducted.

Sampling and Testing

Our sampling and testing work included the following:

- A representative sample of expenditure transactions for all three grant programs was selected and testing was performed to determine whether these transactions were supported by the appropriate documents;
- A representative sample of drawdown transactions for all three grant programs was selected, and testing was performed to determine whether these transactions were supported by the appropriate documents;
- A representative number of small and large PA program projects was tested for various compliance requirements, such as statutory completion deadlines, timeliness of payments, status reporting, eligibility of costs, and availability of support documentation;
- A sample of federally funded HM grant program project files was tested for various compliance requirements, such as statutory completion deadlines, timeliness of payments, eligibility of costs, status reporting, consideration of environmental factors, compliance with approved mitigation plan (409 plan), and availability of support documentation;

- A number of rejected and approved HM grant program projects was tested for various compliance requirements, such as justification for rejection and timely notification of subgrantee of determination;
- A representative sample of “management grant” expenditure transactions for the PA program and HM program was selected, and testing was performed to determine whether these transactions were supported by the appropriate documents; and
- A sample of IFG program payments was tested for timeliness and sufficiency of supporting documents.

Standards

Our audit was performed in accordance with the standards defined in the Government Auditing Standards (the *Yellow Book*) issued by the Comptroller General of the United States. In addition, the Department of Homeland Security, Office of Inspector General, provided an audit guide and report format for use in carrying out this work. These two client-provided documents identified the audit steps we were required to follow as well as the format and content of this report.

IV. Findings and Recommendations

THIS SECTION PRESENTS OUR FINDINGS under the headings of “program management” and “financial management.”

A. Program Management Findings

Finding 1 – The Administrative Plans for the PA and HM Programs Were Found to be Missing Required Procedures

The administrative plans for two of the three programs reviewed were missing required procedures, as further described below.

- Based upon its review, KPMG observed that the administrative plan for PA was missing 2 of 18 items required by 44 CFR 206.207(b):
 - (E) *Participating with FEMA in the establishment of hazard mitigation.*
 - (J) *Determining staffing and budgeting requirements necessary for proper program management.*

We note that 16 of the 18 required items are included in the plan and appear to be adequate.

- Based upon its review, KPMG observed that the administrative plan for HM was missing 2 of 16 items required by 44 CFR 206.437(b):
 - *Comply with the administrative requirements of 44 CFR parts 13 and 206.*
 - *Comply with audit requirements of 44 CFR part 14.*

We note that 14 of the 16 required items are included in the plan and appear to be adequate.

According to 44 CFR 206.207(b), *State administrative plan*, the PA administrative plan must include 18 items at a minimum. For the HM program, 44 CFR 206.437, *State administrative plan*, identifies 16 items that must be included in the administrative plan.

Incomplete administrative plans require OPM to rely on the institutional knowledge of one or more staff to carry out the programs. In the event those individuals are not available, grantee grant management may deteriorate as new staff attempt to implement the program with inadequate guidelines. Without specific written procedures and performance measures, grant administration may be inconsistent.

OPM does not view the administrative plans as the definitive procedures for how its organization carries out the programs, but rather as an administrative requirement to satisfy FEMA. In the auditor’s opinion, the region then approves the plans without requiring adequate

detail behind the 44 CFR-required items. As a result, the documents become largely a checklist indicating that OPM will undertake certain activities, without describing how those activities will be carried out.

Recommendations

KPMG recommends that, in the event of a future disaster, the Regional Director, FEMA Region I, require the state to update the administrative plans to include the detailed procedures it will carry out to meet the requirements specified in the CFR for each program.

KPMG also recommends that Region I require detailed procedures in the state administrative plans they review and develop a system to ensure that plans lacking these procedures be updated prior to approval.

Management’s Response and Auditor’s Reaction. The Region provided comments from the State that did not include a response on these recommendations. Therefore, these two recommendations remain unresolved until the Region provides an action plan and target completion date for OPM to update the administrative plans to include the detailed procedures it will carry out to meet the requirements specified in the CFR for each program.

B. Financial Management Findings

The financial management findings that follow in this section relate more specifically to deficiencies in accounting procedures. Accordingly, the statement of the finding is preceded with the general phrase “Deficiencies in Accounting Procedures,” followed by a more specific statement of the finding. Because these findings cut across the several departments responsible for administering the disaster grant programs, they have not been combined into a single finding.

Finding 2 – Deficiencies in Accounting Procedures: <i>The State of Connecticut Overstated Expenditures Reported on the Financial Status Reports</i>
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The state’s general ledger accounting records did not support the amounts of PA program outlays reported on the FSRs for the periods 12-31-1999 through 6-30-2003. Table IV-1 summarizes the variances KPMG identified by quarter for the federal share. Appendix D contains the detail by quarter and share (state/local and federal).

Table IV-1. Summary of Quarterly Differences Between FSRs and State Accounting System— Federal Share Only CT Disaster 1302			
Quarter Ending	Amounts from FSR (Cumulative)	State Accounting System (Cumulative)	Difference
12/31/1999	\$0	\$715,344	(\$715,344)
3/31/2000	\$0	\$1,366,962	(\$1,366,962)
6/30/2000	\$0	\$1,506,015	(\$1,506,015)
9/30/2000	\$1,506,015	\$1,532,711	(\$26,696)
12/31/2000	\$1,506,015	\$1,600,259	(\$94,244)
3/31/2001	\$1,506,015	\$1,600,259	(\$94,244)
6/30/2001	\$1,506,015	\$1,698,752	(\$192,737)
9/30/2001	\$1,506,015	\$1,723,250	(\$217,235)
12/31/2001	\$1,506,015	\$1,724,515	(\$218,500)
3/31/2002	\$1,723,250	\$1,787,093	(\$63,843)
6/30/2002	\$1,787,093	\$1,787,093	\$0
9/30/2002	\$1,787,093	\$1,787,093	\$0
12/31/2002	\$1,787,093	\$1,787,093	\$0
3/31/2003	\$1,787,093	\$1,787,093	\$0
6/30/2003	\$1,875,869	\$1,800,193	\$75,676

According to 44 CFR 13.41(b), *Financial status report*, grantees must prepare and submit on a quarterly basis Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all non-construction grants. Under the requirements of 44 CFR 13.20(a), *Standards for financial management systems*, grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

KPMG reviewed FSRs submitted for the PA program between 12-31-1999 and 6-30-2003. We then met with OPM to determine the procedures followed to complete the FSRs. During our initial meeting with OPM, we were informed that the individual responsible for completing the FSRs was no longer with OPM. Also, the responsibility of completing the FSRs was no longer assigned to OPM and no one in their office understood how these reports had been completed. Absent written procedures to explain how the FSRs were completed, we had to determine on our own through attempts at re-performance or re-construction of financial records, whether the program outlays reported on the FSRs were properly supported.

We obtained OPM's accounting general ledger for comparison with the FSRs for the same period (12-31-1999 to 6-30-2003) and determined that discrepancies existed between the amount of program outlays documented in the ledgers and reported to FEMA on the FSRs.

We followed up on these discrepancies with the OPM accounting department officials and were informed that the amount of program outlays reported on the FSRs were overstated.

By OPM's overstating the program outlays on the quarterly financial reports, this important financial reporting tool loses value and credibility to FEMA as an internal control over the use of federal funds.

OPM does not have written procedures for completing the FSRs that (a) delegate preparation responsibility, (b) describe how to complete the form correctly, and (c) define the appropriate support documentation to include in the archive.

Recommendation

KPMG recommends that the Regional Director, FEMA Region I, require the state to develop policies and procedures for how to complete, document, and archive support behind the FSRs. Training on the proper process for FSR completion should also be provided.

Management's Response and Auditor's Reaction. The Region provided comments from the State that did not address this recommendation. Therefore, this recommendation remains unresolved. To resolve this recommendation, the Region must provide an action plan and target completion date for the State to develop the policies and procedures for how it will complete, document, and archive support behind the FSRs. Further, the Region must provide assurance that appropriate staff has received training on the proper process for FSR completion.

Finding 3 – Deficiencies in Accounting Procedures: OPM and DEP Did Not Support Expenditures Under the Administrative Allowances Awarded for Both the PA and HM Programs

OPM and DEP are unable to support costs associated with the statutory administrative allowances awarded under the PA and HM programs. The amounts involved were \$28,860 obligated under FEMA Disaster No. 1302 for the Public Assistance, and \$7,505 obligated under FEMA Disaster No. 1302 for the Hazard Mitigation.

Criteria related to this condition can be found in 44 CFR:

- Grants generally (*Section 13.20(a), Standards for financial management systems*);
- Regulations particular to the PA program (*Section 206.228(a)(2), Statutory administrative costs*); and
- Regulations particular to the HM program (*Section 206.439(b)(1), Statutory administrative costs*).

According to 44 CFR 13.20(a), *Standards for financial management systems*, grantees must maintain records that adequately identify the source and application of funds provided.

The criteria related to the PA and HM programs identify the types of costs permissible under the administrative allowance grants—namely, the extraordinary costs incurred by the state for preparation of applications, quarterly reports, final audits, and related field inspections. In particular, allowable costs include overtime pay and per diem and travel expenses, but do not include regular time.

Failure to document expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

Although FEMA has not historically requested to see support from grantees to justify their costs associated with the use of administrative allowance funds, the requirements are clear according to the above criteria. The state does not have procedures in place to separately account for costs associated with the administrative allowance.

Recommendation

KPMG recommends that the Regional Director, FEMA Region I, direct the state to establish procedures for tracking expenses charged to statutory administrative funds. We do not recommend deobligation of these funds because the amounts reimbursed appear to be reasonable for covering state-incurred costs associated with obtaining and administering the federal grants.³

Management’s Response and Auditor’s Reaction. The Region provided comments from the State that it has established procedures for tracking expenses associated with administrative allowances in the event of future disasters. The procedures the State identified in its written response address force account labor costs and attendant benefits only. However, the administrative allowance also covers out-of-pocket costs that include per diem and travel. Because the State has not identified remedial steps already taken or planned with regard to all cost elements of this recommendation, the recommendation remains unresolved. To resolve this recommendation, the Region must provide an action plan and target completion date for establishing procedures for OPM and DEP to track administrative allowances for out-of-pocket costs, including per diem and travel.

³ The Disaster Mitigation Act of 2000 (DMA) repealed the administrative allowance authorized by the Stafford Act and required FEMA to establish management cost rates by regulation. Although FEMA published a proposed rule in 2002, FEMA has yet to publish a final rule. DMA authorizes continued use of the statutory administrative allowance previously authorized by the Stafford Act until the new management cost rates are implemented.

Finding 4 – Deficiencies in Accounting Procedures: *DEP Did Not Adequately Support Labor Costs Claimed Under the HM Management Grant and Failed to Have Those Costs Properly Approved by the Regional Director*

The DEP failed to support labor costs claimed under the Management Grant filed for Disaster 1302. Specifically, there was no supporting documentation to justify the number of hours claimed or the type of work carried out. The DEP requested reimbursement of \$42,726 for the state management and administration of hazard mitigation projects under disaster 1302. This amount was based on an estimate of 7.5 percent of department staff time spent over the course of the previous four years and continuing through November 2003. There was no support for this estimate of 7.5 percent and no clear methodology of how DEP came up with this as the percentage of effort involved with management of the Hazard Mitigation Grant. In addition, KPMG found no evidence that the state submitted a plan for staffing the disaster, or that these costs were approved in advance through the RD. Though the RD eventually approved costs claimed by the grantee, this approval was done after costs were incurred.

According to OMB Circular A-87, Attachment B, Section 11,⁴ Compensation for personnel services, h (5), personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

In addition, 44 CFR 206.439, *Allowable costs*, states that after the close of the Disaster Field Office (DFO), costs of state personnel (regular time salaries only) for continuing management of the hazard mitigation grants may be eligible when approved in advance by the Regional Director, and that the state must submit a plan for such staffing in advance of the requirement.

Failure to adequately support expenditures of federal funds could lead to payment of costs that are ineligible or unallowable. The state could be made to pay back funds already received and disbursed.

The cause for this finding appears to be DEP's failure to require staff to regularly track and allocate their time spent managing the HM program. Moreover, it does not have in place procedures for requesting and obtaining ahead of time the necessary approvals from FEMA.

⁴ Personnel services are addressed under Section 11 of the 1995 version of A-87. They are addressed under Section 8 of the current (2004) version.

Recommendations

KPMG recommends that the Regional Director, FEMA Region I, require the state to implement a timekeeping system to enable it to track employee time spent working on federally funded projects.

KPMG also recommends that Region I require and enforce prior approval of management grant costs incurred after closure of the DFO.

Management's Response and Auditor's Reaction. The Region provided comments from the State indicating that, in the future, it will use its existing automated timekeeping system to track expenses associated with any HMGP awards. The State describes the process, and notes it will work with the Region to establish procedures for requesting approval of management costs before incurring them. Moreover, the State says that it will document management costs once the final FSR is submitted. These actions are adequate to address the first part of the recommendation. However, the recommendation remains unresolved until the Region provides established procedures for requiring and enforcing prior approval of management grant costs incurred after closure of the DFO. The Region must also provide a target completion date for any planned actions not already implemented.

V. Attachments

THIS SECTION CONTAINS THE FOLLOWING ATTACHMENTS:

- A. Sources and Application of Funds
- B. Schedule of Questioned Costs
- C. List of Other Audit Reports and Internal Control Reviews
- D. Differences by Quarter Between FSRs and State Accounting System—Federal, State, and Local Shares
- E. Management's Response

A. Sources and Application of Funds

**Schedule of Sources and Application of Funds
For the Period Ending September 30, 2002* (Unaudited)**

*State of Connecticut Office of Policy and Management
Disaster Number 1092 Blizzard of 1996 January 24, 1996*

Program:	Individual and Family Grant Program	Public Assistance Program	Hazard Mitigation Grant Program	Total
<i>CFDA Number:</i>	<i>83.543</i>	<i>83.544</i>	<i>83.548</i>	
	(US\$)	(US\$)	(US\$)	(US\$)
Awards				
Federal Share	--	7,966,080	--	7,966,080
Local Share	--	2,655,360	--	2,655,360
<i>Subtotal</i>	--	10,621,440	--	10,621,440
Source of Funds				
Federal Share	--	7,966,080	--	7,966,080
Local Share	--	2,655,360	--	2,655,360
<i>Subtotal</i>	--	10,621,440	--	10,621,440
Application of Funds				
Federal Share	--	7,884,080	--	7,884,080
Local Share	--	2,628,027	--	2,628,027
<i>Subtotal</i>	--	10,512,107	--	10,512,107
Balance of Federal Funds on Hand	--	\$82,000	--	\$82,000
*This schedule presents the sources and application of funds from declaration of the disaster through September 30, 2002.				

Schedule of Sources and Application of Funds
For the Period Ending September 30, 2002* (Unaudited)

State of Connecticut Office of Policy and Management
Disaster Number 1302 Tropical Storm Floyd, September 16, 1999

Program:	Individual and Family Grant Program	Public Assistance Program	Hazard Mitigation Grant Program	Total
<i>CFDA Number:</i>	83.543	83.544	83.548	
	(US\$)	(US\$)	(US\$)	(US\$)
Awards				
Federal Share	101,255	1,875,869	287,521	2,264,645
State Share	33,751	625,290	95,840	754,882
Subtotal	135,006	2,501,159	383,361	3,019,527
Source of Funds				
Federal Share	101,255	1,875,869	0	1,977,124
Local Share	33,752	625,290	0	659,041
Subtotal	135,007	2,501,159	0	2,636,165
Application of Funds				
Federal Share	101,255	1,885,599	57,383	2,044,236
Local Share	32,145	566,320	0	598,464
Subtotal	133,400	2,451,919	57,383	2,642,700
Balance of Federal Funds on Hand	(\$0)	(\$0)	(\$0)	(\$0)
*This schedule presents the sources and application of funds from declaration of the disaster through September 30, 2002.				

B. Schedule of Questioned Costs

Finding	Questioned Cost
None	\$0
TOTAL QUESTIONED COSTS:	\$0

C. List of Other Audit Reports and Internal Control Reviews

Date of Report	Date of Review	Issued By	Title of Report	Finding:	Resolved?	Comments
12/31/1998	7/1/1997 to 6/30/1998	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 1998	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed copy provided by client
12/31/1999	7/1/1998 to 6/30/1999	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 1999	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed on site at the Auditor of public accounts office. No copy was available online.
12/31/2000	7/1/99 to 6/30/2000	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 2000	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed on site at the Auditor of public accounts office. No copy was available online.
12/31/2001	7/1/2000 to 6/30/2001	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 2001	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed copy provided by client
2/28/2003	7/1/2001 to 6/30/2002	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 2002	None related to or having an effect on FEMA programs.	Not Applicable	Review online copy of report.
3/24/2004	7/1/2002 to 6/30/2003	Auditors of Public Accounts	Single Audit of the State of Connecticut for Year Ended June 30, 2003	None related to or having an effect on FEMA programs.	Not Applicable	Review online copy of report.
4/13/2004	7/1/99 to 6/30/2001	Auditors of Public Accounts	Auditors' Report Department of Environmental Protection for the Fiscal Years ended June 30, 2000 and 2001	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed online copy of report.
9/27/1999	7/1/1994 to 6/30/1997	Auditors of Public Accounts	Auditors' Report Office of Policy and Management Finance Advisory Committee for the Fiscal Years ended June 30, 1995, 1996 and 1997	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed copy provided by client
8/1/2001	7/1/1997 to 6/30/1999	Auditors of Public Accounts	Auditors' Report Office of Policy and Management Finance Advisory Committee for the Fiscal Years ended June 30, 1998 and 1999	None related to or having an effect on FEMA programs.	Not Applicable	Reviewed copy provided by client
9/5/2002	7/1/1999 to 6/30/2001	Auditors of Public Accounts	Auditors' Report Office of Policy and Management Finance Advisory Committee for the Fiscal Years ended June 30, 2000 and 2001	OPM has not conducted a physical of their inventory since December of 1999.	OPM was in the process of conducting an inventory during our initial visit so it would appear the issue is being addressed.	Reviewed copy provided by client

**D. Differences by Quarter Between FSRs and State Accounting System—
Federal, State, and Local Shares**

Differences by Quarter Between FSRs and State Accounting System— Federal, State, and Local Shares CT Disaster 1302			
Quarter Ending	Amounts from FSR (Cumulative)	State Accounting System (Cumulative)	Difference
12/31/1999			
Net Outlays (State Share + Federal Share)	-	953,792	(953,792)
State/Local Share	-	238,448	(238,448)
Federal Share	-	715,344	(715,344)
Total of Federal and State Share	-	953,792	(953,792)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	1,589,857		
3/31/2000			
Net Outlays (State Share + Federal Share)	-	1,822,616	(1,822,616)
State/Local Share	-	455,654	(455,654)
Federal Share	-	1,366,962	(1,366,962)
Total of Federal and State Share	-	1,822,616	(1,822,616)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	1,589,857		
6/30/2000			
Net Outlays (State Share + Federal Share)	-	2,008,020	(2,008,020)
State/Local Share	-	502,005	(502,005)
Federal Share	-	1,506,015	(1,506,015)
Total of Federal and State Share	-	2,008,020	(2,008,020)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	1,589,857		
9/30/2000			
Net Outlays (State Share + Federal Share)	1,678,374	2,043,614	(365,240)
State/Local Share	172,359	510,904	(338,545)
Federal Share	1,506,015	1,532,711	(26,695)
Total of Federal and State Share	1,678,374	2,043,614	(365,240)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
12/31/2000			
Net Outlays (State Share + Federal Share)	1,678,374	2,133,678	(455,305)
State/Local Share	172,359	533,420	(361,061)
Federal Share	1,506,015	1,600,259	(94,244)

Differences by Quarter Between FSRs and State Accounting System— Federal, State, and Local Shares CT Disaster 1302			
Total of Federal and State Share	1,678,374	2,133,678	(455,305)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
<i>3/31/2001</i>			
Net Outlays (State Share + Federal Share)	1,678,374	2,133,678	(455,305)
State/Local Share	172,359	533,420	(361,061)
Federal Share	1,506,015	1,600,259	(94,244)
Total of Federal and State Share	1,678,374	2,133,678	(455,305)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
<i>6/30/2001</i>			
Net Outlays (State Share + Federal Share)	1,678,374	2,265,003	(586,629)
State/Local Share	172,359	566,251	(393,892)
Federal Share	1,506,015	1,698,752	(192,737)
Total of Federal and State Share	1,678,374	2,265,003	(586,629)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
<i>9/30/2001</i>			
Net Outlays (State Share + Federal Share)	1,678,374	2,297,666	(619,293)
State/Local Share	172,359	574,417	(402,058)
Federal Share	1,506,015	1,723,250	(217,235)
Total of Federal and State Share	1,678,374	2,297,666	(619,293)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
<i>12/31/2001</i>			
Net Outlays (State Share + Federal Share)	1,678,374	2,299,353	(620,979)
State/Local Share	172,359	574,838	(402,480)
Federal Share	1,506,015	1,724,515	(218,499)
Total of Federal and State Share	1,678,374	2,299,353	(620,979)
Total Federal Funds Authorized	1,589,857		
Available Federal Funds	83,842		
<i>3/31/2002</i>			
Net Outlays (State Share + Federal Share)	2,297,666	2,382,790	(85,124)
State/Local Share	574,417	595,698	(21,281)
Federal Share	1,723,250	1,787,093	(63,843)
Total of Federal and State Share	2,297,666	2,382,790	(85,124)
Total Federal Funds Authorized	1,814,890		
Available Federal Funds	91,640		
<i>6/30/2002</i>			
Net Outlays (State Share + Federal Share)	2,382,790	2,382,790	-
State/Local Share	595,698	595,698	-

Differences by Quarter Between FSRs and State Accounting System— Federal, State, and Local Shares CT Disaster 1302			
Federal Share	1,787,093	1,787,093	-
Total of Federal and State Share	2,382,790	2,382,790	-
Total Federal Funds Authorized	1,814,890		
Available Federal Funds	27,797		
9/30/2002			
Net Outlays (State Share + Federal Share)	2,404,071	2,382,790	21,281
State/Local Share	616,979	595,698	21,281
Federal Share	1,787,093	1,787,093	-
Total of Federal and State Share	2,404,071	2,382,790	21,281
Total Federal Funds Authorized	1,814,890		
Available Federal Funds	27,797		
12/31/2002			
Net Outlays (State Share + Federal Share)	2,404,071	2,382,790	21,281
State/Local Share	616,979	595,698	21,281
Federal Share	1,787,093	1,787,093	-
Total of Federal and State Share	2,404,071	2,382,790	21,281
Total Federal Funds Authorized	1,814,890		
Available Federal Funds	27,797		
3/31/2003			
Net Outlays (State Share + Federal Share)	2,404,071	2,382,790	21,281
State/Local Share	616,979	595,698	21,281
Federal Share	1,787,093	1,787,093	-
Total of Federal and State Share	2,404,071	2,382,790	21,281
Total Federal Funds Authorized	1,814,890		
Available Federal Funds	27,797		
6/30/2003			
Net Outlays (State Share + Federal Share)	2,501,158	2,400,258	100,900
State/Local Share	625,290	600,064	25,225
Federal Share	1,875,869	1,800,193	75,675
Total of Federal and State Share	2,501,158	2,400,258	100,900
Total Federal Funds Authorized	1,875,869		
Available Federal Funds	-		

E. Management Response

This attachment contains written management responses to KPMG's report. Responses are presented from FEMA Region I and from the State of Connecticut.

MANAGEMENT COMMENTS

U.S. Department of Homeland Security
Region I
99 High St, 6th Floor
Boston, MA 02110-2320



FEMA

NOV 7 - 2005

Mr. Gary Berard,
Department of Homeland Security
Office of Inspector General
Atlanta Field Office- Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

Dear Mr. Berard:

Attached please find the State of Connecticut's response to the draft audit findings to the
OIG audit of the state of Connecticut Disaster Grant program. Region One has reviewed
this response and concurs with its recommendations. The Region provides no additional
comments at this time. We request that you consider these recommendations when you
compile the final report.

If you have any questions or need assistance please feel free to contact me or Chris Lynch,
at 617-832-4795.

Sincerely,

Kenneth L. Horak
Acting Regional Director

Enclosure

Cc: Acting Deputy RD
Division Directors

www.fema.gov



STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL PROTECTION



October 4, 2005

Mr. Paul Gibb
DEMHS
360 Broad Street
Hartford, CT 06105

Dear Mr. Gibb:

Enclosed, please find the Department of Environmental Protection responses to the findings and recommendations found in the Audit of Disaster Assistance Grant Program Management (Final Draft), dated July 2005.

If you have any questions about the responses, please do not hesitate to contact either Daniel Moylan at (860) 424-3125 or myself at (860) 424-3120.

Yours truly,

Nancy Schweizer
Fiscal Administrative Manager
Bureau of Financial & Support Services

cc: Denise Ruzicka, DEP- IWRD

Connecticut Department of Environmental Protection
Response to Findings and Recommendations
Audit of Disaster Assistance Grant Program Management

Audited By: KPMG
Final Draft: July 2005
Contract Number: GS-23F-8127H

Disaster Number: #DR-1302-CT (Tropical Storm Floyd) Declaration 9/23/99

Finding 3 – Deficiencies in Accounting Procedures: OPM and DEP Did Not Support Expenditures Under the Administrative Allowances Awarded for Both the PA and HM Programs.

DEP Response:

The Connecticut Department of Environmental Protection (CTDEP) acknowledges that statutory administrative funds were considered eligible for reimbursement upon the completion of each HMGP Project awarded pursuant to a Disaster Declaration. The CTDEP was not aware of the requirements for the documentation of these administrative costs as set forth in the various federal regulations cited by the auditors. In order to address the auditor's recommendation, the CTDEP has established procedures for tracking expenses associated with the statutory administrative allowance. A detailed description of these procedures is found in the response to Finding 4.

Finding 4 – Deficiencies in Accounting Procedures: DEP Did Not Adequately Support Labor Costs Claimed Under the HM Management Grant and Failed to Have Those Costs Properly Approved by the Regional Director.

DEP Response:

At the time of the audit, the CTDEP had not completed the documentation of management costs. Since the CTDEP did not submit a final Financial Status Report (FSR), the documentation of these management costs was considered to be an outstanding issue that would be addressed at the time of the submission of the FSR. It should be noted that the CTDEP has not requested any funds to be drawn against this HMGP award, including management costs associated with the award.

The correspondence identified by the auditors as being the CTDEP request for reimbursement in the amount of \$ 42,726 was actually intended to provide FEMA with an estimate of how the CTDEP spent staff time to manage the HMGP award, for the purpose of initiating the federal obligation of funds. The 7.5% estimate used in the cost estimate is based upon the assistance guidance that allows states to claim up to 7.5% of total project funds awarded for reimbursement of state management costs. As stated

above, neither a final FSR nor a request for funds was submitted to FEMA at the time of the audit; therefore, the documentation of management costs should not be attributed to this correspondence but will be identified at the time that the final FSR is submitted.

As recommended by the auditors, the CTDEP will utilize its existing automated timekeeping system to track expenses associated with the HMGP award, including the statutory administrative allowance and management costs. The process used by the automated timekeeping system to track expenses is as follows:

1. Assigns a three-digit timesheet code in the "Paysection" block on the employee timesheet to identify work performed on either HMGP administrative or management activities.
2. Each employee working on these activities uses the three-digit timesheet code to record the amount of time spent on the day(s) the work was performed. The increments in which an employee can track their time is ¼ hour intervals. It should be noted that this system allows an employee to utilize multiple "Paysection" codes for each biweekly payroll cycle. Therefore, an employee can record the amount of time spent on one or more federal or non-federal projects for each ¼ hour interval during the employee's workday.
3. The use of the three-digit timesheet code results in the employee's salary and related fringe benefit costs being charged to the federal appropriation established in the state's accounting system for the HMGP federal award. The amount charged to the HMGP appropriation is calculated by the formula of the number of hours coded to the three-digit "Paysection" times the hourly rate for the employee. Fringe benefit costs are allocated by employee to the funding sources to which their salary costs are charged.
4. In addition to the recordkeeping involved with the HMGP federal expenses, a similar three-digit timesheet code can be established that will identify expenses that are treated as the non-federal matching share of the federal award. The three-digit "Paysection" that is established for this purpose will result in the employee's salary costs charged to a non-federal appropriation and one additional field in the state's accounting system, the Project field, identifies the HGMP federal award as the project the employee was matching their time to.

As recommended by the auditors, the CTDEP will work with the FEMA regional office to establish procedures for requesting approval of management costs prior to the actual incurrence of these costs.

Gibb Jr., Paul

From: Lombardi, Antonietta F.
Sent: Tuesday, October 04, 2005 4:14 PM
To: Gibb Jr., Paul
Cc: Palermino, Peter J.; Loveland, Kevin H.
Subject: KPMG final draft

I reviewed the final draft report prepared by KPMG and I have comments regarding the IFG program. I made these comments during the Set.20th meeting but would like to remind you by sending you the comments in writing.

Page 16 of the report states that the IFG administrative plan is missing 3 of the 16 requirements. I disagree with this assessment.

1. *(D) Determining applicant eligibility...and notifying applicants of the State's decision;*

The administrative plan dated September 23, 1999, page 18 F states that the IFG reviewer would determine eligibility and notify the applicant by mail of their decision. This is the plan used for the DR 1302. A later version was submitted on March 30, 2000 for review and the same statement is included on page 17, F.

2. *(F) Preventing duplication of between grant assistance and assistance from other means;*

Page 7 (B) states IFG would adhere to the delivery sequence in policy 44 CFR 206.191 and the FEMA handbook to prevent duplication of benefits.

Page 13 of the same plan, notes that to qualify for a grant an applicant must not have received or refused assistance from another source.

Additionally, the IFG applications were screened by the NEMIS system and forwarded to the IFG program only after the applicant did not qualify for an SBA loan and the housing program .

3. *(H) Processing applicant appeals, recognizing that the State has final authority. Such procedures must provide for a determination on the record.*

Page 20 and 21 states that the applicant is notified of the right to appeal a grant or denial of IFG program assistance. It also states that the State's decision regarding appeals is final.

10/11/2005