

Office of Inspector General

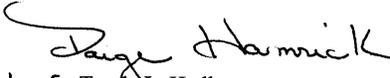
U.S. Department of Homeland Security
Dallas Field Office, Office of Audits
3900 Karina Street, Room 224
Denton, Texas 76208



**Homeland
Security**

August 13, 2004

MEMORANDUM FOR: Edward G. Buikema
Regional Director, FEMA Region V

FROM: 
for Tonda L. Hadley
Field Office Director

SUBJECT: *Grant Management: Minnesota's Compliance
With Disaster Assistance Program's Requirements
Audit Report Number DD-14-04*

This memorandum transmits the results of the subject audit performed by Cotton & Company LLP, an independent accounting firm under contract with the Office of Inspector General. In summary, Cotton & Company determined that Minnesota's Division of Homeland Security and Emergency Management (HSEM) could improve certain program and financial management procedures associated with the administration of disaster assistance funds.

On June 24, 2004, you responded to the draft audit report. The attached report includes your response, in its entirety, as Attachment B. Your comments are also summarized and presented after each finding in the report, along with additional comments from the auditors (Cotton & Company and OIG). The complete report will be posted on our Intranet and Internet website.

The actions described in your response were sufficient to resolve Recommendations A.3, A.6, A.7, A.8, A.9, B.10, and B.11. However, these seven recommendations will remain open until the described actions have been implemented. Your response did not adequately address the conditions cited for recommendations A.1, A.2, A.4, and A.5. Therefore, these four recommendations remain unresolved.

Please advise this office by November 12, 2004, of actions taken or planned to implement Recommendations A.1, A.2, A.4, and A.5. Any planned actions should include target completion dates.

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

cc: Mr. Michael Moline, Audit Coordinator, FEMA Region V
Ms. Sam Hadley, Cotton and Company LLP
Ms. Martha Barksdale, Project Officer/COTR

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Attachments

- A-1.** Schedule of Sources and Applications of Funds Under Disaster No. 993
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- B.** Comments from FEMA Regional Office

I. EXECUTIVE SUMMARY

Cotton & Company LLP audited the administration of disaster assistance grant programs by the State of Minnesota, Division of Homeland Security and Emergency Management (HSEM). Audit objectives were to determine if HSEM administered Federal Emergency Management Agency (FEMA) disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. This report focuses on HSEM's systems and procedures for assuring that grant funds were managed, controlled, and expended in accordance with applicable laws and regulations, including the Robert T. Stafford Disaster Relief and Emergency Act and Title 44 of the *Code of Federal Regulations* (CFR).

Of the disasters open as of September 30, 2002, we included the following 11 in the scope of our audit. FEMA requested that we focus our work to emphasize HSEM's current procedures; therefore, we selected our original sample of projects from the most recent five disasters. The following table also describes which of FEMA's disaster assistance programs; Public Assistance (PA), Hazard Mitigation (HM), or Individual and Family Grants (IFG) were open as of September 30, 2002.

Disaster No.	Declaration Date	Programs Open as of 09/30/02	Federal Share of Obligations	Federal Expenditures Claimed as of 06/30/03
993	06/11/93	HM	\$12,401,220	\$12,151,781
1116	06/01/96	HM	\$851,270	\$849,208
1175	04/08/97	PA, HM	\$211,518,688	\$203,404,137
1187	08/25/97	HM	\$1,925,860	\$1,885,117
1212	04/01/98	PA, HM, IFG	\$34,868,418	\$32,501,288
1225	06/23/98	PA, HM	\$30,172,492	\$28,605,099
1283*	07/28/99	PA, HM, IFG	\$15,299,593	\$13,640,064
1288*	08/26/99	PA, HM	\$6,833,772	\$3,745,187
1333*	06/27/00	PA, HM, IFG	\$17,827,457	\$13,120,839
1370*	05/16/01	PA, HM, IFG	\$38,940,731	\$31,404,307
1419*	06/14/02	PA, HM, IFG	\$23,848,928	\$15,078,982

* Initial sampled projects were taken from these disasters.

We did not perform a financial audit of these costs. Accordingly, we do not express an opinion on costs claimed by HSEM (Attachments A-1 through A-11). Our audit scope (and therefore this audit report) focused on systems and procedures that HSEM used to manage, control, and expend grant funds in accordance with applicable laws and regulations, including the Stafford Act and 44 CFR. We divided our findings into two sections: Program Management and Financial Management. Our recommendations for each finding, if implemented by HSEM, would improve management, strengthen controls, or correct noncompliance.

Program Management

- PA, HM, and IFG administrative plans did not meet all program requirements. The most recent administrative plans did not include all procedures required by 44 CFR. Additionally, HSEM did not have approvals for many HM administrative plans.

- HSEM did not process PA payments for small projects in a timely manner. The average time for processing small project payments for the 83 small projects we sampled was 136 days. Additionally, 41 of these were 100-percent complete at the time the Project Worksheet (PW) was prepared; thus, subgrantees had already expended all funds at the time the project was obligated.
- HSEM did not ensure that PA projects were completed within the required time limits or that extensions were requested when necessary. We found no evidence of extensions for projects completed after the required time limits or for open projects with time limits that had passed. Additionally, we did not find evidence in all project files to determine if closed projects were completed within required time limits.
- HSEM did not have procedures to ensure timely PA project closeout. We sampled 103 projects; for 47 of these, the time between project completion and project closeout requests to the FEMA regional office ranged from 70 to 1,524 days. Also, we did not find evidence in all project files to determine when projects were closed out or if closeout had been requested at the time of our audit.
- HSEM did not close out IFG programs within required time limits. IFG programs under six disasters declared from April 8, 1997, to June 14, 2002, have not been closed. Additionally, while some project extensions had been requested and approved, not all time periods were covered by extensions. Five programs had periods from either January 1, 2003, or February 1, 2003, to September 3, 2003, that were not covered by extensions, or discussed in subsequent extension requests.
- Applications for HM projects did not contain all required elements. We sampled 27 projects; of these, 18 did not contain adequate work schedules, and the 2 sampled projects that had supplements did not contain updated work schedules, justifications for selection, or alternatives considered. Additionally, HSEM did not determine if any project applications were for construction projects, which require submittal of a Standard Form 424D, Assurances for Construction Programs.
- HSEM did not obtain all required assurances from HM subrecipients. HSEM did not require subrecipients to assure that funds used to match their HM projects were not used to meet matching requirements on other federal projects. Additionally, the subrecipient agreements did not include property acquisition and relocation requirements to assure that allowable structures built on any acquired property are to be flood-proofed or adequately elevated.
- HSEM did not submit all required quarterly HM progress reports. It could not provide progress reports submitted to the regional office before March 31, 2003. Additionally, the two progress reports submitted did not contain information on all open projects and did not include estimated completion dates for most projects included in the progress report.
- HSEM did not request HM project closeouts in a timely manner. It did not prepare and submit closeout requests in a timely manner for all of the sampled projects that have been completed (seven projects). HSEM had not submitted a closeout request for six of these, although projects were completed from as early as December 2001. Additionally, we sampled five projects that had been closed; HSEM did not prepare and submit closeout requests in a timely manner for four of these; delays ranged from 19 to 29 months.

Financial Management

- HSEM could not provide adequate documentation to support claimed labor costs charged to PA and HM management grants. It did not support claimed labor costs by adequate after-the-fact labor distributions, such as timesheets or effort certifications.
- HSEM could not provide adequate documentation to support the majority of HM claimed costs. The majority of claimed HM costs did not have adequate support. Additionally, we found no evidence that HSEM performed any review of supporting documentation that was provided.

We summarized FEMA regional office comments in the body of this report and included additional auditor reactions to those comments if necessary. Full comments are attached to this report (Attachment B). The regional office generally agreed with findings and recommendations.

II. INTRODUCTION

The Stafford Act governs disasters declared by the President. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to states under three major programs: PA, HM, and Individual Assistance (which includes the IFG program). Each program has separate objectives and regulations, as described in 44 CFR 206, *Federal disaster assistance for disasters declared on or after November 23, 1988*. On October 30, 2000, the President signed the Stafford Act Amendments into law (Public Law 106-390). These amendments are effective only for disasters declared after October 2000.

PA grants are awarded to state agencies, local governments, qualifying private nonprofit organizations, Indian tribes, or authorized tribal organizations for the repair and replacement of facilities, removal of debris, and establishment of emergency protective measures needed as the result of a disaster. To receive a PA grant, a designated representative of an organization affected by the disaster must declare its intent to participate. This declaration is sent to the grantee and to FEMA, which schedules an inspection of damaged facilities. The inspection team prepares a PW, which identifies the eligible scope of work and estimated project costs. FEMA reviews and approves the PWs and obligates funds to the grantee. The cost-share arrangement of the disaster is specified by the FEMA-state agreement; for the 11 disasters in our scope, the cost-share requirement was 25 percent, except for Disaster No. 1175, which had no cost-share requirements for Categories A and B work.

The CFR requires classification of PA projects as either small or large. The classification is based on a project threshold amount adjusted annually to reflect changes in the Consumer Price Index (CPI) for all Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for Disaster No. 1283 was \$47,800. Projects costing under \$47,800 were classified as small, and projects costing \$47,800 and higher were classified as large. The threshold for Disaster No. 1419, the most recent disaster, was \$52,000.

FEMA awards HM grants to states to help reduce the potential for damages from future disasters. The state (grantee) must submit a letter of intent to participate in the program, and subgrantees must submit project proposals to the state. The grantee sets priorities for selecting projects and submits projects to FEMA for final approval. Subgrants are awarded to state agencies, local governments, qualifying private nonprofit agencies, and Indian tribes or authorized tribal organizations. The amount of assistance available under this program must not exceed 15 percent of total assistance provided under other

assistance programs. The cost-share requirement specified in the FEMA-State agreements for these declared disasters in Minnesota was 25 percent.

Administrative funds provided to the grantee under disasters and emergency measures could consist of three types of assistance to cover costs of overseeing the PA and HM grant programs. First, an administrative allowance could cover “extraordinary” costs directly associated with managing the programs, such as overtime wages and travel costs. This allowance was determined by using a statutorily mandated sliding scale with payments ranging from ½ to 3 percent of the total amount of federal disaster assistance provided to the grantee. Second, FEMA could award an administrative allowance referred to as “State Management Grants” on a discretionary basis to cover the state’s ordinary or regular costs directly associated with program administration. Third, FEMA could award an administrative allowance for activities indirectly associated with program administration.

HSEM, the grantee responsible for administering these programs, is part of the State of Minnesota. State appropriations and FEMA Emergency Management Performance Grants fund HSEM’s daily operations. Disasters are funded through FEMA cost-shared disaster grants. The state pays its share through appropriations or by passing cost-share responsibilities on to local applicants.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary audit objective was to determine if HSEM administered FEMA disaster grant programs according to federal regulations. Specifically, we reviewed all material aspects of the grant cycle, including:

- Administrative Plan
- Subgrantee Award Process
- Project Completion
- Project Closeout
- Subgrantee Monitoring
- Administrative Costs
- Cost-Share Requirements

To assess compliance and performance with grant management provisions, we selected and tested numerous PA, HM, and IFG project files to determine if HSEM administered projects within program guidelines. We included both open and closed projects (of open disasters) in our review, but emphasized evaluation of HSEM’s current internal controls and procedures to identify current internal control system weaknesses or noncompliance issues. When developing findings and recommendations, we considered the views of the FEMA regional office and guidance from FEMA headquarters.

We also evaluated how HSEM accounted for and used FEMA program funds to ensure that HSEM had internal controls and procedures in place to account for program funds and safeguard federal assets. Finally, we reviewed HSEM’s financial reporting process to ensure that it submitted accurate financial expenditure reports. These two objectives included a review of overall internal controls of HSEM, management oversight activities, and the financial management system used by HSEM. During our testing of PA and HM projects, we tested expenditures incurred for allowability in accordance with applicable cost principles. We also selected several financial reports submitted by HSEM and reconciled those reports to:

- Supporting accounting system used by the State of Minnesota
- HSEM's Federal Cash Transaction Reports (FCTRs)
- FEMA databases (NEMIS or ADAMS)
- FEMA's accounting system (IFMIS)

Our review of financial reports also included reviewing HSEM's system for allocating costs to disasters and programs, testing the accuracy of payments to subgrantees, determining the timeliness of financial reporting, and evaluating HSEM's overall cash management (both the timing of funds drawn down from the SMARTLINK system and how HSEM advances funds to subgrantees).

The scope of our audit consisted of disasters listed on page 1, which was all disasters declared and open as of September 30, 2002. The three major programs addressed in this audit were PA, HM, and IFG grants. We conducted our audit in accordance with the FEMA *Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs*, provided by the Office of Inspector General (OIG). Our audit work included a site visit to the FEMA Region V office in Chicago and audit fieldwork at HSEM's office in St. Paul, Minnesota.

Our methodology included reviewing files at FEMA Region V, discussing HSEM's administration and grant oversight with Region V personnel, and reviewing regional and HSEM's contract files, accounting records, and correspondence, including administrative and program plans. We also interviewed knowledgeable FEMA and HSEM personnel. Our audit scope did not include interviews with HSEM subgrantees, technical evaluation of the work performed, or assessment of repairs of disaster-caused damages.

The State of Minnesota receives an annual audit in accordance with Office of Management and Budget (OMB) Circular A-133. HSEM is included in this state Single Audit. The auditors selected FEMA programs as major programs in Fiscal Years (FYs) 1998 to 2002 and developed findings related to FEMA grants in FYs 1998 and 2002. We reviewed these reports and supporting workpapers in St. Paul to determine if these findings affected our audit scope or specific audit tests. Our goal was to determine if we could reduce testing based on work performed or possibly increase testing based on documented weak controls or lack of policies and procedures. We also reviewed these reports to gain an understanding of internal controls and identify weaknesses in internal controls. We requested copies of reports of FEMA OIG audits conducted on HSEM. HSEM provided audit reports on all subgrantees in recent history. We reviewed these reports to determine if findings in subgrantee reports affected performance or internal controls at the grantee level. Nothing was included in those reports that required additional review or follow-up in the scope of this audit.

We conducted the audit in accordance with *Government Auditing Standards*, as revised, as prescribed by the Comptroller General of the United States. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on costs claimed for disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of 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 accounts and items specified and does not extend to any financial statements of the State of Minnesota or HSEM.

IV. FINDINGS AND RECOMMENDATIONS

This report summarizes audit results in two major sections: Program Management and Financial Management. These sections contain findings and related recommendations. Proper implementation of our recommendations will improve overall management of FEMA programs and correct noncompliance situations found during the audit.

A. Program Management

1. PA, HM, and IFG administrative plans did not meet all program requirements.

HSEM's administrative plans for all programs did not include all procedures required by 44 CFR. We reviewed HSEM's administrative plans for the disasters in our audit scope. HSEM had corrected previously found weaknesses; therefore, we only discuss weaknesses in the most recent administrative plan. Finally, HSEM could not provide support to document that HM plans had been submitted and approved for Disaster Nos. 1283, 1288, and 1333.

Public Assistance. The most recently submitted administrative plan did not contain the following procedures required by 44 CFR 206.207(b), *State administrative plan*:

- Processing appeal requests or processing appeals of grantee decisions.
- Determining staffing and budgeting requirements for program management.

HSEM officials stated that the plan contains significant guidance regarding processing appeals, although specific procedures were not included. HSEM agreed that other elements could be added to improve the plan, but stated that FEMA had not brought these issues to its attention.

Hazard Mitigation. HSEM's most recent HM administrative plan did not contain all required elements [44 CFR 206.437(b), *Minimum criteria*], as follows:

- Procedures to process requests for advances of funds and reimbursements.
- Procedures to determine applicant eligibility.

HSEM also could not provide documentation that plans for Disaster Nos. 1283, 1288, and 1333 were submitted and approved by FEMA, as required by 44 CFR 206.437 (d), *Approval*.

HSEM stated that procedures discussing advancement of funds were not documented. It did not include procedures regarding applicant eligibility, because applicants were made aware of eligibility requirements during briefings, and ineligible applicants would not be accepted. Finally, HSEM stated that it could not find submittal and approval letters for certain administrative plans as the result of staff turnover.

Individual and Family Grants. We reviewed HSEM's administrative plans for the disasters in our audit scope. The most recent administrative plan (Disaster No. 1419) did not contain all items required by 44 CFR 206.131(e), *State administrative plan*, as follows:

- Procedures for conducting any state audits that might be performed in compliance with the Single Audit Act.
- Procedures for submitting Financial Status Reports to the Regional Director.
- Procedures for complying with 44 CFR, Part 13 and Part 11; the state's debt collection requirements, and applicable federal laws and regulations.
- Provisions for identifying federal and state funds, repaying loaned state share, and returning all federal funds that exceed program needs.
- Identification of the management and oversight responsibilities of the Governor's Authorized Representative, the department head responsible for the IFG program, the grant coordinating officer, and the IFG program manager.

In addition, HSEM did not update the current, approved plan to reflect the change in procedures for FEMA's administration of the program. HSEM submitted essentially the same administrative plan it had developed for Disaster No. 1333 because the previous plan had been approved, not knowing that sections were omitted. Additionally, HSEM realized that some sections were obsolete, but was told by FEMA that updating was no longer necessary, because HSEM was no longer administering those portions of the program.

Conclusions and Recommendations: Adequate and timely administrative plans are necessary to ensure that all personnel handling disaster administration are aware of and can accomplish tasks according to the plans. HSEM may fail to handle issues properly if administrative plans are outdated and do not contain all procedures to administer programs. Additionally, without adequate plans, FEMA cannot be certain that HSEM is sufficiently prepared and that stated policies and procedures will accomplish grant goals.

We recommend that the Regional Director ensure that HSEM 1) revise its administrative plans to include procedures for all CFR-required elements and 2) document and implement policies and procedures regarding the preparation of administrative plans that meet all 44 CFR requirements.

Management Response: Management concurred with the findings related to the HM and PA programs. The region noted that it will ensure that the HM and PA administrative plans are revised in 180 and 90 days respectively. Additionally, the region included the HM action plan for ensuring that future plans meet all CFR requirements, however, no policies and procedures were provided for the PA program.

Finally, no comments were provided for the IFG program. FEMA Region V noted that it must reserve comment on IFG issues due to disaster activity in the region.

Auditor's Reaction: The two recommendations in this finding remain unresolved, because the actions described did not address the IFG program for either recommendation and, for Recommendation A.1.2, did not address documentation and implementation of policies and procedures for the PA program. Actions described do, however, adequately address Recommendation A.1.1 for the HM and PA programs. Therefore, until the region requires HSEM to revise its IFG administrative plan and assures that it has documented and implemented procedures regarding preparation of administrative plans for all three programs, all recommendations cannot be resolved and closed.

2. HSEM did not process PA payments for small projects in a timely manner.

HSEM did not process PA payments for small projects in a timely manner. The average time for processing small project payments for the 83 small projects we sampled was 136 days. Additionally, 41 of these were 100-percent complete at the time the PW was prepared; thus, subgrantees had already expended all funds at the time the project was obligated.

HSEM is required to make payments for small projects as soon as possible after federal approval of funding [44 CFR 206.205(a), *Small Projects*].

HSEM explained that certain payments to subgrantees took extended periods of time because it waited until all PWs from all batches were processed by FEMA before beginning the process of sending a subgrantee agreement to the applicant. HSEM does not process subgrantee payments until the subgrantee agreement is returned to HSEM. Additionally, HSEM stated that FEMA did not always send obligation packages to HSEM directly after obligations were made; therefore, HSEM was not aware of all obligations. Finally, HSEM explained that several of these disasters were large, and considerable work was required to process many applicants.

Conclusions and Recommendations: Delays in processing small project payments may result in project closeout delays and delays in subgrantee reimbursements to vendors or contractors. Timely processing of payments is also necessary to ensure that small projects have the available funds to proceed with necessary repairs.

We recommend that the Regional Director require HSEM to revise current procedures to ensure that payments for small projects are processed in a timely manner.

Management Response: The region does not believe that the state should revise current procedures but will review the state's small project payment procedures.

Auditor's Reaction: The finding notes that small project payments take an average of 136 days, which we consider to be beyond the intent of 44 CFR 206.205. Region V has taken no action. Therefore, this recommendation remains open.

OIG Comments: The recommendation in this finding remains unresolved. The OIG disagrees with the region that the state does not need to revise procedures to ensure timely payment on small projects. Federal regulations require final payment on small projects to the state upon approval of the PW, and require the to state make payment to the subgrantee as soon as practicable. HSEM should not receive federal funds as soon as a PW is approved and then fail to disburse them for over 136 days. The state's policies and procedures do not allow subgrantees to be paid in a timely manner. Therefore, the state's procedures should be revised to allow HSEM to comply with applicable federal regulations. Accordingly, the recommendation cannot be resolved until the region provides an action plan with a projected completion date for requiring HSEM to revise its policies and procedures to ensure timely payment for small projects.

3. HSEM did not ensure that PA projects were completed within required time limits or that extensions were requested when necessary.

In a sample of 103 projects, 9 projects listed below were open as of the dates of our fieldwork, although completion deadlines had passed. We found no evidence in project files that time extensions were requested or received:

Disaster No. 1288 declared August 26, 1999:

PW No.	Project Completion Deadline
267	02/26/01

Disaster No. 1333 declared June 27, 2000:

PW No.	Project Completion Deadline
358	12/27/01
741	12/27/01

Disaster No. 1370 declared May 16, 2001:

PW No.	Project Completion Deadline
102	11/16/02
2248	11/16/02
2493	11/16/02
2650	11/16/02
1972	12/08/02
1222	12/21/02

Additionally, we identified two projects that had approved time limit extensions, however, the extended project completion dates had passed, and the projects were still open:

Disaster No.	PW No.	Extended Project Completion Deadline
1333	639	12/31/02
1333	718	12/01/02

Finally, several projects were completed, but HSEM did not ensure that subgrantees prepared the Project Completion and Certification Report (P.4) accurately. Under Disaster No. 1370, P.4s for two projects did not identify actual project completion dates (PW Nos. 374 and 1050). Also, we noted one project under Disaster No. 1370 that was not completed within prescribed time limits. PW No. 2374 was completed 16 days after completion time limits.

44 CFR 206.204 (c), *Time limitations for completion of work*, sets completion deadlines of 6 and 18 months from the disaster date for emergency work and permanent work respectively. Based on extenuating circumstances or unusual project requirements beyond the control of the subgrantee, a grantee may extend the deadlines for an additional 6 or 30 months. Section (d)(2) further states that the grantee may be reimbursed for eligible project costs incurred only up the latest approved completion date, and if the project is not completed, no federal funding will be provided.

HSEM did not obtain or maintain documentation in project files to determine when projects were completed. HSEM explained that it required a P.4 only after the subgrantee had completed all projects associated with a disaster. Thus, it would eventually be given the project completion date for each project at the completion of a subgrantee's large and small projects. HSEM also explained that subgrantees were frequently made aware of project deadlines and extension requirements. It could not, however, explain why some P.4s were submitted and accepted without stated project completion dates. HSEM also noted that PW No. 2374 was initially denied by FEMA, but later accepted on appeal.

Conclusions and Recommendations: Assuring that subgrantees are completing projects in a timely manner as part of HSEM's monitoring of project performance is essential to ensure that:

- Subgrantees complete projects within required timelines or request necessary extensions with documentation of extenuating circumstances.
- Project costs incurred after approved completion deadlines will not be allowed.
- Project costs are being monitored so that HSEM can notify FEMA of additional obligations or upcoming deobligations in a timely manner.
- Documentation to support claimed costs will still be available for review, and personnel responsible for project performance will be available to answer questions on project performance or cost allowability.

We recommend that the Regional Director ensure that HSEM revise its policies and procedures to monitor project performance and obtain required time limit extensions, which will strengthen controls over project cost allowability.

Management Response: The region noted that HSEM does include information about time extensions and documentation of project completion dates in project files. HSEM does not, however, consistently organize and maintain this information. FEMA Region V will work with HSEM to adjust procedures to consistently record and report on project completion, time extension requests, and approvals over the next 90 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions proposed are completed.

4. HSEM did not have procedures to ensure timely PA project closeout.

An extended period of time elapsed between project completion and closeout request to the FEMA regional office. This was primarily the result of HSEM's policy not to close small or large projects individually, but rather wait until the subgrantee had completed all projects under a disaster. While the CFR does not include a requirement on deadlines to complete project closeout, the number of days between project completion and closeout request ranged from 70 to 1,524 for 47 of the 103 sampled projects, including 26 that were 100 percent complete at initial inspection, as follows:

Disaster No.	PW No.	Days Between Project Completion and Closeout Request
1283	561	367
1283	504	869
1283	83	391
1283	442	606
1283	454	330
1283	532	614
1283	109	356
1283	167	1,134
1283	119	485
1283	468	509
1283	345	351
1283	552	639
1283	419	546
1283	299	434
1288	8	567
1288	35	1,524
1288	39	70
1288	78	585
1288	94	1,087
1288	136	181
1288	172	186
1288	190	248
1288	231	109
1333	11	396
1333	66	408
1333	100	295
1333	294	236
1333	391	570
1333	405	605
1333	511	736
1333	535	327
1333	572	382
1333	604	637
1333	659	738
1333	709	240
1370	515	244
1370	807	438
1370	1199	128
1370	1350	579
1370	1540	181
1370	2095	254
1370	2141	191
1370	2234	107
1370	2374	229
1370	2552	728
1419	291	244
1419	415	273

Also, HSEM had not requested closeout for four projects under Disaster No. 1370; these projects were completed, and HSEM received the applicants' P.4s as early as February 20, 2002.

As noted in Finding 3 above, HSEM did not close out individual projects, but rather required subgrantees to complete a single P.4 once all projects were complete. When it received a P.4, HSEM prepared a complete applicant reconciliation and reviewed all supporting documents for all of an applicant's projects. Considerable time is taken to prepare a complete subgrantee package. This process resulted in an average of 454 days from project completion to requesting project closeout.

Conclusions and Recommendation: Processing of project closeouts in a timely manner is important to ensure that:

- HSEM can notify the regional office of additional funding needs for project cost overruns or identify FEMA funding that has become available for alternative purposes, thus allowing FEMA to process timely obligations and deobligations.
- Subgrantee staff members are still available with the knowledge and rationale for decisions made throughout project performance.
- Documentation to support claimed costs is available for review. Delays in requesting or reviewing documentation may result in records becoming misplaced or destroyed by the subgrantee.

We recommend that the Regional Director require HSEM to revise its policies and procedures to ensure that projects are closed in a timely manner.

Management Response: The region stated that the state's administrative plan does iterate the process and timelines for project completion and closeout, but many projects encounter delays, either within the project or due to additional reviews on the part of the state or FEMA. In general, FEMA Region V does not concur with the auditor's finding, but will work with the state to "describe current practices and improve those steps in the process that need improvement" over the next 90 days.

Auditor's Reaction: While project delays can happen, the number and length of delays at HSEM should be addressed. Management's response did not identify any revised policies and procedures to close projects in a timely manner. Therefore, the recommendation remains open.

OIG comments: Even though the region stated that it disagreed with the finding, it did provide an action plan to "describe current practices and improve those steps in the process that need improvement." The OIG does not agree that the region should allow HSEM to keep projects open for years, regardless of the "many varied situations" that cause the delays. According to 44 CFR 206.204(b), each large project must be submitted to the region as soon as practicable after the subgrantee has completed the approved work and requested payment.

Further, as stated in Finding 2, HSEM's practice of not processing small project payments as soon as practicable also impacts timely project closeout. Because HSEM's current policies and procedures do not allow the submission of projects as soon as practicable, the region should require HSEM to revise policies and procedures and ensure that the policies and procedures will result in timely completion of project closeout. Accordingly, we cannot resolve this finding until the region provides an action plan with a projected completion date for requiring HSEM to revise its policies and procedures to ensure that projects are closed in a timely manner.

5. HSEM did not close out IFG programs within required time limits.

As of the dates of fieldwork, HSEM had six IFG programs still open:

Disaster No.	Declaration Date	Original Deadline for Administrative Activity
1175	04/08/97	01/03/98
1212	04/01/98	12/27/98
1283	07/28/99	04/23/00
1333	06/27/00	03/24/01
1370	05/16/01	02/10/02
1419	06/14/02	03/11/03

While HSEM did not maintain documentation to support all extension requests, FEMA approved a final extension request for Disaster Nos. 1175, 1212, 1283, and 1333 and established a deadline of December 31, 2002. FEMA granted separate extensions for Disaster Nos. 1370 and 1419 to January 30, 2003, and September 7, 2003, respectively. On July 30, 2003, HSEM requested further extensions for Disaster Nos. 1175, 1212, 1283, 1333, and 1370 and also requested technical assistance from the region to prepare necessary administrative reports and the closeout request. FEMA established a date for providing technical assistance and allowed a further extension to October 31, 2003. An extension had not been requested or granted for Disaster No. 1419 beyond September 7, 2003. HSEM stated that it hoped to process an additional case within that disaster.

In accordance with 44 CFR 206.131 (j) (iii) and (iv), *Time limitations*, the grantee must complete all **grant** activity within 180 days from the disaster declaration date. The grantee must complete all **administrative** activities and final reports to the Regional Director within 90 days of the completion of all grant activity. Further, 44 CFR 206.131 (j) (2) allows the grantee to request a 90 day extension with appropriate justification. The Associate Director must approve any further extensions.

HSEM explained that it did not have adequate staff resources to prepare required closeout documentation and that the IFG program office did not have sufficient accounting knowledge to prepare a final reconciliation between program records and amounts paid per the state accounting records. HSEM further explained that, because of the nature of disaster assistance, the state hired temporary employees to administer the IFG program; these employees often found other work when it became apparent that the position would not be needed much longer; therefore, personnel were not available to prepare final documents. Finally, HSEM struggled with how to reconcile and close projects, because it is still receiving small monthly payments from certain applicants that were overpaid.

Conclusions and Recommendation: Although FEMA regional staff may be aware of delays and difficulties in project closeout, without formal requests and approvals for all time extensions, FEMA managers and directors may not know the status of IFG programs and causes for delays. Additionally, submitting a closeout request in a timely manner is important to ensure that adequate reconciliations are performed, overpayments to applicants are identified, requests for additional obligations or deobligations can be made promptly, and officials with first-hand program knowledge were still available to respond to questions or support decisions made. When project closeout is significantly delayed, the difficulty of program reconciliation increases.

Under the five most recent disasters, HSEM had over \$150,000 of obligated amounts that could be identified and deobligated back to FEMA and approximately \$12,000 of SMARTLINK drawdowns in excess of expenditures reported in the state accounting system.

We recommend that the Regional Director require HSEM to 1) establish policies and procedures to ensure that IFG programs will be closed within prescribed deadlines, which include requesting deobligations for obligated funds in excess of program needs and remitting federal funds drawn down in excess of actual expenditures for each open IFG program, and 2) develop a training and staffing plan that will provide adequate staff to perform closeout procedures.

Management Response: No management comments were provided for the IFG program. FEMA Region V noted that it must reserve comment on IFG issues due to disaster activity in the region.

Auditor's Reaction: As no comments were provided, the recommendations remain open.

6. Applications for HM projects did not contain all required elements.

HSEM did not include all necessary items in HM project applications submitted to FEMA for approval as follows:

- Of the 27 sampled projects, 18 did not have adequate work schedules, as required by 44 CFR 206.436 (d)(7), *Hazard mitigation application*. In addition, HSEM's administrative plan (Application Form, Step 8), required that proposed work schedules and total time needed to complete the project be included in project applications.
- Two of the sampled projects included supplements, but neither project included a supplemental or updated work schedule and justification for selection or alternatives considered, as required by 44 CFR 206.436 (e), *Supplements*.
- HSEM did not determine which projects were considered construction programs that are required to include a Standard Form (SF) 424D, Assurances for Construction Programs within those project applications, as required by 44 CFR 206.436(d).

HSEM noted that some projects contain work schedule information, but may not contain a specific schedule. Additionally, Minnesota has very short building cycles as the result of cold weather; it is therefore difficult to determine when projects can start and how much will be completed. Finally, HSEM expected the HM project application process to be converted to an electronic format soon, which may revise what will be required.

HSEM also explained that when projects required supplements, it only ensured that necessary environmental reviews and benefit-cost analysis were performed. Finally, HSEM stated that it was unaware that construction projects required a different SF than other projects.

Work schedules are necessary to ensure that projects can be completed within prescribed timelines and to assist HSEM and FEMA in tracking project performance and identifying project delays. Complete information is required in supplemental applications to ensure that the revised scope of the project is eligible, the project will be completed in a timely manner, and the alternative selected was the best course of action. Without an SF 424D for construction projects, HSEM might not make all necessary assurances to FEMA.

Conclusions and Recommendation: We recommend the Regional Director require HSEM to strengthen policies and procedures to ensure that project applications contain all required information.

Management Response: Management concurs with this finding and documented an HM action plan that will be implemented in 180 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

7. HSEM did not obtain all required assurances from HM subgrantees.

HSEM did not ensure that all subgrantees made all necessary assertions through the project application, subgrant agreement, or other documentation, such as a certification. HSEM did not require that subgrantees assure that funds used to match their HM projects were not used to meet matching requirements on other federally- or state-funded projects, or that funds received under this project were not used as match on other federally- or state-funded projects, as required by 44 CFR 206.434 (g), *Packaging of programs*.

Additionally, subgrantee agreements did not include property acquisition and relocation requirements to assure that structures built on any acquired property were flood-proofed or adequately elevated. As stated in 44 CFR 206.434 (d)(3), *Property acquisition and relocation requirements*, any structure built on the acquired property must be flood-proofed or elevated to the Base Flood Elevation plus one foot of freeboard.

HSEM thought that it obtained subgrantee assurance that matching funds were not used to match other programs through the project application, which required the subgrantee to note the source of matching funds. The subgrantee agreement, however, only required the subgrantee to document the *amount* of required match, and, through a review of the agreements, we found no additional information that documented the source of matching funds. HSEM thought its flood-proofing assurances were adequate, and stated that all subgrantees were required to follow Department of Natural Resources requirements, which are stricter than those in the CFR.

Conclusions and Recommendation: Assurances are used by grantees to ensure compliance with their own requirements without having to perform excessive reviews or other tests. Obtaining subgrantee certifications regarding matching funds and flood-proofing allows HSEM to document compliance with requirements in its own grant agreement, without taking an excessive amount of time to verify each subgrantee's funding individually or inspect each property to determine that proper elevations were used. Obtaining certifications also increases controls, because HSEM is assured that subgrantees are aware of requirements.

We recommend that the Regional Director require HSEM to develop and implement policies and procedures to ensure compliance with matching and flood proofing requirements through certifications or alternative means.

Management Response: Management concurs with this finding and documented an HM action plan that will be implemented in 180 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

8. HSEM did not submit all required quarterly HM progress reports.

HSEM did not submit progress reports to document the status of HM projects prior to March 31, 2003. For the two submitted progress reports in our audit period, HSEM completed a combined quarterly report that addressed all open programs under all disasters. We reviewed these two progress reports and found the following:

- **Progress report for period ending March 31, 2003:** 20 of 27 sampled projects had been started; HSEM failed, however, to include any project information for 11 of the 20 projects. Additionally, the progress report did not contain completion dates for the 9 projects included in the report.
- **Progress report for period ending June 30, 2003:** 24 of our 27 sampled projects had been started; HSEM failed, however, to include any project information for 1 of the 24 projects. Additionally, the progress report did not contain completion dates for 22 of the 24 projects included in the report.

44 CFR 206.438 (c), *Progress reports*, requires the grantee to submit quarterly progress reports to FEMA indicating:

- The status and completion date for each measure funded.
- Problems or circumstances affecting completion dates, scope of work, or project costs that are expected to result in noncompliance with approved grant conditions.

HSEM stated that progress reports have historically been a problem, and that it lacked the personnel to manage the process of obtaining program information and reporting it to FEMA. HSEM stated that it is making improvements with newer projects.

Conclusions and Recommendation: Progress reports are necessary to ensure that the regional office is aware of actual project status and has needed information to make necessary approvals, obligations, and deobligations in a timely manner.

We recommend that the Regional Director ensure that HSEM implements procedures, which may include additional staff, to ensure quarterly progress reports are complete and submitted when due.

Management Response: Management concurs with this finding and documented an HM action plan that will be implemented in 180 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

9. HSEM did not request HM project closeouts in a timely manner.

HSEM did not have adequate procedures in place to request project closeout in a timely manner after project completion. Of our 27 sampled projects, 7 were completed; HSEM had not, however, requested closeout for 6 of these, and the project closeout for the 7th was not submitted to FEMA for 9 months after project completion as follows:

Project No.	Date Completed
1283.0003	10/31/02*
1283.0004	1/02
1283.0011	7/30/02
1283.0012	7/30/02
1283.0013	12/01
1288.0003	4/21/03
1288.0005	12/02

* HSEM submitted project closeout to FEMA in July 2003 (9 months after project completion); the project is, however, still open.

Because none of our sampled projects had been closed, we selected an additional sample of five closed projects to determine if closeout requests were submitted in a timely manner. We found that closeout requests were not submitted in a timely manner for four of these five projects, as follows:

Project No.	Months to Submit Closeout Request*
1116.0009	19
1116.0010	21
1116.0011	29
1187.0006	19

* Number of months between project completion and submission of closeout request to FEMA.

HSEM stated that it struggled with project closeout in the past, because there were multiple disasters in a short period of time, and closeout was not given the highest priority for reasons of limited staff size. Additionally, HSEM stated that limited project monitoring during the period of performance had added to the delay in closeout, because HSEM may not have had all the information required for the project. HSEM stated that it is making improvements to project closeouts and was scheduled to close out three additional disasters by the end of the calendar year.

Conclusions and Recommendation: While a timeframe to submit project closeouts is not a stated requirement in the CFR, processing and submitting closeout requests in a timely manner is important to ensure that:

- The entire program is closed out in a timely manner.
- Grantees can easily identify and recover unallowable costs claimed.
- Grantees can notify the regional office of funding that becomes available due to project underruns and apply funds to an alternative project.
- Grantees can identify potential project cost overruns and take appropriate action, which is important because of the limited amount of HM money available.

- Grantees can speak to subgrantee personnel who have knowledge of the issues and can explain why certain decisions were made.
- Documentation to support claimed costs does not become lost or destroyed.
- Projects are closed out properly, including obtaining all necessary signatures.

We recommend that the Regional Director ensure that HSEM develop policies and procedures to improve the timeliness of project closeout.

Management Response: Management concurs with this finding and documented an HM action plan that will be implemented in 180 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

B. Financial Management

10. HSEM could not provide adequate documentation to support claimed labor costs charged to PA and HM management grants.

HSEM did not have adequate documentation to support claimed labor costs within the PA and HM management grants. For both programs, HSEM allocated labor costs to the multiple management grants based on an estimated level of effort instead of actual time spent on each disaster within each of the two programs. Under the PA program, no labor costs were allocated to Disaster No. 1419, although effort was expended in managing the projects under that disaster. Under the HM program, all labor costs were allocated to management grants under only three disasters (Nos. 1283, 1288, and 1333), although time was spent managing programs under all open disasters (including Disaster Nos. 993, 1116, 1175, 1187, 1212, 1225, and 1419).

According to 44 CFR 13.22(b), *Applicable cost principles*, claimed costs must be allowable in accordance with applicable OMB costs principles. For state and local governments, OMB Circular A-87, Attachment B, 11(h) (5), *Compensation for Personal Services*, requires that labor charges to federal grants by employees who work on more than one final cost objective (i.e., different disasters, training, or other activities) must be supported by personal activity reports that:

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and coincide with one or more pay periods.
- Are signed by the employee.

HSEM staff for both the PA and HM programs was unaware that the current system was not adequate. They further stated that allocating actual time within the PA program would be very time consuming, and that estimated percentages in the management grant request was the best estimate of time to be spent on each open disaster. Additionally, they informed FEMA of what they were doing through monthly progress reports. HM program staff explained that they did not request a management grant for Disaster No. 1419, because they were unsure that the state would be able to fund the required 25-percent cost share.

Conclusions and Recommendations: HSEM could not adequately support claimed management grant costs. We did not question claimed labor costs, because all claimed labor costs were related to disaster assistance, although not properly allocated to individual disasters. We recommend that the Regional Director require HSEM to develop an adequate labor distribution system to support labor costs and prepare future claims for reimbursement with adequate supporting documentation.

Management Response: Management concurs with the finding and recommendation related to the HM program and agrees that some of the PA costs were not properly allocated to the appropriate disaster. Management has documented an HM action plan that will be implemented in 180 days, and further noted that the state has started discussions with its Fiscal and Administrative Services Division to make improvements over the next 90 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

11. HSEM could not provide adequate documentation to support the majority of HM claimed costs.

We determined that the majority of claimed costs for HM projects did not have adequate support, and, while some supporting documentation was found in certain project files, there was no evidence that the documentation was reviewed prior to making reimbursements to subgrantees.

HSEM is required to ensure that all project costs are allowable in accordance with 44 CFR 13.20(b)(5), *Allowable cost*. Additionally, HSEM's administrative plan (Section XI, Project Initiation), states that:

- Partial payments to subgrantees will be based on expenditures that can be documented.
- Requests must be accompanied by supporting documentation that substantiates project expenditures to date.
- Following the review of supporting documentation, HSEM's State Hazard Mitigation Officer (SHMO) will authorize payment.

HSEM did not have procedures to request and review documentation from subgrantees to support claimed costs. HSEM stated that it did not have enough staff to review supporting documentation for interim payments, and that its procedure was to review supporting documentation during project closeout. We reviewed project files for five projects and found no documentation to support claimed costs or evidence that costs were reviewed at the subgrantee site. HSEM stated that it had not reviewed the documentation at closeout for reasons of limited staff size and backlog of closeout requests that need to be prepared.

Conclusions and Recommendations: Without an adequate review of documentation to support claimed costs, HSEM cannot ensure that:

- Claimed costs are allowable.
- Costs were incurred within the project period.
- Matching requirements were met.
- Claimed matching costs were allowable.

We recommend that the Regional Director require HSEM to develop policies and procedures necessary to document the allowability of claimed costs, such as a combination of reviewing documentation to support claimed costs, site visits, checklists, and subgrantee certifications.

Management Response: Management concurs with this finding and documented an HM action plan that will be implemented in 180 days.

Auditor's Reaction: The actions described are adequate to resolve the recommendation. This finding cannot, however, be closed until the actions being taken are completed.

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 993 AS OF JUNE 30, 2003**

	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$12,401,220</u>
Source of Funds (SMARTLINK)	<u>\$12,151,893</u>
Application of Funds (Expenditures)	<u>\$12,151,781</u>
Excess Federal Cash On Hand	<u>\$112</u>

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1116 AS OF JUNE 30, 2003**

	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$851,270</u>
Source of Funds (SMARTLINK)	<u>\$849,161</u>
Application of Funds (Expenditures)	<u>\$849,208</u>
Excess Federal Cash On Hand	<u>\$(47)</u>

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1175 AS OF JUNE 30, 2003

	Public Assistance	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$176,749,281</u>	<u>\$34,769,407</u>
Source of Funds (SMARTLINK)	<u>\$176,279,254</u>	<u>\$27,163,044</u>
Application of Funds (Expenditures)	<u>\$176,298,725</u>	<u>\$27,105,412</u>
Excess Federal Cash On Hand	<u>\$(19,471)</u>	<u>\$57,632</u>

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1187 AS OF JUNE 30, 2003**

	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$1,925,860</u>
Source of Funds (SMARTLINK)	<u>\$1,889,818</u>
Application of Funds (Expenditures)	<u>\$1,885,117</u>
Excess Federal Cash On Hand	<u>\$4,701</u>

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1212 AS OF JUNE 30, 2003

	Public Assistance	Individual and Family Grant	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$29,177,935</u>	<u>\$525,058</u>	<u>\$5,165,425</u>
Source of Funds (SMARTLINK)	<u>\$28,118,683</u>	<u>\$525,058</u>	<u>\$3,858,235</u>
Application of Funds (Expenditures)	<u>\$28,124,174</u>	<u>\$518,879</u>	<u>\$3,858,235</u>
Excess Federal Cash On Hand	<u>\$(5,491)</u>	<u>\$6,179</u>	<u>\$0</u>

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1225 AS OF JUNE 30, 2003**

	Public Assistance	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$25,979,783</u>	<u>\$4,192,709</u>
Source of Funds (SMARTLINK)	<u>\$25,476,796</u>	<u>\$3,118,029</u>
Application of Funds (Expenditures)	<u>\$25,487,070</u>	<u>\$3,118,029</u>
Excess Federal Cash On Hand	<u>\$(10,274)</u>	<u>\$0</u>

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1283 AS OF JUNE 30, 2003

	Public Assistance	Individual and Family Grant	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$11,948,111</u>	<u>\$370,750</u>	<u>\$2,980,732</u>
Source of Funds (SMARTLINK)	<u>\$11,583,340</u>	<u>\$286,595</u>	<u>\$1,767,883</u>
Application of Funds (Expenditures)	<u>\$11,584,672</u>	<u>\$286,595</u>	<u>\$1,768,797</u>
Excess Federal Cash On Hand	<u>\$(1,332)</u>	<u>\$0</u>	<u>\$(914)</u>

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1288 AS OF JUNE 30, 2003**

	Public Assistance	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$5,350,769</u>	<u>\$1,483,003</u>
Source of Funds (SMARTLINK)	<u>\$3,367,964</u>	<u>\$374,985</u>
Application of Funds (Expenditures)	<u>\$3,369,255</u>	<u>\$375,932</u>
Excess Federal Cash On Hand	<u>\$(1,291)</u>	<u>\$(947)</u>

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1333 AS OF JUNE 30, 2003

	Public Assistance	Individual and Family Grant	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$11,925,545</u>	<u>\$926,054</u>	<u>\$4,975,858</u>
Source of Funds (SMARTLINK)	<u>\$9,794,982</u>	<u>\$926,054</u>	<u>\$2,400,007</u>
Application of Funds (Expenditures)	<u>\$9,795,619</u>	<u>\$924,270</u>	<u>\$2,400,950</u>
Excess Federal Cash On Hand	<u>\$(637)</u>	<u>\$1,784</u>	<u>\$(943)</u>

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1370 AS OF JUNE 30, 2003

	Public Assistance	Individual and Family Grant	Hazard Mitigation
Award Amounts (FEMA approved)	<u>\$34,100,666</u>	<u>\$417,465</u>	<u>\$4,422,600</u>
Source of Funds (SMARTLINK)	<u>\$30,464,025</u>	<u>\$414,912</u>	<u>\$529,526</u>
Application of Funds (Expenditures)	<u>\$30,459,869</u>	<u>\$414,912</u>	<u>\$529,526</u>
Excess Federal Cash On Hand	<u>\$4,156</u>	<u>\$0</u>	<u>\$0</u>

**STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1419 AS OF JUNE 30, 2003**

	Public Assistance	Individual and Family Grant
Award Amounts (FEMA approved)	<u>\$22,678,928</u>	<u>\$1,170,000</u>
Source of Funds (SMARTLINK)	<u>\$13,977,677</u>	<u>\$1,105,179</u>
Application of Funds (Expenditures)	<u>\$13,977,660</u>	<u>\$1,101,322</u>
Excess Federal Cash On Hand	<u>\$17</u>	<u>\$3,857</u>

ATTACHMENT B

COMMENTS FROM FEMA REGIONAL OFFICE

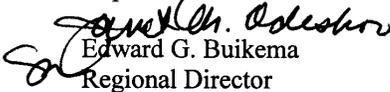
U.S. Department of Homeland Security
Region V
536 South Clark Street, Floor 6
Chicago, IL 60605



FEMA

JUN 24 2004

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

FROM: 
Edward G. Buikema
Regional Director

Subject: Performance Audit of the State of Minnesota's Compliance
with Disaster Assistance Program's Requirements. Job
Code A-D-03-11.

Attached is FEMA Region V's response to the Hazard Mitigation and Public Assistance grant findings and recommendations that were reported in the aforementioned audit. Due to disaster activity in Region V, the personnel responsible for providing a response for the Individual and Family Grant programs must reserve comment on the state's response until they have more time to evaluate their proposals. Ruling out additional disaster declarations in Region V, we believe that 90 days would be sufficient time to develop an action plan with target dates to be able to respond in an accurate and thoughtful manner to those unresolved areas of the audit.

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

Attachments

1. Region V response to Minnesota audit report for Hazard Mitigation.
2. Region V response to Minnesota audit report for Public Assistance
3. State of Minnesota plan for corrective action

cc: Mr. Michael Moline, Audit Coordinator, FEMA Region V
Ms. Paige Hamrick, Deputy Field Office Director
Mr. Al Bataglia, Director, Minnesota Department of Public Safety
Mr. John Kerr, Minnesota DEM

Attachment

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

Finding A.1. **PA, HM and IFG administrative plans did not meet all program requirements.**

Recommendation A.1: "...HSEM [should] 1) revise its administrative plans to include procedures for all CFR-required elements and 2) document and implement policies and procedures regarding the preparation of administrative plans that meet all 44 CFR requirements.

Region V's Response: FEMA Region V and HSEM concur with this finding. HSEM will revise its administrative plan to include all required elements and develop and implement policies and procedures regarding the preparation of administrative plans that meet all requirements within 180 days. The following will be the HM action plan:

1. The SHMO and HM staff will review the administrative plan.
2. The SHMO and HM staff will revise the administrative plan to include all required components.
3. The SHMO will develop procedures for an annual review of the administrative plan and plans for disasters. A checklist will be developed to ensure that plans are reviewed, revised, and submitted to FEMA in a timely manner.
4. The SHMO will educate the HM staff on administrative plan roles and responsibilities.
5. The SHMO will assure that approval letter is received from FEMA in a timely manner.

Finding A.6. **Applications for HM projects did not contain all required elements.**

Recommendation A.6: "...HSEM [should] strengthen policies and procedures to ensure that project applications contain all required information.

Region V's Response: FEMA Region V and HSEM concur with this finding. The HM Program will strengthen policies and procedures to ensure that project applications contain all required information within 180 days. The following will be in the HM Program action plan:

1. The SHMO and HM staff will review the current Hazard Mitigation Grant Program Application Packet.
2. The SHMO will review federal regulations and develop/revise policies and procedures for the application process.
3. The SHMO and HM staff will revise the Hazard Mitigation Grant Application Packet to comply with federal regulations.
4. The SHMO and HM staff will provide the Hazard Mitigation Grant Application Packet to potential applicants.
5. The SHMO and HM staff will provide oral and written guidance to applicants applying for HMGP funds.

Finding A.7.

HSEM did not obtain all required assurances from HM subgrantees.

Recommendation A.7:

"...HSEM [should] develop and implement policies and procedures to ensure compliance with matching and flood proofing requirements through certifications or alternative means.

Region V's Response:

FEMA Region V and HSEM concur with this finding. The HM Program will develop and implement policies and procedures to ensure compliance with matching and flood proofing requirements through certification or alternative means within 180 days. The following will be the HM action plan:

1. The SHMO and HM staff will review federal regulations on matching and flood proofing requirements.
2. The SHMO and HM staff will include matching and flood proofing requirements in the Grant Application Packet.
3. The SHMO and HM staff will review federal regulations on matching and flood proofing requirements.
4. The SHMO and HM staff will include matching and flood proofing requirements in the Grant Application Packet.

Finding A.8.

HSEM did not submit all required quarterly HM progress reports.

Recommendation A.8:

"...HSEM [should] implement procedures, which may include staff changes, to ensure quarterly progress reports are complete and submitted when due.

Region V's Response:

FEMA Region V and HSEM concur with this finding. The HM Program will implement procedures to ensure quarterly

progress reports are complete and submitted in a timely manner within 180 days. The following will be the HM action plan:

1. The SHMO will review the current policy and procedures for submission of quarterly reports by sub-grantees.
2. The SHMO will contact sub-grantees to evaluate the reasons for not submitting quarterly reports in a timely manner.
3. The SHMO will revise the quarterly report policies and procedures. Based on information from the sub-grantees, a reminder system will be developed that will assist the sub-grantees with submitting quarterly reports in a timely manner.
4. The SHMO will educate HM staff on the policies and procedures for ensuring quarterly reports are submitted in a timely manner.
5. The SHMO and HM staff will provide oral and written education to the sub-grantee on quarterly reporting requirements.
6. The SHMO will require all sub-grantees to submit a quarterly report in a timely manner.

Finding A.9.

HSEM did not request HM project closeout in a timely manner.

Recommendation A.9:

"...HSEM [should] develop policies and procedures to improve project closeout timeliness.

Region V's Response:

FEMA Region V and HSEM concur with this finding. The HM Program will implement policies and procedures to improve project closeout timeliness within 180 days. The following is the HM action plan:

1. The SHMO and HM staff will review the closeout policies and procedures.
2. The SHMO and HM staff will develop/revise policies and procedures and a close-out checklist for sub-grantees.
3. The SHMO and HM staff will provide the sub-grantee with the closeout requirements.
4. The SHMO and HM staff will provide oral and written education to the sub-grantee on project closeout requirements.

Finding B.10.

HSEM could not provide adequate documentation to support claimed labor costs charged to PA and HM management grants.

Recommendation B.10: "...HSEM [should] develop an adequate labor distribution system to support labor costs and prepare future claims for reimbursement with adequate supporting documentation:

Region V's Response: FEMA Region V and HSEM concur with this finding. The HM Program will develop a labor distribution system to support labor costs and prepare future claims for reimbursement with supporting documentation within 180 days. The following will be the HM action plan:

1. HSEM will develop a labor distribution system to track labor costs.

Finding B.11. **HSEM could not provide adequate documentation to support the majority of HM claimed costs.**

Recommendation B.11: "...HSEM [should] develop policies and procedures necessary to document the allowability of claimed costs, such as a combination of reviewing documentation to support claimed costs, site visits, checklists, and subgrantee certification.

Region V's Response: FEMA Region V and HSEM concur with this finding. The HM Program will develop policies and procedures to document project completion requirements within 180 days. The following will be HM action plan:

1. The SHMO will review federal regulations.
2. The SHMO and HM staff will develop/revise policies and procedures to document project completion requirements.
3. The SHMO will educate HM staff on the project completion requirements.
4. The SHMO and HM staff will provide oral and written guidance on project completion requirements to sub-grantees.

DRAFT

**Minnesota Audit
A-D-03-11
Public Assistance Program Findings, Recommendations
And Region V Response**

Program Management

Finding A.1. “PA administrative plans did not meet all program requirements.”

Recommendation A.1: “We recommend that the Regional Director ensure that HSEM: 1) revise its administrative plans to include procedures for all CFR-required elements and 2) document and implement policies and procedures regarding the preparation of administrative plans that meet all 44 CFR requirements.”

Region V’s Response: This finding focused on the lack of procedures for processing appeal requests and for determining staffing and budgeting requirements for program management. The State agrees in part with this finding and their response notes that the administrative plan will be updated to include more detailed procedures to process PA appeal requests and for determining program management budgets. The Region concurs with this finding and will work with the State Public Assistance staff over the next 90 days to update admin plans.

Finding A. 2. “HSEM did not process PA payments for small projects in a timely manner.”

Recommendation A.2. “We recommend that the Regional Director require HSEM to revise current procedures to ensure that payments for small projects are processed in a timely manner”.

Region V’s Response: HSEM processes payments for small projects on the basis of an executed subgrant agreement and on the basis of multiple PWs completed at that time. There are many circumstances that prevent full payment on all completed PWs may not be made but the State procedures do ensure that applicants receive all or some of their funding as soon as practicable following completion of the project and receipt of an executed subgrant agreement. A payment for each project is impractical for small projects. The Region concurs with the State; we will review small project payment procedures with the State but do not conclude that current procedures need to be revised at this time.

Finding A. 3. “HSEM did not ensure that PA projects were completed within required time limits or that extensions were requested when necessary”.

Recommendation A.3: “We recommend that the Regional Director ensure that HSEM revise its policies and procedures to monitor project performance and obtain required time limit extensions, which will strengthen controls over project cost allowability.”

Region V’s Response: As noted in the State’s response, several of the project worksheets identified by the auditors did, in fact, have completion dates and/or had requested time

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extensions and had received approval of those requests. The State does agree that the recording of time extensions and documentation of project completion dates, while in the file, are not consistently placed. FEMA Region V will work with the State to adjust procedures to consistently record and report on project completion, time extension requests and approvals. The Region will work out process and format with the State Public Assistance staff over the next 90 days.

Finding A.4: “HSEM did not have procedures to ensure timely PA project closeout.”

Recommendation A.4: “We recommend that the Regional Director require HSEM to revise its policies and procedures to ensure that projects are closed in a timely manner.”

Region V’s Response: The State has provided a lengthy and detailed response that describes the many varied situations that lengthen the amount of time required for closeout. The State’s administrative plan does iterate the process and timelines for project completion and closeout but many projects encounter delays, either within the project or due to additional reviews on the part of the State or FEMA. In general, we do not concur with the auditors’ finding at this time. We will review the State’s procedures and our own to confirm that our process meets the requirements of 44CFR. We will work with the State to detail current practices and improve those steps that need improvements. We will work with the State Public Assistance Officer to prepare a work plan within the next 30 days to accomplish this goal over the next 90 days. We will present this plan to the Office of Inspector General no later than July 30, 2004.

Financial Management

Finding A. 10: “HSEM could not provide adequate documentation to support claimed labor costs charged to PA . . . management grants.”

Recommendation A. 10: “We recommend that the Regional Director require HSEM to develop an adequate labor distribution system to support labor costs and prepare future claims for reimbursement with adequate supporting documentation.”

Region V’s Response: The State does agree that some of the costs were not properly allocated to the appropriate disaster contract. The State has entered into discussions with the Department’s Fiscal and Administrative Services Division to determine how timekeeping and account management systems can be improved to accurately tie labor costs to the appropriate declaration contracts. Region V will monitor these efforts and work with the State Public Assistance staff to accomplish this goal. We expect that this will be accomplished within the next 90 days. (See finding and recommendation for HM – same issue).

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MINNESOTA DEPARTMENT OF PUBLIC SAFETY



Division of Homeland Security and Emergency Management

444 Cedar St., Suite 223, St. Paul, Minnesota 55101-6223
Phone: 651/296-2233 FAX: 651/296-0459 TTY: 651/282-6555
Internet: www.hsem.state.mn.us

June 14, 2004

Alcohol and
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Management

Office of Justice
Programs

State Fire
Marshal and
Office of Pipeline
Safety

State Patrol

Traffic Safety

Mr. Edward G. Buikema, Director
Federal Emergency Management Agency-Region V
536 South Clark Street, Sixth Floor
Chicago, IL 60605-1521

Dear Mr. Buikema:

This letter is in response to your recent letter concerning the audit of the State of Minnesota's administration of FEMA's disaster assistance programs. You requested in your letter that Minnesota provide a written response to the audit findings and recommendations, and inform you of any corrective actions that we plan to implement in order to address deficiencies cited in the report. This letter and the three attached documents constitute Minnesota's initial response to your request. As you will see, the attached documents are individual responses to the Public Assistance Program audit findings, the Hazard Mitigation Program audit findings, and the Individual and Family Grant Program audit findings, respectively.

By way of general overview, our responses to the audit findings and recommendations fall into three categories. First, there are a number of findings and recommendations, principally those pertaining to the Hazard Mitigation Program, with which we fully concur, and for which we have identified specific corrective actions. Second, there are findings with which we partially agree. In those instances, we have identified the remedial actions we intend to take. Lastly, there are a few findings and recommendations pertaining to the Public Assistance Program and the IFG Program which we feel are clearly erroneous. We believe those findings reflect an inadequate understanding of the two programs on the part of the auditors staff. (For example, based on several of their IFG Program recommendations, the auditors appear to be unaware that the IFG Program ceased to exist as of October, 2003; and that it has been replaced by the very different Individuals and Households Program.) Our disaster program staff brought these particular items to the attention of the auditors both prior to and following the distribution of the first draft audit report, but unfortunately, the items were nonetheless included, unchanged, in the final audit draft.

In order for this Division to be able to implement any of the audit recommendations effectively, we believe close coordination between our disaster program staff and their counterparts in your office is necessary. Toward this end, our hazard mitigation program staff has had several conversations with Mary Beth Caruso and Christine Stack of your staff. Unfortunately, because their FEMA counterparts are currently on disaster duty in



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other states, our PA Program and Individual Assistance Program staff have not yet had a chance to confer to any extent with those staff. However, they plan to do so when that opportunity exists.

Should you have any questions regarding our responses to the audit report, our staff would be happy to respond to them.

Sincerely,

A handwritten signature in black ink, appearing to read "Al Bataglia". The signature is written in a cursive, flowing style.

Al Bataglia, Director

Attachments