



# Department of Homeland Security Office of Inspector General

## Annual Report to Congress on States' and Urban Areas' Management of Homeland Security Grant Programs Fiscal Year 2009





Homeland  
Security

December 16, 2009

### Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the annual requirement to report to Congress on the results of audits of individual states' management of State Homeland Security Program and Urban Areas Security Initiatives grants. It is a summary of the findings from two individual audit reports, including recommendations to the Administrator, Federal Emergency Management Agency for states to take corrective actions to improve their grant management programs.

We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General

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## Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
OIG	Office of Inspector General

# OIG

*Department of Homeland Security  
Office of Inspector General*

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## **Executive Summary**

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security, Office of Inspector General, to audit individual states' management of State Homeland Security Program and Urban Areas Security Initiative grants, and annually submit to Congress a report summarizing the results of those audits. This report responds to the annual reporting requirement and summarizes audits of two states completed in Fiscal Year 2009.

The objectives of the state audits were to determine whether each state: (1) effectively and efficiently implemented the grant programs; (2) achieved program goals; and (3) spent funds in accordance with grant requirements. The audits included a review of approximately \$376 million in State Homeland Security Program grants awarded to the two states during Fiscal Years 2004 through 2006.

Overall, the states did an efficient and effective job of administering the grant management program requirements, distributing grant funds, and ensuring that all of the available funds were used. The states used reasonable methodologies to assess threats, vulnerabilities, capabilities, and needs, and allocated funds accordingly. The states complied with cash management and status reporting requirements, and procurement methodologies conformed to the states' strategies. The states generally spent funds in accordance with grant requirements and state-established priorities. We also identified several effective tools and practices used by these states.

We identified seven areas for improvement, including equipment and property accountability, supporting documentation for expenditures, subgrantee oversight, financial planning and reporting, and \$1.9 million in questioned costs. The Federal Emergency Management Agency concurred with 25 of the 26 recommendations, and its subsequent explanation and actions have resolved the remaining recommendation. Corrective actions are underway to implement the recommendations.

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## Background

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security (DHS), Office of the Inspector General (OIG), to annually submit to Congress a report summarizing completed audits of State Homeland Security Program grants and Urban Areas Security Initiatives grants awarded to states, territories, and the District of Columbia. This report summarizes our Fiscal Year (FY) 2009 audits of the management of Homeland Security Grants awarded to two states as indicated in Table 1. Appendix A provides the purpose, scope, and methodology for this summary report. Internet links to the two state reports are included in Appendix B.

**Table 1**

<b>Audits Included In This Report</b>			
<b>State</b>	<b>Fiscal Years Reviewed</b>	<b>Homeland Security Grant Awards (000s)</b>	<b>Audited State Homeland Security Program Grant Awards (000s)</b>
Illinois	2004 – 2006	\$266,569	\$110,220
California	2004 – 2006	\$690,029	265,368
<b>Total</b>		<b>\$956,598</b>	<b>\$375,588</b>

Because these audits were initiated before Public Law 110-53 was enacted, they did not include Urban Areas Security Initiative grants. Audits of Illinois' and California's Urban Areas Security Initiative grants, along with a sample of other states and territories, are currently underway.

### **Homeland Security Grant Program**

The Homeland Security Grant Program provides federal funding to help states and local agencies enhance their capabilities to prevent, deter, respond to, and recover from threats or acts of terrorism. The program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administrative costs. Depending on the fiscal year, the program included some or all of the following: the State Homeland Security Program, the Urban

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Areas Security Initiative, the Law Enforcement Terrorism Prevention Program, the Citizen Corps Program, the Metropolitan Medical Response System Program, and the Emergency Management Performance Grant Program. The following are descriptions of the two programs addressed in this report:

- **State Homeland Security Program** provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from acts of terrorism. The program supports the implementation of the State Homeland Security Strategy to address identified planning, equipment, training, and exercise needs.
- **Urban Areas Security Initiative** provides financial assistance to address the unique planning, equipment, training, and exercise needs of high-risk urban areas, and to assist them in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism. Allowable costs for the urban areas are consistent with the State Homeland Security Program, and funding is expended based on the Urban Area Homeland Security Strategies.

The overall objectives of the individual state audits were to determine whether the states implemented the grant programs effectively and efficiently, achieved their program goals, and spent funds in accordance with grant requirements. Nine researchable questions established the framework for the audit and were related to the State Administrative Agency's planning, management, and evaluations of grant activities. Appendix C provides additional details on the purpose, scope, and methodology of the state audits, including the nine researchable questions.

## Results of Audit

Overall, our audits showed that the states did an efficient and effective job of managing grant programs requirements, distributing grant funds, and ensuring that all of the available funds were used. The states used reasonable methodologies to assess threats, vulnerabilities, capabilities, and needs. The states complied with cash management and status reporting requirements, and procurement methodologies were in conformance with the states' strategies. The states generally spent the grant funds in accordance with grant requirements and state-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities, and priorities.

However, the audit reports also identified seven areas warranting improvements. We made 26 recommendations to the Administrator, Federal Emergency Management Agency (FEMA) that, if implemented, should strengthen program management, performance, and oversight. FEMA concurred with 25 of the 26 of the recommendations, and its subsequent explanation and actions have resolved the remaining recommendation. FEMA is taking corrective actions to implement the recommendations, categorized in Table 2.

The recommendations will remain open pending completion of corrective actions by FEMA.

**Table 2**

<b>Status of Audit Recommendations</b>					
<b>Areas for Improvement</b>	<b>Number Issued</b>	<b>Agency Concurrence</b>		<b>Status:</b>	
		<b>Yes</b>	<b>No</b>	<b>Open</b>	<b>Closed</b>
Equipment and Property	4	4	0	4	0
Supporting Documentation	2	2	0	2	0
Consistent and Effective Management Practices	2	2	0	2	0
Monitoring and Oversight Practices	2	2	0	2	0
Measurable Program Goals and Objectives	3	3	0	3	0
Questioned Costs	7	6	1*	7	0
Financial Planning and Reporting	6	6	0	6	0
<b>Total</b>	<b>26</b>	<b>25</b>	<b>1</b>	<b>26</b>	<b>0</b>

\* Although FEMA did not concur with the recommendation, its subsequent explanation and actions have resolved this recommendation.

## **Equipment and Property**

Our audit reports identified equipment and property weaknesses in both states and included four recommendations for improvements in this area. The states are in the process of taking actions to implement the recommendations and improve their processes.

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- The State of Illinois' Mutual Aid Box Alarm System did not have a central inventory system to control and account for millions of dollars in equipment and other personal property procured with Homeland Security Grant Funds. The State Administration Agency plans to review a current successful system already in use by another state agency as a model for its system.
  - Illinois major subgrantees have not automated the task of identifying and tracking items that need to be removed from inventory because of limited shelf-life. The effectiveness and efficiency of efforts to track and replace property with expiring useful lives can be improved by revising the central inventory systems to include expiration date tracking and advance notifications of needed item replacement.
  - California subgrantee grant managers and county procurement authorities were not familiar with and did not always comply with federal requirements in procuring equipment. Specifically, large equipment procurements were identified that failed to meet federal competitive procurement requirements, resulting in two recommendations for improvement. State officials said that while efforts had been made to educate the subgrantees on the federal procurement requirements, the training had apparently not been successful.

FEMA concurred with all four recommendations regarding equipment and property. The states have taken or are taking the necessary steps to satisfy all report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the states for each recommendation.

## **Supporting Documentation**

Our reports identified instances where existing internal controls over grant expenditures did not provide assurance that reimbursements to subgrantees were eligible, allowable, and supportable in accordance with federal requirements. Also, timely review of supporting documentation would provide better oversight of subgrantees at the state level.

- State of Illinois documentation to support reimbursement requests did not always include evidence of delivery and unique property identification numbers. The State relied on subgrantees to maintain the supporting documents, and therefore had no proof that the procured items had been received or appropriately identified for inventory control purposes. FEMA has requested that the State

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Administration Agency require that documentation and a unique identification number be included with reimbursement requests.

- California's State Administrative Agency did not review supporting documentation for grant expenditures before reimbursing subgrantees, nor did the State's internal control procedures require subgrantees to submit supporting documentation along with the reimbursement requests. As a result, the State had no assurance that subgrantee requests for grant funds were valid, eligible, and appropriately supported. State officials relied on subgrantees' self-certifications and the State's Monitoring Unit's infrequent periodic visits for assurance that grant funds were properly expended.

FEMA concurred with both recommendations regarding supporting documentation. The states have taken or are taking the necessary steps to satisfy both report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the states for each recommendation.

## **Consistent and Effective Management Practices**

We identified and reported a lack of consistent and effective management practices in Illinois, resulting in two recommendations for improvement. Fully implementing these management practices would help ensure response team readiness.

- Illinois' three major subgrantees, the Mutual Aid Box Alarm System, the Illinois Law Enforcement Alarm System, and the Illinois State Police, have made aggressive efforts to ensure special response team readiness. Collectively, the three major subgrantees have developed effective management practices for ensuring that their respective teams are adequately equipped, trained, and exercised to readily respond to a terrorist attack or other disaster; however, none of the subgrantees were fully using all of the practices. The use of all the practices by all three major subgrantees will help ensure that the teams remain adequately equipped, trained, and capable.
- Illinois subgrantees were making commendable efforts to ensure that their response teams were adequately equipped, trained, and validated; however, the issue of team readiness was not included in the State's monitoring policy statement, nor was the subject of team readiness discussed at Illinois Terrorism Task Force monthly meetings. Capability and readiness of the special response teams is a paramount objective of the Illinois program, and placing emphasis on this

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objective at the State level would ensure that the three major subgrantees continue to strive toward this goal.

FEMA concurred with both recommendations regarding consistent and effective management practices. The state has taken or is taking the necessary steps to satisfy both report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the state for each recommendation.

## **Monitoring and Oversight Practices**

California was not monitoring its subgrantees in a timely manner. We made two recommendations for corrective measures. As numbers of unmonitored subgrants continued to grow, the state had insufficient assurance that program goals were being achieved or that grant funds were being properly expended.

- California's State Administrative Agency did not monitor subgrantee performance until late 2005 because the agency was not adequately staffed. When monitoring started, the focus of the monitoring visits was on closing out older grants. The frequency and scope of the subgrantee visits did not ensure that (1) program goals were being achieved, and (2) funds were being expended as intended. As such, the State Administrative Agency did not have sufficient oversight of the subgrantees' grant management activities. At the completion of audit fieldwork, the Agency's monitoring unit had yet to finish its work on the State's pre-2005 grants, and had not started work on reviewing expenditure of the \$514.6 million in FY 2005 and 2006 grants.

FEMA concurred with both recommendations regarding monitoring and oversight practices. The state has taken or is taking the necessary steps to satisfy both report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the state for each recommendation.

## **Measurable Program Goals and Objectives**

California did not have specific, measurable program goals and objectives linking the State's strategy and subgrantees' use of grant funds to acquire equipment, training, and exercises, resulting in three recommendations for improvement. Without measurable goals and objectives, the State (1) could not adequately evaluate the relative impacts that grant funds had

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on first responders' ability to respond to terrorist attacks or natural disasters, (2) lacked important tools for allocating grant funds and providing oversight to subgrantees, and (3) was unable to assess first responder capabilities or justify continued grants.

- California's goals and objectives did not provide an adequate basis for measuring preparedness improvements resulting from grant program funding. These goals and objectives, approved by FEMA as a part of the State's preparedness strategy in FY 2004, were expanded in FYs 2005 and 2006. However, the objectives, especially for subgrantee first responders, were not specific, measurable, results-oriented, or time-limited as required. As a result, the State was unable to systematically measure improvements in subgrantee capabilities and State-wide preparedness. At the conclusion of our audit field work, the State Administrative Agency was developing performance measures, consistent with FEMA guidance.

FEMA concurred with all three recommendations regarding measurable program goals and objectives. The state has taken or is taking the necessary steps to satisfy all report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the state for each recommendation.

## **Questioned Costs**

Our audit reports identified \$1,947,921 in questioned costs in the State of California due to reallocation of grants funds, not following eligibility requirements for the use of grant funds, not properly considering all costs when acquiring equipment, and procuring the equipment without full and open competition.

- The California State Administrative Agency reallocated millions in grant funds from one subgrantee to another without documenting this change in the grant files, including \$1,111,966 in State Homeland Security Program grant funds to reimburse a State agency for providing security for major California airports during an extended terrorist alert announced by DHS. However, reimbursing state organizations for operational costs associated with elevated threat levels was not an approved use of State Homeland Security Program grant funds, and resulted in three report recommendations.
- Equipment purchases using FY 2005 Homeland Security Grant funds were not eligible or were not being utilized as intended. Audio recorders and witness interview room equipment in the amounts of

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\$383,500 and \$205,850 respectively, were purchased for the purpose of improving law enforcement practices, but not terrorism prevention, response, or disaster preparedness, as required by DHS Grant Program Guidelines. FEMA and the state did not concur with the finding and recommendation; however, subsequent explanation and actions by FEMA have resolved the recommendation.

- A subgrantee used \$96,605 in Homeland Security grant funds to buy a large stationary generator. However, installation was delayed for nearly 2 years due to necessary major renovation of the electrical system (estimated at \$130,000) before installation of the emergency generator could be accomplished. This action resulted in one report recommendation.
- A \$150,000 contract to acquire a new hospital communications system was awarded to the firm that developed the specifications for the system, creating an organizational conflict of interest and undermining full and open competition. The procurement was conducted without State notification or approval, and without a cost analysis to assure that the sole source price was fair and reasonable. As a result, FY 2005 grant funds were expended inappropriately, resulting in two report recommendations.

FEMA concurred with six of the seven recommendations regarding questioned costs, and its subsequent explanation and actions have resolved the remaining recommendation. The state has taken or is taking the necessary steps to satisfy the remaining recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the state for each recommendation.

## **Financial Planning and Reporting**

The California audit identified three areas where financial planning and report controls were not properly implemented, resulting in six recommendations to improve California's management of its grant programs.

- A California subgrantee's evolving plans for a regional, interoperable communications system, funded in part with grant funds and initiated with an unauthorized noncompetitive procurement, grew beyond original expectations. As the system design has evolved and expanded, it has become clear that the system cost may exceed the known resources of the two counties involved. The system may now be too costly to complete with available resources, and currently the

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system remains unusable. Two report recommendations addressed this issue.

- The expenditures and unliquidated obligations reported on California's Homeland Security Grant Financial Status Reports did not always agree with the State's accounting system records. Most of the 18 Financial Status Reports reviewed did not reconcile to the State's accounting system. As a result, there was little assurance that the expenditures and unliquidated obligations reported to DHS were correct.
- Direct and indirect costs charged to the Homeland Security grants were not properly documented. This occurred because the State Administrative Agency (1) did not require employees to prepare timesheets showing time spent on each of multiple grants, and (2) did not adopt a cost allocation plan to assign indirect costs to each grant. As a result, the accuracy of the management and administrative costs charged to the grants could not be verified, resulting in three report recommendations.

FEMA concurred with all six recommendations in this area. The state has taken or is taking the necessary steps to satisfy all report recommendations. However, the recommendations will remain open until FEMA confirms or verifies the progress made by the state for each recommendation.

## **Best Practices**

During the course of these performance audits, several effective tools and practices were identified for possible use by, and sharing with, other states and jurisdictions. We believe the Administrator, Federal Emergency Management Agency, should consider evaluating the potential benefits of the following processes to help improve grant management and preparedness:

- The Illinois Terrorism Task Force was the driving force for all planning, budgeting, funding, program execution, and evaluation of subgrantee activities, including those of the statewide mutual aid organizations. The widely diverse composition of the Task Force membership and its involvement (via daily interaction and monthly meetings) in virtually all grant program and project activities enabled the State to manage the programs with constant input and assistance from sources across the State. By using the Task Force approach, the

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State has made significant progress in achieving statewide goals and objectives under the State Homeland Security Program.

- Illinois uses two major mutual aid organizations as subgrantees to organize, equip, train, exercise, and oversee special response teams. This approach has provided statewide focus and more efficiency and effectiveness than had the funds been allocated among the numerous counties, villages, and other local entities. The approach also has enabled the state to achieve interoperability among the teams in terms of equipment, training, and overall capabilities.
- The California National Guard has invented, assembled, and deployed a state-of-the art solution that improves communications interoperability by bridging disparate radio types providing high capacity data, voice, and video communications. This mobile communications interface unit is mounted in a military truck and can be deployed rapidly to a disaster site. This technology solution is in place and working, innovative, transferable, and affordable, and therefore could be considered by others to help improve preparedness and response actions in the event of a disaster.

## **Appendix A**

### **Purpose, Scope, and Methodology**

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The purpose of this report, prepared in accordance with Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, was to assess and summarize the audit reports completed during FY 2009 on State Homeland Security Program and Urban Areas Security Initiative grants awarded to states, territories, and the District of Columbia. Specifically, we were to determine (1) the number of audits conducted and completed; (2) whether findings are applicable to the mandate; (3) whether the funds awarded were used in accordance with the law, program guidance, and State homeland security plans and other applicable plans; and (4) the extent to which funds awarded enhanced the ability of a grantee to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism and other man-made disasters.

The audit reports included in this annual consolidated report to Congress were the result of two audits conducted by independent public accounting firms under contract to the Office of Inspector General. A citation and an internet link to each report are included in Appendix B.

The individual audits summarized in this report were conducted in accordance with the Government Auditing Standards as prescribed by the Comptroller General of the United States. No additional audit work was performed in preparing this report.

**Appendix B**  
**Audit Reports Included in this Report**

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<b>Report</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Internet Link</b>
The State of Illinois' Management of State Homeland Security Grants Awarded During Fiscal Years 2004 through 2006	OIG-09-06	10/29/08	<a href="http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_09-06_Oct08.pdf">http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_09-06_Oct08.pdf</a>
The State of California's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2004 through 2006	OIG-09-33	02/20/09	<a href="http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_09-33_Feb09.pdf">http://www.dhs.gov/xoig/assets/mgmttrpts/OIG_09-33_Feb09.pdf</a>

## Appendix C

### Scope of State Grant Program Management Audits

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The purpose of each individual state audit was to determine whether the States effectively and efficiently implemented the State Homeland Security Grant Program, achieved the goals of the program, and spent funds according to grant requirements. The goal of the audit was to identify problems and solutions that would help the States prepare for and respond to terrorist attacks. The audit enabled us to answer the following researchable questions for each state:

- Did the State use reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs?
- Did the State appropriately allocate funding based on threats, vulnerabilities, capabilities, and priorities?
- Has the State developed and implemented plans to measure improvements in preparedness as a result of the grants and have such measurement efforts been effective?
- Are the State's procurement methodologies (centralized, local, or combination) reasonable and in conformance with its homeland security strategies?
- Does the State Administrative Agency have procedures in place to monitor funds and activities at the local level to ensure that grant funds are spent according to grant requirements and state-established priorities? Have these monitoring procedures been implemented and are they effective?
- Did the State comply with cash management requirements and DHS financial and status reporting requirements for the grant programs and did local jurisdictions spend grant funds advanced by the State in a timely manner and, if not, what caused the delays?
- Were grant funds used according to grant requirements and state-established priorities?
- Was the time it took the State to get funds/equipment to first responders (from the time the funds/equipment were available to the State until they were disbursed/provided to the jurisdiction) reasonable (auditor judgment), and if not, what caused the delays?

**Appendix C**  
**Scope of State Grant Program Management Audits**

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- Are there best practices that can be identified and shared with other states and DHS?

**Appendix D**  
**Report Distribution**

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**Department of Homeland Security**

Secretary  
Deputy Secretary  
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Chief of Staff for Policy  
Deputy Chiefs of Staff  
General Counsel  
Executive Secretary  
Director, GAO/OIG Liaison Office  
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Assistant Secretary for Office of Public Affairs  
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**Federal Emergency Management Agency**

Administrator  
Assistant Administrator, Grant Programs Directorate  
Federal Emergency Management Agency Audit Liaison  
Grant Programs Directorate Audit Liaison

**Office of Management and Budget**

Chief, Homeland Bureau Chief  
DHS OIG Budget Examiner

**Congress**

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