

# DEPARTMENT OF HOMELAND SECURITY

## Office of Inspector General

### The State of Indiana's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003

(Redacted)



Notice: The DHS OIG has modified this report for public release. The modifications were made pursuant to the Freedom of Information Act, 5 U.S.C. §552. A review under the Freedom of Information Act will be conducted upon request.

Office of Audits

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Homeland  
Security

## 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 published as part of our DHS oversight responsibilities to promote economy, effectiveness, and efficiency within the Department.

The attached report presents the publicly releasable results of the audit of the State of Indiana's management of State Homeland Security Grants awarded during Fiscal Years 2002 and 2003. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. Foxx & Company's report identified three areas where State management of the grant funds could be improved. Specifically, the State needs to (1) follow its approved preparedness strategy or justify deviations from its strategy, (2) improve program management by awarding funds to sub-grantees timely, adequately monitoring sub-grantee activities, and reporting progress to the Office for Domestic Preparedness as required, and (3) ensure that payments to sub-grantees are supported with adequate documentation. Foxx & Company is responsible for the attached auditor's report dated October 31, 2005, and the conclusions expressed in the report. Because some of the information and results from this audit were determined by DHS to be security sensitive, we issued a separate "For Official Use Only" version of this report.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that 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





Foxx & Company  
Certified Public Accountants

October 31, 2005

Office of Inspector General  
U.S. Department of Homeland Security  
Washington, D.C.

Foxx & Company performed an audit of the State of Indiana's management of the Department of Homeland Security, Office for Domestic Preparedness, State Homeland Security Grants for Fiscal Years 2002 and 2003. The audit was performed in accordance with our Task Order dated August 27, 2004.

This report presents the results of the audit that DHS said are releasable to the public. It includes recommendations to help improve the State's management of the FY 2002, FY 2003 Part I, and FY 2003 Part II grant programs. These grant programs are commonly referred to as first responder grant programs. Because some of the information and results from the audit were determined by DHS to be potential issues of national security, a "FOR OFFICIAL USE ONLY" version of the report is also being issued.

A draft of this report was submitted to the Office for Domestic Preparedness for review and comment on August 24, 2005. ODP provided written comments on the findings and recommendations in the draft report. We have included a synopsis of their comments and our responses at the end of each finding. In addition, ODP's entire response is included as an attachment to the report.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2003 revision. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the audit report comments on costs claimed by the State, we **did not perform** a financial audit, the purpose of which would be to render an opinion on the agency's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill  
Partner



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## Acronyms

BSIR	Biannual Strategy Implementation Reports
CTASC	Counter-Terrorism and Security Council
CAPR	Categorical Assistance Progress Report
CBRNE	Chemical, Biological, Radiological, Nuclear, or Explosive
DHS	Department of Homeland Security
EMA	Emergency Management Agency
EPW	Exercise Planning Workshop
FY	Fiscal Year
HazMat	Hazardous Material
IDHS	Indiana Department of Homeland Security
ISIP	Initial Strategy Implementation Plans
ODP	Office for Domestic Preparedness
OIG	Office of Inspector General
SAA	State Administrative Agency
SDPP	State Domestic Preparedness Program
SEMA	State Emergency Management Agency
SHSGP	State Homeland Security Grant Program
SLGCP	Office of State and Local Government Coordination and Preparedness
WMD	Weapons of Mass Destruction



## I. EXECUTIVE SUMMARY

Foxx & Company completed an audit of the State of Indiana's management of the Department of Homeland Security (DHS), Office for Domestic Preparedness (ODP) State Homeland Security Grants to determine whether the State (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the State of Indiana prepare for and respond to terrorist attacks. (See Appendix A for additional details on the objectives, scope, and methodology of this audit.)

DHS/ODP awarded about \$48 million to the State of Indiana from the Fiscal Year (FY) 2002 State Domestic Preparedness Program, and from Parts I and II of the FY 2003 State Homeland Security Grant Program. Indiana's State Emergency Management Agency (SEMA) managed the programs, commonly referred to as first responder grant programs. During the audit, we visited 18 sub-grantees. SEMA awarded these sub-grantees about \$7.2 million from the FY 2002 and FY 2003 first responder grant programs. The audit was conducted between November 2004 and April 2005.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. Accordingly, we do not express an opinion on Indiana's financial statements or the funds claimed in the Financial Status Reports submitted to DHS/ODP.

While Indiana attempted to conscientiously manage the first responder grant programs, it did not follow its DHS/ODP-approved strategic plan and did not aggressively manage the programs. Frequent changes in the grantee's management team through April 2005 adversely affected the State's management of the programs. Additionally, the magnitude of the grantee's responsibilities, inherent in the receipt of the first responder grants, was inconsistent with the number of staff assigned to manage the programs. The State made some payments to sub-grantees without adequate supporting documentation and did not submit progress reports to DHS/ODP in accordance with Federal requirements. As a result, DHS/ODP had no assurances of the efficiency or effectiveness of Indiana's progress in preparing for terrorist incidents.

While this report addresses the State of Indiana's management of the three grant programs, we also identified potential opportunities for improved oversight by the DHS/ODP staff. The Office of Inspector General (OIG) will consider reporting these opportunities under separate cover when the results of other state audits are available.

The body of this report provides detailed discussions of the following findings.

### A. Approved Preparedness Strategy Not Followed

Indiana did not follow the DHS/ODP-approved *Indiana Domestic Preparedness Strategy: Three-year Plan* dated February 15, 2002. Although the deviations from the



plan might have been justifiable by SEMA, the State did not document the reasons for the deviations or ask for DHS/ODP's approval. SEMA also did not:

- Evaluate its progress in achieving the goals and objective established in the approved plan, or
- Allocate funds consistent with the priorities implied in the plan.

### **B. Improved Program Management Would Have Enhanced Preparedness**

SEMA needed to more aggressively manage the grant programs by (1) awarding funds to sub-grantees in a timely manner, (2) adequately monitoring the activities of the sub-grantees, (3) submitting all periodic progress reports to DHS/ODP as required, and (4) ensuring that the progress reports submitted were consistent with DHS/ODP's program guidelines. Indiana's management of the programs resulted in:

- Only 73 percent of the funds provided by the FY 2002 and FY 2003 programs being used by the State as of December 2004 to prepare for terrorist incidents;
- Sub-grantees having cash on hand because SEMA did not obtain required assurances from sub-grantees that the time elapsing between the transfer and disbursement of fund advances would be minimized;
- Sub-grantees procuring equipment, totaling \$260,718, that had not been approved by SEMA;
- Equipment costing \$696,940 being procured by sub-grantees but not being used as intended;
- Most of the counter-terrorist response kits, procured by SEMA starting in December 2002, not being distributed to first responders as of January 2005;
- Semi-annual progress reports not always being submitted as required; and
- Progress reports submitted that did not include all of the status information required by DHS/ODP program guidelines.

### **C. Funds Disbursed Without Adequate Supporting Documentation**

Indiana awarded critical infrastructure protection grant funds, totaling \$278,857, to police departments for overtime costs without adequate supporting documentation. As a result, the State cannot be certain that the costs claimed were for overtime incurred by the police departments while protecting critical infrastructures as intended through the grant program.

\* \* \* \* \*

The audit resulted in recommendations that, if implemented, would improve the State's management of the first responder grant programs. The report recommends that the Director, DHS/ODP, require the Executive Director, SEMA to:

- Document and implement procedures for:
  - evaluating the State's progress in achieving the February 2002 strategic plan's goals and objectives, and either redirect spending in line with the plan or revising the plan based upon the progress achieved;
  - monitoring sub-grantee activities; and
  - ensuring that reimbursements to sub-grantees are supported with adequate documentation;
- Review the State's plans and justifications for first responder grants subsequent to FY 2003, and make appropriate adjustments considering the State's progress in achieving the goals and objectives of the February 2002 strategic plan;
- Improve the State's grant program management by expediting the awards to first responders, aggressively monitoring sub-grantee activities, and complying with Federal progress reporting requirements;
- Disallow the \$260,718 used by sub-grantees to procure unapproved equipment, and the \$696,940 cost of the equipment used by the sub-grantees for unapproved purposes; and
- Disallow the \$278,857 reimbursements to sub-grantees for claimed, but unsupported, overtime costs for protecting critical infrastructures, and determine if other reimbursements for critical infrastructure protection should be disallowed because adequate supporting documentation did not exist.

## II. Background

The Office for Domestic Preparedness (ODP)<sup>1</sup> was transferred from the Department of Justice to Department of Homeland Security in March 2003. DHS/ODP is responsible for enhancing the capabilities of state and local jurisdictions to plan for, prepare for, prevent, respond to, and mitigate the consequences of incidents of domestic terrorism. During fiscal years (FY) 2002 and FY 2003, DHS/ODP provided grant funds to aid public safety personnel (first responders) to provide specialized training/exercises and acquire equipment necessary to safely respond to and manage terrorist incidents involving weapons of mass destruction (WMD). First responders include firefighters, police, paramedics, and others. The FY 2002 and FY 2003 grants were commonly referred to as first responder grants.

### First Responder Grant Programs

**FY 2002 State Domestic Preparedness Program (SDPP):** This program provided financial assistance to each of the Nation's states, U.S. Territories, the District of Columbia, and the Commonwealth of Puerto Rico. DHS/ODP provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to respond to incidents of terrorism involving the use of WMD; (2) the protection of critical infrastructure; (3) costs related to the design, development, conduct, and evaluation of WMD exercises; and, (4) administrative costs associated with the implementation of the statewide domestic preparedness strategies.

**FY 2003 State Homeland Security Grant Program -- Part I (SHSGP-I):** This program provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear, or explosive (CBRNE) weapons; (2) the protection of critical infrastructure and prevention of terrorist incidents; (3) costs related to the design, development, conduct, and evaluation for CBRNE exercises; (4) costs related to the design, development, and conduct of state CBRNE training programs; and, (5) costs associated with updating and implementing each state's homeland security strategy.

**FY 2003 State Homeland Security Grant Program – Part II (SHSGP-II):** This program supplemented funding available through FY 2003 for the SHSGP to enhance first responder preparedness. SHSGP II funds were also available to mitigate the costs of enhanced security at critical infrastructure facilities during the period of hostilities with Iraq and future periods of heightened threat.

The State of Indiana received about \$48 million from these three grant programs. The funded activities and amounts are shown in the following table.

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<sup>1</sup> In March 2004, the Secretary of Homeland Security consolidated ODP with the Office of State and Local Government Coordination to form the Office of State and Local Government Coordination and Preparedness (SLGCP). For the purposes of this report, we are using ODP in discussing the first responder grant programs.

Funded Activities	Grant Programs		
	FY 2002 SDPP	FY 2003 SHSGP-I	FY 2003 SHSGP-II
Equipment Acquisition Funds	\$ 6,116,000	\$ 7,999,000	N/A
Exercise Funds	\$ 284,000	\$ 2,000,000	N/A
Training Funds	N/A	\$ 600,000	N/A
Planning and Administration Funds	N/A	\$ 800,000	N/A
First Responder Preparedness Funds	N/A	N/A	\$ 26,168,000
Critical Infrastructure Protection Funds	N/A	N/A	\$ 4,026,000
Totals	\$ 6,400,000	\$ 11,399,000	\$ 30,194,000

### Indiana State Emergency Management Office (SEMA)

SEMA, as grantee, was responsible for the State of Indiana's administration of the DHS/ODP first responder grants. SEMA was the coordinating agency for the State on all matters relating to the mitigation of, preparation for, response to, and recovery from all emergencies/disasters resulting from terrorist incidents. SEMA's Antiterrorism Division was established in May 2002 with three staff members. The Division managed the FY 2002 and FY 2003 grants until January 2004.

In January 2004, Indiana reorganized SEMA and created the Homeland Security Directorate. The State established a new management team in conjunction with the reorganization. The team consisted of seven staff members. The Homeland Security Directorate was one of three directorates within SEMA. The Administrative Services Branch supported the Homeland Security Directorate by providing fiscal, human resources, procurement, and other management services for SEMA.

In February 2005, in conjunction with the appointment of a new Executive Director, the Governor announced the formation of the Indiana Department of Homeland Security (IDHS). As of March 2005, the management team for the Homeland Security Directorate consisted of only a Grants Director and a Field Director. An Administrative Assistant and a full-time intern supported these two Directors.

### III. Results of the Audit

DHS/ODP awarded about \$48 million to the State of Indiana from the FY 2002 State Domestic Preparedness Program, and from Parts I and II of the FY 2003 State Homeland Security Grant Program. Indiana's State Emergency Management Agency (SEMA) managed the first responder grant programs.

While Indiana attempted to conscientiously manage the first responder grant programs, it did not follow its DHS/ODP-approved strategic plan and did not aggressively manage the programs. Frequent changes in the grantee's management team through April 2005 adversely affected the State's management of the programs. Additionally, the magnitude of the grantee's responsibilities, inherent in the receipt of the first responder grants, was inconsistent with the number of staff assigned to manage the programs. The State made some payments to sub-grantees without adequate supporting documentation and did not submit progress reports to DHS/ODP in accordance with Federal requirements. As a result, DHS/ODP had no assurances of the efficiency or effectiveness of Indiana's progress in preparing for terrorist incidents.

While this report addresses the State of Indiana's management of the three grant programs, we also identified potential opportunities for improved oversight by the DHS/ODP staff. The Office of Inspector General (OIG) will consider reporting these opportunities under separate cover when the results of other State audits are available.

#### A. Approved Preparedness Strategy Not Followed

SEMA did not follow the DHS/ODP-approved *Indiana Domestic Preparedness Strategy: Three-year Plan* dated February 15, 2002. The Plan provided the basis for the State's applications for the FY 2002 and FY 2003 first responder grants. Although the deviations from the plan might have been justifiable by SEMA, the State did not document the reasons for the deviations or ask for DHS/ODP's approval.

##### 1. Goals and objectives not evaluated

SEMA did not evaluate the State's progress in achieving the goals and objectives established in the approved strategic plan. Without evaluating the progress achieved, SEMA did not have a basis for justifying future equipment, training, and exercise needs for local jurisdictions and first responders (sub-grantees).

The receipt of funds under ODP's FY 2002 and FY 2003 first responder grants was contingent upon the approval of a needs assessment and domestic preparedness strategy (strategic plan). Indiana designed the strategic plan to assist the State and local governments to prepare for and recover from terrorist incidents. The plan contained a reasonable methodology for assessing the threat, vulnerability, capability, and prioritized needs of the State. The plan considered input from local jurisdictions and first responders and included a baseline of the State's current

capabilities. Based on this input and the State's current capabilities, the plan (1) prioritized equipment, training, exercise, and technical assistance needs; (2) defined the goals and objectives for the domestic preparedness program; and (3) established an evaluation plan for measuring the accomplishments toward meeting the goals and objectives.

Although neither SEMA nor DHS/ODP could provide supporting documentation, SEMA officials claimed, and the DHS/ODP Preparedness Officer agreed, that the plan had been approved. SEMA used the strategy in the approved plan in its application packages for the FY 2002 and FY 2003 grants.

State officials said they had not evaluated progress in accomplishing the strategic plan's goals primarily because of changes in SEMA executive and grants management staff positions and a shortage of staff members. In addition, the State's emphasis for using first responder grant funds had been on the procurement of equipment and getting funds to all of the counties. The emphasis was not on evaluations of the goals and objectives.

DHS officials acknowledged that three different gubernatorial administrations had existed in Indiana from the fall of 2003 through January 2005. In each instance, the new Governor installed new emergency management team and operational staff members.

SEMA officials told us that they performed very little monitoring of sub-grantee activities. SEMA did not require sub-grantees to submit periodic progress reports and did not routinely conduct site visits. A system for tracking sub-grantee activities also did not exist. We requested copies of the sub-grantee grant agreements, approved worksheets,<sup>2</sup> and receipts for equipment purchased by sub-grantees. The grant agreements were provided. Some worksheets were also provided, but very few receipts were available from SEMA. Without progress reports, site visits, and receipts for equipment purchased, SEMA was not in a position to evaluate the State's overall progress in accomplishing the approved goals and objectives of the strategic plan.

## **2. Funds not allocated consistent with the strategic plan**

SEMA did not allocate the grant funds as implied by the priorities established in the State's approved strategic plan. SEMA emphasized the procurement of equipment.

The approved strategic plan stated that seven first response disciplines would be trained and equipped to respond to a terrorist incident. The first responder disciplines were: fire services, HazMat, emergency medical services, law enforcement, public works, public health, and the Emergency Management Agency (EMA).

SEMA officials said significant executive-level staff changes, the SEMA reorganization in January 2004, and a desire to award funds to all county EMAs in order to show that

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<sup>2</sup> SEMA used Equipment Budget Detail Worksheets to approve sub-grantee spending plans.

progress was being made were the primary reasons why funds were not provided consistent with the strategic plan.

### ***Conclusions***

SEMA did not allocate the FY 2002 and FY 2003 grant funds in accordance with the State's approved strategy. Although the deviations from the plan might have been justifiable by SEMA, the State did not document the reasons for the deviations or ask for DHS/ODP's approval.

Although SEMA expended much effort in acquiring equipment for the local jurisdictions and first responders, SEMA did not evaluate its accomplishments toward achieving the goals and objectives included in the approved three-year strategic plan. Accordingly, the State did not know how much improvement had been made at the local level in preparing for terrorist incidents and had little basis for justifying future first responder grant funds.

### ***Recommendations***

We recommend that the Director, DHS/ODP require the Executive Director, SEMA, to:

1. Document and implement procedures for evaluating the State's progress in achieving the plan's goals and objectives, and either redirect spending to be in line with the plan or revise the plan based upon the progress achieved; and,
2. Review the State's plans and justifications for first responder grants subsequent to FY 2003 to determine if adjustments are necessary considering the results of the State's evaluation of the progress made in achieving the goals and objectives included in the February 2002 strategic plan.

### ***Management's Response***

DHS officials concurred in principle that Federal funding should adhere to various strategic and operational plans. However, the officials said it is important to note that the SLGCP FY 2002, FY 2003, and FY 2003 supplemental grant awards were limited primarily to equipment grant awards to specifically address CBRNE hazards (i.e., chemical, biological, radiological/nuclear, and explosive) following the events of 9/11. According to DHS officials, such allowable expenses therefore, by definition, satisfied the requirement of these grant awards to enhance the preparedness and response capabilities of first responders to address a CBRNE incident. Additionally, to ensure the appropriateness of such purchases, the State Administrative Agency (SAA) for Indiana was required to submit an overall spending budget as well as equipment detail budget worksheets to ODP for review and approval.

The officials said the *2004 Indiana State Homeland Security Strategy* (approved by ODP on February 18, 2004) and the *Indianapolis Urban Area Homeland Security Strategy*

(approved by ODP on March 22, 2004) superseded the *Indiana Domestic Preparedness Strategy: Three-Year Plan, dated February 15, 2002*.

However, recognizing that expenditures should follow the approved preparedness strategy on a state and local level, ODP developed a methodology to establish a web-based tracking system, which was instituted in 2004. The Biannual Strategy Implementation Reports (BSIRs), along with Initial Strategy Implementation Plans (ISIPs), was designed to track expenditures with identified goals or objectives within the *2004 Indiana State Homeland Security Strategy* and *Indianapolis Urban Area Homeland Security Strategy*. Both strategies are presently in the process of being updated to align them with the seven national priorities in the National Preparedness Goal and National Preparedness Guidance. In addition, the DHS officials said that SLGCP will ensure that all BSIR reports are submitted in a timely manner, and reviewed for corrections to make certain that expenditures are strategy driven. Subsequent SLGCP grants will, according to DHS officials, have a direct nexus to stated goals or objectives within the updated and approved state homeland and urban areas security strategies.

#### ***Auditor's Additional Comments***

DHS's comments did not address Recommendations A.1 and A.2. These recommendations called for the Director, DHS/ODP, to require the State to document and implement procedures for evaluating the State's progress in achieving the goals and objectives approved in the strategic plan approved in February 2002. The grant awards for FY 2002 and FY 2003 were contingent on the approval of the strategic plan. The plan included timelines for the accomplishment of specific goals and objectives for preparing the State against terrorist attack. In addition, ODP required the State to report on the status of the State's achievement of the goals and objectives in the semi-annual progress reports.

The DHS officials only commented on the State's plans and DHS requirements for tracking expenditures with the goals and objectives identified in the *2004 Indiana State Homeland Security Strategy* and *Indianapolis Urban Area Homeland Security Strategy*. The officials did not address the need for an assessment of the State's achievements toward the goals and objectives approved in the February 2002 plan. An assessment of these accomplishments could have an impact on the goals and objectives established in the FY 2004 strategies. Accordingly, we continue to believe that an assessment of the State's progress in achieving the February 2002 approved goals and objectives is needed for the State to have a basis for justifying equipment, training, and exercise needs for local jurisdictions and first responders for FY 2004 and beyond.

Consequently, we consider Recommendations A.1 and A.2 to be unresolved.



## B. Improved Program Management Would Have Enhanced Preparedness

SEMA needed to more aggressively manage the grant programs by (1) awarding funds to sub-grantees in a timely manner, (2) adequately monitoring the activities of the sub-grantees, (3) submitting all periodic progress reports to DHS/ODP as required, and (4) ensuring that the progress reports submitted were consistent with DHS/ODP's program guidelines.

### 1. SEMA did not award grant funds in a timely manner

SEMA had not drawn down all of the grant funds awarded by DHS/ODP from the FY 2002 and FY 2003 programs. Nearly \$13 million (27 percent of the awards) was still in the Federal account as of December 7, 2004. Further, SEMA did not award the funds drawn down (73 percent) to the local jurisdictions and first responders in a timely manner. SEMA awarded the grant funds to the sub-grantees almost a year after the funds were available to SEMA. If this pattern continues, SEMA will have increasing difficulty in utilizing its share of first responder grant funds awarded by DHS/ODP for future years. Ultimately, if the grant funds are not used before the end of the respective performance periods, and extensions are not approved, Indiana could lose the opportunity to use the funds to enhance the State's preparedness for terrorist incidents. DHS/ODP Program Guidelines for the FY 2002 and FY 2003 grants established a performance period not to exceed 24 months.

As of December 2004, SEMA had not drawn down all of the grant funds awarded by DHS/ODP under the FY 2002, FY 2003 Part I, or FY 2003 Part II programs. The table below shows the award dates and the performance periods for these programs.

Grant Program	Date of Award	Original Performance Period	
		From	To
FY 2002	09/27/02	08/01/02	07/31/04 <sup>3</sup>
FY 2003 Part I	05/09/03	04/01/03	03/31/05
FY 2003 Part II	06/19/03	05/01/03	04/30/05

As shown below, about 27 percent of the funds awarded to Indiana remained in the Federal account as of December 7, 2004, even though the grant performance periods were about to expire.

<sup>3</sup> A 6-month extension to January 31, 2005 was approved in July 2004.

Amount	FY 2002	FY 2003 Part I	FY 2003 Part II	Total
Awarded	\$ 6,400,000	\$ 11,399,000	\$ 30,194,000	\$ 47,993,000
Drawn Down	\$ 4,833,571	\$ 6,844,335	\$ 23,326,932	\$ 35,004,838
Balance	\$ 1,566,429	\$ 4,554,665	\$ 6,867,068	\$ 12,988,162
Balance as % of award	24%	40%	23%	27%

On December 1, 2004, SEMA requested a 6-month performance period extension for the FY 2002 grant program, which was due to expire on January 31, 2005. DHS/ODP approved the extension to July 31, 2005.

On February 15, 2005, SEMA requested 6-month extensions for the FY 2003 Part I and Part II performance periods which were due to expire on March 31, 2005, and April 30, 2005, respectively. DHS/ODP approved the request for Part I, but as of April 1, 2005, had not approved the requested extension for Part II. The approved extension for Part I was to September 30, 2005.

The State's request letters for the grant performance period extensions stated that SEMA was working with the localities, state agencies, and vendors to expend the grant funds, but delays were being experienced. The letter for the FY 2003 Part I extension also stated that SEMA was working closely with other agencies and local governments to develop a statewide strategy to hasten the disbursement of funds.

For the 73 percent (about \$35 million) drawn down, SEMA did not make awards to the sub-grantees in a timely manner. For the sub-grantees visited, an average of 11 months had passed between the date the program funds were obligated in the Federal account and the date the awards were made to the sub-grantees.

SEMA officials attributed the delays to "significant executive level organizational changes." In the extension request letters, SEMA said executive level changes, coupled with the accompanying process and policy shifts, slowed the ability of the agency to fully expend the funds by the grant expiration dates.

SEMA officials also said that some delays occurred because DHS/ODP changed its procedures for reviewing and approving Equipment Budget Detail Worksheets. According to SEMA, DHS/ODP officials decided to not review the individual worksheets upon receipt. Instead, the officials held the worksheets until "about a million dollars worth had been accumulated" before the reviews and approvals were completed. In this regard, for the more recent grant programs, DHS/ODP changed the review requirements and DHS/ODP does not now have to review and approve the worksheets.

In the July 2004 site visit report, the DHS/ODP Preparedness Officer recognized that SEMA had experienced delays for several reasons, including:

- Tardiness on the part of local jurisdictions to develop spending plans and to identify equipment, training, and exercise needs,

- State and local regulations related to bids and purchases, and
- Equipment shortages from vendors.

If SEMA does not obligate the funds for award to first responders before the extended performance periods expires, the funds will be de-obligated from the Federal account, unless additional extensions are approved by DHS/ODP. If such de-obligations occur, the State would miss the opportunity to use the funds to enhance the State's preparedness for terrorist incidents.

## **2. Sub-grantee monitoring not adequate**

SEMA did not adequately monitor sub-grantee activities. As a result, SEMA did not know that some sub-grantees (1) had not fully expended advanced funds resulting in cash on hand; (2) procured equipment that had not been approved by SEMA; (3) used some of the approved equipment for purposes other than the purpose for which approval had been granted; and, (4) had not assembled and distributed the response kits that were to be provided to first responders.

### **a. Advances resulted in cash on hand**

SEMA had not obtained the required assurances from sub-grantees that the time elapsing between the transfer and the disbursement of the funds would be minimized. SEMA advanced the entire amount of the award to sub-grantees at the time SEMA approved the sub-grantee's award. However, for 12 of the 18 sub-grantees visited, a total of about \$1,148,000 was on hand even though the awards to these sub-grantees were made about 11 months earlier.

Title 28, Code of Federal Regulations, Section 66.21, states that reimbursement shall be the preferred method unless the sub-grantee maintains and demonstrates the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the sub-grantee.

**Sub-grantee Agreements** - SEMA received a signed agreement from each sub-grantee prior to issuing a check for the full amount of the award. These agreements included a date upon which the sub-grantee was to complete all purchases of equipment. However, the period of time provided in the agreement allowed the sub-grantee to hold the money for several months. In some cases, the period the money could be held extended to a full year. The agreement dates were based upon the DHS/ODP-approved performance periods at the time the agreements were finalized. The agreements stated that if DHS/ODP extensions were approved, the sub-grantee could request, and the State could authorize, the sub-grantee additional time to complete the purchases authorized under the agreement.

We do not believe the period of time allowed in the agreements constituted a minimization of the time elapsing between the transfer and the disbursement of the funds

in accordance with the Federal regulations. In this regard, SEMA had not enforced the requirement that the sub-grantee complete all purchases of equipment within the agreed upon time frame. Our review of available documentation did not indicate that the sub-grantees requested extensions to the dates in the original Agreements.

**Cash on Hand** - As of the date of our visits in January and February 2005, 12 of 18 sub-grantees had FY 2002 and FY 2003 grant program cash on hand totaling \$1,148,000, even though the awards had been made about 11 months earlier. This equated to about 18 percent of the \$6,436,170 awarded to the 12 sub-grantees. Appendix C to this report provides a detailed schedule identifying the sub-grantees and the amounts of cash on hand.

According to SEMA officials, SEMA has changed its disbursement procedure. The SEMA officials said that, starting in December 2004, the new procedures require reimbursements rather than advances to sub-grantees. Documentation to support the new procedures was not available. SEMA also claimed that it had increased its efforts to obtain receipts and to check the receipts against the approved equipment worksheets.

#### **b. Unapproved equipment was procured**

Some sub-grantees purchased equipment that was not approved by SEMA. Four of the 18 sub-grantees visited purchased equipment, totaling about \$260,718, which was not included on approved Equipment Budget Detail Worksheets. According to DHS/ODP program guidelines and SEMA's Sub-Agreements, SEMA had to specifically approve all equipment procurements. As a result, we consider the \$260,718 expended for unapproved equipment to be a questioned cost.

According to the program guidelines issued by DHS/ODP, grant applicants were required to submit very specific Equipment Budget Detail Worksheets with their applications for DHS/ODP's review and approval. These worksheets were to include the equipment to be purchased from the authorized equipment lists, the number of items to be purchased, the estimated cost, and the response disciplines that would receive the equipment. Indiana's First Responder Equipment Sub-Grant Agreements with sub-grantees required the sub-grantees to only purchase equipment listed on Indiana's approved equipment lists and in the quantity specified on the approved Equipment Budget Detail Worksheets. If a local entity wanted to purchase equipment not identified on the approved worksheet(s), the local entity was required to submit a revised worksheet for approval prior to making a purchase of that equipment.

SEMA was not aware that sub-grantees were procuring unauthorized equipment because the sub-grantees did not always provide SEMA the purchase receipts.

**c. Equipment not used as intended**

Two of the 18 sub-grantees visited used equipment for purposes not approved by SEMA. Equipment, approved for specialized purposes was being used for general purposes. Because the purchased equipment was not used as intended, we consider the \$696,940 expended on the equipment to be a questioned cost.

Financial assistance was provided for the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to terrorist incidents. DHS/ODP program guidelines state that expenditures for equipment such as general-use vehicles, general-use computers, and related equipment were not allowable. According to the State's approved equipment list, computer systems designated for use in an integrated system to assist with detection and communications efforts must be linked with integrated software packages designed for chemical and/or biological agent detection and communication purposes.

**d. Distribution of counter-terrorist response kits lagging**

Starting in December 2002, SEMA purchased about \$4.5 million of equipment for counter-terrorist response kits. The State directed the suppliers to ship the equipment directly to county emergency management agencies. The county agencies were to assemble and distribute the kits to first responders. However, as of January 2005, very few of the kits had been assembled or distributed to first responders. Most of the equipment was stored in the containers in which the equipment had been shipped. The equipment was stored in vaults, storage rooms, and trailers.

Indiana pursued a multi-phased State Emergency Management Terrorism Equipment Program. The State's initial homeland security procurement strategy was to have the State centrally procure first responder equipment and have that equipment delivered directly to counties and first responders. SEMA chose to begin the equipment purchasing process by purchasing personal protection equipment for eligible first responders who would take a defensive position should a terrorist incident occur within their communities. The defensive role responsibilities included securing the perimeter and helping guide evacuees to safety. From the FY 1999 through FY 2002 homeland security grant programs, SEMA disbursed about \$1.8 million<sup>4</sup> to suppliers for the procurement of first responder kit equipment. The equipment was shipped directly to first responders throughout the State.

According to a SEMA official, the State's central procurement process was slow and cumbersome. The State's Department of Administration had to be educated on the purchase of first responder equipment and equipment specifications had to be drafted. The purchase and delivery of personal protection equipment had taken over two years.

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<sup>4</sup> The \$1.8 million consisted of over \$853,000 from the FY 1999 grant funds, about \$873,000 from the FYs 2000-2001 grant funds, and over \$60,000 from the FY 2002 grant funds.

### 3. Progress reporting

SEMA did not submit the required semi-annual Categorical Assistance Progress Reports (CAPRs) for the periods ending June 30, 2004 or December 31, 2004. Also, although prior period reports were submitted, the reports submitted did not (1) describe the State's progress in achieving the overall goals and objectives, or (2) explain how DHS/ODP resources were contributing to the attainment of the goals and objectives. These two requirements were included in the DHS/ODP's program guidelines for the FY 2003 State Homeland Security Grant Program.

For the FY 2002 and FY 2003 grant programs, the grantees were required to submit CAPRs for the life of the awards 30 days after the end of the designated reporting periods, which were June 30 and December 31. Starting with the FY 2003 grants, the progress reports were required to provide an update on the state's allocations for equipment, exercises, training, planning, and administrative activities that occurred during the designated reporting period. In addition, the progress reports were to provide DHS/ODP information on the State's progress in achieving the overall goals and objectives identified in the state homeland security strategy and how DHS/ODP's resources were contributing to the attainment of the goals and objectives.

SEMA did not submit the required semi-annual CAPRs for the periods ending June 30, 2004 or December 31, 2004. Although the reports for prior periods were submitted, the reports did not include all of the information required by DHS/ODP. The reports did not (1) describe the State's progress in achieving the overall goals and objectives, or (2) explain how DHS/ODP resources were contributing to the attainment of the goals and objectives included in the approved strategic plan.

According to SEMA officials, significant changes in executive-level staff and the availability of staff within SEMA during calendar year 2004 contributed to the agency's failure to submit the required reports. SEMA officials also said the reports submitted did not include information concerning the achievement of the State's goals and objectives because these goals and objectives had not been evaluated. In addition, the State's emphasis on the procurement of equipment and awarding funds to all counties overshadowed efforts to support the training and exercise activities that were part of the strategic plan's evaluation process.

Even though the semi-annual progress reports are an important source of essential information for DHS/ODP to perform its oversight responsibilities, DHS/ODP had not enforced the semi-annual progress reporting requirements.

#### *Conclusions*

Indiana did not aggressively manage the FY 2002 and FY 2003 first responder grant programs. A more aggressive approach to identifying the needs of the State and working with the sub-grantees would have resulted in SEMA drawing down funds from the

Federal account and awarding the funds to sub-grantees in a timely manner. Indiana needs to consider the impact of executive-level changes in SEMA's management team and the availability of staff in conjunction with the workload and compliance requirements that are inherent in being the recipient of Federal grants.

In addition, SEMA needed to be more active in monitoring the activities of the sub-grantees. With improved monitoring, SEMA would have known (1) the status of sub-grantee expenditures of advanced funds, (2) that some sub-grantees were procuring equipment that had not been approved by SEMA, (3) that some of the approved equipment was not being used for the purposes intended, and (4) that, in almost every case, the sub-grantees had not assembled and distributed the response kits that were to be provided for first responders.

Improved monitoring would also have assisted SEMA with the Federal requirements for the submission of semi-annual progress reports, especially with respect to the inclusion in the reports of the status of the State's achievement of the approved goals and objectives of the strategic plan.

### ***Recommendations***

We recommend that the Director, DHS/ODP, require the Executive Director, SEMA, to:

1. Improve grant program management by:
  - a. Expediting SEMA's awards of first responder grant funds to sub-grantees,
  - b. Aggressively monitoring sub-grantee activities, and
  - c. Complying with the Federal progress reporting requirements.
2. Develop and implement procedures for monitoring sub-grantee activities. The procedures should require:
  - a. Kickoff meetings with the sub-grantee when the award is made. The meetings should inform the sub-grantee of the requirements associated with being a sub-grantee.
  - b. Periodic visits by SEMA to review the status of sub-grantee activities and the level of preparedness that has been achieved.
  - c. Sub-grantee submissions of invoices and other supporting documentation to support that the sub-grantee performed activities (procurement of equipment, training, exercises, etc.) consistent with the approvals received from SEMA and the Department of Homeland Security.

- d. *Closeout meetings* with SEMA and the sub-grantees to reconcile the awards with the expenditures, as well as to evaluate the progress achieved toward the goals and objectives of the programs.
3. Disallow the \$260,718 used by sub-grantees to procure unapproved equipment, and disallow the equipment used by the sub-grantees for unapproved purposes costing \$696,940.

### ***Management's Response***

DHS officials concurred that improvements were needed in Indiana's grant program management (Recommendations B.1 and B.2). However, the DHS officials stated that the resolution of Recommendation B.3 is under review by SLGCP pending further documentation by the IDHS.

With respect to the need to expedite awards to sub-grantees, the officials stated that it is important to note that all funds were obligated with more than 75% of the SHSGP FY 2002, FY 2003, and FY 2003 supplemental grant awards having been drawn down.

According to DHS officials, the Indiana emergency management agency also experienced delays in drawing down grant award funds due to tardiness on the part of local jurisdictions to develop spending plans, identify equipment, training and exercise needs; state and local regulations related to bids and purchases; and equipment shortages from vendors. Also problematic, has been the constant turnover of senior management teams and operational staff from the fall of 2003 through January 2005 with both SEMA and the Counter-Terrorism and Security Council having been recently reorganized into one department, the Indiana Department of Homeland Security.

With respect to the development and implementation of procedures for monitoring sub-grantee activities, the DHS officials stated that IDHS' senior management team should determine the exact approach regarding kickoff and closeout meetings, as well as the format and frequency of monitoring visits by IDHS personnel. The officials said the State's monitoring of sub-grantee activities was hampered due to budgetary restrictions regarding personnel (both full-time hires and contractors) placed on the Indiana emergency management agency and the constant turnover of senior management and operational staff. Despite reminders from ODP, the progress reporting requirement also suffered lapses due to constant changes in personnel at the Indiana emergency management agency.

The DHS officials said the issue of lapsing progress reports has already been addressed with IDHS and the overdue progress reports have been submitted to SLGCP. According to the DHS officials, SLGCP will strongly encourage IDHS to make their personnel available to participate in the new technical assistance program entitled, "Enhancing Grant Management Capacities of State Administrative Agencies."



The DHS officials stated that the Preparedness Officer responsible for Indiana will address the necessary programming issues and the associated expenditure of funds. Further, approvals of any grant extensions may be conditioned upon successful progress in expediting the expenditures of first responder FY 2002, FY 2003, and FY 2003 supplemental grant awards, as well as the monitoring of programming and fiscal activities of sub-grantees. The decision regarding grant extensions will be made no later than 30 days prior to the expiration of the project period for the respective grant awards. The Preparedness Officer will also:

- Help IDHS to address improved monitoring through enhancing administrative and planning capabilities at the regional level, and
- Work with IDHS and the Homeland Security Preparedness Technical Assistance program to schedule a delivery date for the technical assistance program: “Enhancing Grant Management Capacities of State Administrative Agencies.”

SLGCP will work with IDHS to formulate an improved sub-grantee monitoring plan, including proper programming and fiscal administration, on a reimbursement basis, in order to improve the State’s oversight of sub-grantees. Where practical (given state and local budgetary constraints), SLGCP will identify funding for local jurisdictions to improve the local jurisdictions capacity to assist IDHS with the administrative and program monitoring requirements.

#### *Auditor’s Additional Comments*

DHS’s concurrence with Recommendations B.1 and B.2 is adequate to resolve the conditions cited. We commend DHS for the actions outlined for SLGCP, specifically the responsible Preparedness Officer, to increase SLGCP’s oversight of Indiana’s grant program management activities. However, the finding cannot be closed until documentation is provided to the OIG that supports that the State has developed and implemented procedures for improving its sub-grantee monitoring activities.

Because the resolution of Recommendation B.3 is under review by SLGCP pending further documentation from IDHS, we consider this Recommendation to be unresolved.

### **C. Funds Disbursed Without Adequate Supporting Documentation**

The State awarded critical infrastructure protection grant funds totaling \$278,857 to three police departments for overtime costs without adequate supporting documentation. As a result, the State could not be certain that the overtime costs claimed were incurred while protecting critical infrastructures as intended through the grant program. We consider the award of the \$278,857 to the three police departments to be a questioned cost.

The FY 2003 SHSGP-II grant program included funding for critical infrastructure protection. The funding was provided to pay for costs associated with increased security measures required to augment security at critical infrastructure sites during the period of hostilities with Iraq (March 17, 2003 through April 16, 2003) and future periods of heightened threat. DHS/ODP told the states and local governments to generally consider critical infrastructure to include any system or asset that if attacked would result in catastrophic loss of life and/or economic loss.

According to a CTASC<sup>5</sup> official, critical infrastructure protection funds reimbursed local first responders for claimed overtime and equipment costs based upon summary listings provided by the first responders showing critical infrastructures/locations with “daily cost per site” amounts. The official stated that in accordance with the grant award letter sent to the first responders, a mayor or county commissioner was to return to CTASC a signed certification that the first responder had records supporting the claim and would maintain those records to support the claim under general accounting standards for auditing government grants. Based upon this certification requirement, CTASC did not require the first responders to submit documentation supporting their actual claims for reimbursement of overtime costs. CTASC directed the first responders to retain the required documentation.

As of September 30, 2004, CTASC approved and SEMA disbursed about \$1.8 million of the \$4 million critical infrastructure protection funds allocated to Indiana.

### *Conclusions*

CTASC should not have awarded critical infrastructure protection funds without adequate documented support for the overtime costs claimed by the first responders. As a result, the State cannot be certain that the costs claimed were for overtime incurred by the police departments while protecting critical infrastructures as intended by the grant program. As evidenced by our visits to selected first responders, certifications that the local entity had maintained records to support an overtime claim did not ensure that the costs claimed were supported.

We identified \$278,857 of claimed overtime costs totaling \$1.8 million that was not supported with adequate documentation. Thus, we consider that amount to be a questioned cost. Our review did not cover the entire \$1.8 million in claims. Therefore, SEMA, who was assigned responsibility for managing critical infrastructure protection funds, should determine if adequate documentation existed for the other reimbursements of about \$1.5 million.

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<sup>5</sup> CTASC – The State’s Counter-Terrorism and Security Council was responsible for the management of critical infrastructure protection funds when the reimbursements were made. SEMA subsequently inherited the responsibility from CTASC.

*Recommendations*

We recommend that the Director, DHS/ODP require the Executive Director, SEMA to:

1. Disallow the \$278,857 disbursed to police departments and require that these funds be returned to SEMA,
2. Determine if the remaining \$1.5 million disbursed to other State and local first responders was adequately supported with documentation,
3. Disallow and recover any of the \$1.5 million that was not adequately supported, and
4. Develop and implement appropriate procedures for assuring that all future critical infrastructure protection disbursements for overtime claims are supported with adequate documentation.

*Management's Response*

According to DHS officials, police department expenditures for overtime cost associated with critical infrastructure protection are under review by SLGCP pending further documentation by the IDHS (Recommendation C.1). The DHS official said IDHS will require the police departments to submit the required documentation to support the authorization of expenditures of funding for overtime costs related to critical infrastructure protection. Failure to do so may result in the de-obligation of funding by IDHS for the police departments.

DHS officials also stated that SLGCP will work with IDHS to formulate an improved sub-grantee monitoring plan, including proper fiscal administration to ensure reimbursement of critical infrastructure protection overtime costs were properly authorized. (Recommendations C.3 and C.4<sup>6</sup>) Through the successful implementation of this plan, IDHS will verify that sub-grantees have the required documentation required for the authorization of expenditures of funding for overtime cost related to critical infrastructure protection. The Preparedness Officer will also help IDHS improve its sub-grantee monitoring through enhancing administrative and planning capabilities at the regional level and local jurisdictional level.

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<sup>6</sup> Recommendations C.3 and C.4 were referred to as "sub-points A and B" in the response received from DHS.

*Auditor's Additional Comments*

The actions being taken by DHS and the State of Indiana are adequate to resolve the conditions cited. However, the finding cannot be closed until:

- The reviews of the disbursements to police departments are completed and all unsupported disbursements are disallowed and recovered;
- The remaining disbursements for overtime claims, totaling \$1.5 million, are reviewed and all unsupported disbursements are disallowed and recovered; and,
- Documentation is provided to the OIG supporting that Indiana has developed and implemented appropriate procedures for assuring that all future disbursements for overtime claims are supported with adequate documentation.

**APPENDICES**

## Appendix A

**Objectives, Scope, and Methodology**

The **objective** of the audit was to determine whether the State of Indiana effectively and efficiently implemented the first responder grant programs, achieved the goals of the programs, and spent the funds awarded according to grant requirements. The **goal** of the audit was to identify problems and solutions that would help the State of Indiana prepare for and respond to terrorist attacks.

The Department of Homeland Security, Office of Inspector General (DHS/OIG) is reporting the results of the audit to appropriate DHS officials.

The **scope** of the audit included the following three grant programs. These programs are described in the Background section of this report.

- FY 2002 State Domestic Preparedness Program (SDPP)
- FY 2003 State Homeland Security Grant program -- Part I (SHSGP-I)
- FY 2003 State Homeland Security Grant program – Part II (SHSGP-II):

The audit **methodology** included work at DHS/ODP Headquarters, the State of Indiana's offices responsible for the management of the grants, and various sub-grantee locations. The sub-grantee locations visited included three counties, six cities, and nine first responders. These sub-grantees were awarded about \$7.2 million by SEMA under the above three grant programs. The purposes of the visits were to obtain an understanding of the three grant programs and to assess how well the programs were being managed. Our audit considered DHS/ODP and State policies and procedures, as well as the applicable Federal requirements. We reviewed documentation received from DHS/ODP, as well as from the State offices and the sub-grantees. In each of the locations visited, we interviewed responsible officials, reviewed documentation supporting the State and sub-grantees management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds.

We reviewed reports from prior audits. We also coordinated our work with officials from the Government Accountability Office and the House Appropriations Committee's Survey and Investigative Staff. Both of these offices were, at that time, involved in reviews of the first responder grant programs.

The audit of the State of Indiana was conducted between November 2004 and April 2005. It was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-2003 Revision). Although this audit included a review of costs claimed, we did not perform a financial audit of those costs.

**Appendix A**

Accordingly, we do not express an opinion on Indiana's financial statements or the funds claimed in the Financial Status Reports submitted to DHS/ODP. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified. The report does not extend to any financial statements of the State of Indiana.

**Appendix B****State of Indiana  
Schedule Of  
Questioned Costs**

<b>Finding</b>	<b>Description</b>	<b>Amount</b>
B. 2. b.	Unapproved equipment procured	\$ 260,718
B. 2. c.	Equipment not used as intended	696,940
C.	Unsupported reimbursements	278,857
	Total	\$ 1,236,515



Appendix C

State of Indiana  
Sub-grantees Visited  
Schedule of Cash on Hand

	Sub-grantees Visited that had Cash on Hand	2002		2003 Part I		2003 Part II		Total Awarded	Total Cash on Hand
		Check Amount	Cash on Hand	Check Amount	Cash on Hand	Check Amount	Cash on Hand		
	<b>Allen County</b>								
1	Bomb Team			\$45,000	\$4,130			\$45,000	\$4,130
2	HazMat Team	\$10,000	\$155	\$50,000	\$13,085			\$60,000	\$13,240
3	<b>Blackford County</b>					\$15,604	\$2	\$15,604	\$2
4	<b>Lake County</b>			\$373,114	(See Note)	\$1,405,463	(See Note)	\$1,778,577	\$391,490
	<b>Marion County</b>								
5	Marion Co. #1			\$662,549	\$93,087	\$2,182,278	\$255,880	\$2,844,827	\$348,967
5	Marion Co. #2					\$308,320	\$32,112	\$308,320	\$32,112
6	Bomb Team	\$159,390	\$24,384					\$159,390	\$24,384
7	HazMat Team	\$10,000	\$10,000	\$50,000	\$50,000			\$60,000	\$60,000
	<b>Montgomery County</b>								
8	Montgomery Co. #1					\$14,664	\$587	\$14,664	\$587
8	Montgomery Co. #2					\$121,000	\$1,891	\$121,000	\$1,891
	<b>Vanderburgh County</b>								
9	Vanderburgh Co #1			\$132,290	\$1,217	\$435,814	\$49,734	\$568,104	\$50,951
9	Vanderburgh Co #2					\$123,140	\$123,140	\$123,140	\$123,140
10	City of Evansville					\$87,544	\$87,544	\$87,544	\$87,544
11	Bomb Team	\$200,000	\$542					\$200,000	\$542
	<b>Vigo County/ City of Terre Haute</b>								
12	HazMat Team			\$50,000	\$9,074			\$50,000	\$9,074
	<b>Totals</b>	<b>\$379,390</b>	<b>\$35,081</b>	<b>\$1,362,953</b>	<b>\$170,593</b>	<b>\$4,693,827</b>	<b>\$550,890</b>	<b>\$6,436,170</b>	<b>\$1,148,054</b>

Note: Lake County managed the 2003 Part I and Part II funds as one award. County management could not provide how much of the amount on hand was from Part I versus Part II. The total amount on hand was \$391,490.

**MANAGEMENT RESPONSE  
TO THE  
DRAFT REPORT**

Office of the Secretary  
Office of State and Local Government  
Coordination & Preparedness  
Washington, DC 20531



Homeland  
Security

SEP 28 2005

**MEMORANDUM TO:** Richard L. Skinner  
Acting Inspector General  
Office of the Inspector General  
Department of Homeland Security

**FROM:** *For* Matt A. Mayer *And Michael*  
Acting Executive Director

**SUBJECT:** Audit of the State of Indiana's Management of the Office for Domestic Preparedness, State Homeland Security Grants

As requested in your August, 24, 2005, memorandum, attached are formal comments on the recommendations contained in the subject audit. Please note that we have responded to each of the seven recommendations contained in the audit report. The attached document includes our response as well as actions taken and their corresponding milestones in response to each of these recommendations.

We appreciate the opportunity to respond to these recommendations. Should you have any questions concerning this response, please contact Ms. Kimberly Orben of my staff at (202) 786-9830. We look forward to continuing to work with you and your staff.

Attachment

Homeland  
Security

## SLGCP<sup>7</sup> Response to the Inspector General Report on the Audit of the State of Indiana's Management of the Office for Domestic Preparedness, State Homeland Security Grants

**RECOMMENDATION A.1** – Document and implement procedures for evaluating the State's progress in achieving the plan's goals and objectives, and either redirect spending to be in line with the plan or revise the plan based upon the progress achieved.

**Response:** SLGCP concurs with the principle that federal funding should adhere to various strategic and operational plans. However, it is important to note the SHSG FY02, FY03, and FY03 supplemental grant awards were limited primarily to equipment grant awards to specifically address CBRNE hazards (i.e., chemical, biological, radiological/nuclear, and explosive) following the events of 9/11. These grant awards were limited by their funding amount and others restrictions (i.e., FY02 prohibited training expenditures), and were not intended at that time to fully implement, in its entirety, a state-wide homeland security strategic plan. The terms and conditions of these grant awards required that all equipment purchases were restricted to the approved CBRNE authorized equipment list. Such allowable expenses therefore, by definition, satisfied the requirement of these grants awards to enhance the preparedness and response capabilities of first responders to address a CBRNE incident. Additionally, to ensure the appropriateness of such purchases, the State Administrative Agency (SAA) for Indiana was required to submit an overall spending budget as well as equipment detail budget worksheets to ODP for review and approval.

It is also important to note that this plan was submitted one year prior to the creation of DHS under the leadership of Governor Frank O'Bannon. Governor O'Bannon's administration came to an untimely end with his death, while in office, in September 2003. Since that time, there have been two succeeding gubernatorial administrations, Governor Joseph Kernan (who was subsequently defeated in the fall 2004 election), and the current governor, Mitch Daniels. In each instance, a new management team was installed at the State Emergency Management Agency (SEMA) and the Indiana Counter Terrorism and Security Council (CTASC). This has resulted in three different senior management teams and operational staff from the fall of 2003 through January 2005.

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<sup>7</sup> Op.cit., Page 4

Presently, both SEMA and the CTASC have been reorganized into one department, the Indiana Department of Homeland Security (IDHS).

**Action Taken:** The *Indiana Domestic Preparedness Strategy: Three-Year, dated February 15, 2002*, has already been superseded by the *2004 Indiana State Homeland Security Strategy* (approved by ODP on 2/18/2004) and the *Indianapolis Urban Area Homeland Security Strategy* (approved by ODP on 3/22/04). Recognizing that expenditures must more closely follow an approved preparedness strategy on a state and local level, ODP developed a methodology to establish a web-based tracking system, which was instituted in 2004. The Biannual Strategy Implementation Reports (BSIR), along with Initial Strategy Implementation Plans (ISIPs), are designed to track expenditures with identified goals or objectives within the *2004 Indiana State Homeland Security Strategy* and *Indianapolis Urban Area Homeland Security Strategy*. Both strategies are presently in the process of being updated to align them with the seven national priorities in the National Preparedness Goal and National Preparedness Guidance. SLGCP will ensure that all reports are submitted in a timely manner, and reviewed for corrections to make certain that expenditures are strategy driven.

**Milestones:** Both the *2004 Indiana State Homeland Security Strategy* and *Indianapolis Urban Area Homeland Security Strategy* are required to be updated and resubmitted by September 30, 2005. The most recent Biannual Strategy Implementation Report (BSIR) was submitted to ODP on July 30, 2005, and is under review.

**RECOMMENDATION A.2** – Review the state’s plans and justifications for first responder grants subsequent to FY 2003 to determine if adjustments are necessary considering the results of the state’s evaluation of the progress made in achieving the goals and objectives included in the February 2002 strategic plan.

**Response:** Again, SLGCP concurs with the principle that federal funding should adhere to various strategic and operational plans. The *Indiana Domestic Preparedness Strategy: Three-Year, dated February 15, 2002*, has already been superseded by the *2004 Indiana State Homeland Security Strategy* (approved by ODP on 2/18/2004) and the *Indianapolis Urban Area Homeland Security Strategy* (approved by ODP on 3/22/2004). Subsequent SLGCP grants will have a direct nexus to a stated goal or objective within the updated and approved state homeland and urban areas security strategies

**Actions Taken:** See response to Recommendation A.1.

**Milestones:** See response to Recommendation A.1.

**RECOMMENDATION B.1** – Improve grant program management by:

- a. Expediting SEMA’s awards of first responder grant funds to sub-grantees;
- b. Aggressively monitoring sub-grantee activities; and
- c. Complying with the federal progress reporting requirements.

**Response:** SLGCP concurs with this recommendation. However, it is important to note that all funds were obligated with more than 75% of the SHSGP FY02, FY03, and FY03 supplemental grant awards having been drawn down. The Indiana SAA has also experienced delays in drawing down grant award funds due to tardiness on the part of local jurisdictions to develop spending plans, identify equipment, training and exercise needs; state and local regulations related to bids and purchases; and equipment shortages from vendors. Also problematic, has been the constant turnover of senior management teams and operational staff from the fall of 2003 through January 2005 with both SEMA and the CTASC having been recently reorganized into one department, the Indiana Department of Homeland Security (IDHS). The monitoring of sub-grantee activities was hampered due to budgetary restrictions regarding personnel (both full-time hires and contractors) placed on the Indiana SAA. In addition, the history of three succeeding governors resulting in the constant turnover of senior management and operational staff has hindered the implementation of previous plans to improve oversight and field monitoring of sub-grantees. Despite reminders from ODP, the progress reporting requirement suffered lapses due to constant changes in personnel at the Indiana SAA.

**Actions Taken:** DHS officials stated that approvals of any grant extensions may be conditioned upon successful progress in expediting the expenditures of SHSG FY02, FY03, and FY03 supplemental grant awards. SLGCP will work with IDHS to formulate an improved sub-grantee monitoring plan, including proper programming and fiscal administration, on a reimbursement basis, in order to improve programming oversight for sub-grantees. Where practical (given state and local budgetary constraints), SLGCP will identify funding for local jurisdictions to improve the local jurisdictions capacity to assist IDHS with the administrative and program monitoring requirements. The Preparedness Officer will also help IDHS to address improved monitoring through enhancing administrative and planning capabilities at the regional level. Further approvals of any grant extensions may be conditioned upon IDHS progress in improving monitoring of SHSG FY02, FY 2003, and FY 2003 supplemental grant awards to sub-grantees.

According to DHS officials, the issue of lapsing progress reports has already been addressed with IDHS and the overdue progress reports have been submitted to SLGCP. Additionally, SLGCP will strongly encourage IDHS to make their personnel available to participate in the new technical assistance program entitled, "Enhancing Grant Management Capacities of State Administrative Agencies."

**Milestones:** When necessary, SLGCP's approval for grant extensions may be conditioned upon IDHS's progress in expediting the expenditure of SHSG FY02, FY03, and FY03 supplemental grant awards as well as the monitoring of programming and fiscal activities of sub-grantees. The decision regarding grant extensions will be made no later than 30 days prior to the expiration of the project period for the respective grant awards. The Preparedness Officer will work with the IDHS management team to ensure the development and implementation of an oversight monitoring plan (including programming and fiscal administration), for sub-grantee award recipients. The Preparedness Officer will also work with IDHS and the Homeland Security Preparedness Technical Assistance program to schedule a delivery date for the technical assistance program: "Enhancing Grant Management Capacities of State Administrative Agencies."

**RECOMMENDATION B.2** – Develop and implement procedures for monitoring sub-grantee activities. The procedures should require:

- a. Kickoff meetings with the sub-grantee when the award is made. The meetings should inform the sub-grantee of the requirements associated with being a sub-grantee.
- b. Periodic visits by SEMA to review the status of sub-grantee activities and the level of preparedness that has been achieved.
- c. Sub-grantee submissions of invoices and other supporting documentation to support that the sub-grantee performed activities (procurement of equipment, training, exercises, etc.) consistent with the approvals received from SEMA and the Department of Homeland Security.
- d. Closeout meetings with SEMA and the sub-grantees to reconcile the awards with the expenditures, as well as to evaluate the progress achieved toward the goals and objectives of the programs.

**Response:** We concur with the comments that IDHS needs to improve monitoring of sub-grantee activities. However, the exact approach regarding kickoff and closeout meetings as well as the format and frequency of monitoring visits by IDHS personnel should be determined by the senior IDHS management team (see response to Recommendation B.1). The Indiana SAA has been aware of the necessity to obtain fiscal documentation from sub-grantees to authorize draw downs of the SHSG FY02, FY03, and FY03 supplemental grant awards on a reimbursement basis and has been actively engaged to ensure that such proper fiscal documentation has been submitted.

**Actions Taken:** See response to Recommendation B.1

**Milestones:** See response to Recommendation B.1.

**RECOMMENDATION B.3** – Disallow the \$260,718 used by sub-grantees to procure unapproved equipment, and disallow the equipment used by the sub-grantees for unapproved purposes costing \$696,940.

**Response:** The resolution of this recommendation is under review by SLGCP pending further documentation by the IDHS. The \$260,718 reflects amended equipment detail budget worksheets by four sub-grantees that were not resubmitted for approval by the Indiana SAA or the Preparedness Officer at SLGCP. A proper review will be undertaken by both IDHS and SLGCP to ensure that such purchases are allowable and can be authorized under the SHSG FY02, FY03, and FY03 supplemental grant awards.

**Actions Taken:** IDHS will require that sub-grantees submit amended equipment detail budget worksheets for review and approval by both the IDHS and SLGCP. After which, any purchased items found not allowable may result in the deobligation of funding by IDHS.

**Milestones:** IDHS will submit the required verification, as stated above, to the SLGCP Preparedness Officer for review and approval. Also see response to Recommendation B.1.

**RECOMMENDATIONS C.1** – Disallow the \$278,857 disbursed to police departments and require that these funds be returned to SEMA:

A. Disallow and recover any of the \$1.5 million that was not adequately supported the sub-grantee when the award was made (Recommendation C.3). DHS officials said that the determination of the adequacy of the supporting documentation for the remaining \$1.5 million in reimbursements (Recommendation C.2) would have to be completed before decisions on disallowing and recovering funds from sub-grantees can be made.

B. Develop and implement appropriate procedures for assuring that all future critical infrastructure protection disbursements for overtime claims are supported with adequate documentation (Recommendation C.4).

**Response:** The status for this recommendation concerning the police department's expenditures for overtime cost associated with critical infrastructure protection is under review by SLGCP pending further documentation by the IDHS. The Critical Infrastructure Protection Budget Detail Worksheets for police departments were submitted, reviewed, and approved by both the Indiana SAA and the SLGCP Preparedness Officer. However, time and attendance records for individual police officers were not required to be submitted to SLGCP as part of the Critical Infrastructure Protection Budget Detail Worksheets. Rather, the Indiana SAA has the responsibility to ensure that proper time and attendance records are maintained by the sub-grantees (as well as other documentation related to actual critical infrastructure protection activities) to verify justification of expenditures of these funds. Regarding sub-points A and B, SLGCP will work with IDHS to formulate an improved sub-grantee monitoring plan, including proper fiscal administration to ensure reimbursement of critical infrastructure protection overtime costs were properly authorized.

**Actions Taken:** IDHS will require the police departments to submit the required documentation to support the authorization of expenditures of funding for overtime costs related to critical infrastructure protection. Failure to do so may result in the de-obligation of funding by IDHS for the police departments. SLGCP will work with IDHS to formulate an improved sub-monitoring activities plan. Through the successful implementation of this plan, IDHS will verify that sub-grantees have the required documentation required for the authorization of expenditures of funding for overtime cost related to critical infrastructure protection. The Preparedness Officer will also help IDHS to address improved monitoring through enhancing administrative and planning capabilities at the regional level and local jurisdictional level. Additionally, SLGCP will strongly encourage IDHS to make available their personnel to participate in the new technical assistance program: "Enhancing Grant Management Capacities of State Administrative Agencies." See response to Recommendation B.1.

**Milestones:** The Preparedness Officer will work with the IDHS management team to ensure the development and implementation of an oversight monitoring plan (including programming and fiscal administration), for sub-grantee award recipients. The IDHS monitoring plan for sub-grantees will address adequacy of required documentation to justify overtime costs associated with critical



infrastructure protection. When necessary, the determination of approval for grant extensions may be conditioned upon IDHS's progress in expediting the expenditures of SHSG FY02, FY03, and FY03 supplemental grant awards and the monitoring of programming and fiscal activities of sub-grantees. The decision to approve grant extensions will be made by SLGCP no later than 30 days prior to the expiration of the project periods for the respective grant awards. The Preparedness Officer will also work with the IDHS and the Homeland Security Preparedness Technical Assistance Program to schedule a delivery date for the technical assistance program: "Enhancing Grant Management Capacities of State Administrative Agencies."

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