



**John Keel, CPA**  
**State Auditor**

A Report on

**State of Texas Compliance with  
Federal Requirements for  
Selected Major Programs at the  
Department of Public Safety and  
the University of Texas Medical  
Branch at Galveston for the  
Fiscal Year Ended  
August 31, 2012**

February 2013

Report No. 13-023



A Report on

# State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Public Safety and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2012

SAO Report No. 13-023  
February 2013

## Overall Conclusion

In fiscal year 2012, the State of Texas did not comply in all material respects with federal requirements for:

- The Hazard Mitigation Grant Program.
- The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program (referred to below as the Public Assistance Program).

However, the State of Texas complied in all material respects with federal requirements for the Homeland Security Grant Program in fiscal year 2012.

As a condition of receiving federal funding, U. S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, procurement, and monitoring of non-state entities (subrecipients) to which the State passes federal funds. The requirements for 1 of those 14 areas vary by federal program and outline special tests that auditors are required to perform. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$75,562,558 in federal funds during fiscal year 2012 and (2) other selected federal programs.

From September 1, 2011, through August 31, 2012, the State of Texas expended \$50.2 billion in federal funds for federal programs and clusters of programs. The State Auditor's Office audited compliance with requirements for the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program at the Department of Public Safety (Department) and the

### The Homeland Security Grant Program

The Homeland Security Grant Program provides funding to build and sustain national preparedness capabilities. This funding is intended to enhance the State's ability to prepare for, prevent, respond to, and recover from terrorist attacks and other disasters.

### The Hazard Mitigation Grant Program

The Hazard Mitigation Grant Program provides funding to implement mitigation planning and hazard mitigation measures that are cost-effective and that substantially reduce the risk of future damage, hardship, loss, or suffering in any area affected by a major disaster.

### The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program provides funding to assist state and local governments in responding to and recovering from presidentially declared disasters. The Federal Emergency Management Agency provides these funds for debris removal; emergency protective measures; and repair, restoration, reconstruction, or replacement of public facilities or infrastructure.

*This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133.*

*For more information regarding this report, please contact James Timberlake, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.*

University of Texas Medical Branch at Galveston (Medical Branch). During the fiscal year 2012, the Department spent \$102,646,380 in Public Assistance Program funds and the Medical Branch spent \$44,337,867 Public Assistance Program funds. The Department also spent \$156,036,990 in Homeland Security Grant Program funds and \$30,052,124 in Hazard Mitigation Grant Program funds during fiscal year 2012.

Auditors identified 20 findings, including:<sup>1</sup>

- Seven findings classified as material weaknesses with material non-compliance.
- One finding classified as a material weakness with non-compliance.
- One finding classified as a material weakness.
- Eleven findings classified as significant deficiencies with non-compliance.

(See text box for definitions of finding classifications.)

## Key Points

**The Department did not comply in all material respects with federal requirements for the Hazard Mitigation Grant Program and the Public Assistance Program. Those programs are primarily managed by the Department's Division of Emergency Management and the Department's Grants Finance unit.**

Weaknesses in the Department's control environment contributed to material weaknesses or material noncompliance with six compliance areas that were material to the Hazard Mitigation Grant Program and seven compliance areas that were material to the Public Assistance Program (see text box for a description of control environment). The control environment weaknesses included the following:

- The Department has not successfully implemented the control improvements necessary to ensure that certain types of expenditures it charges to federal awards consistently comply with federal requirements. It also has not established adequate monitoring processes to facilitate compliance with federal requirements.

### Finding Classifications

Control weaknesses are classified as either significant deficiencies or material weaknesses:

- A **significant deficiency** indicates control weaknesses, but those weaknesses would not likely result in material non-compliance.
- A **material weakness** indicates significant control weaknesses that could potentially result in material non-compliance with the compliance area.

Similarly, compliance findings are classified as either non-compliance or material non-compliance, where material non-compliance indicates a more serious reportable issue.

### Control Environment

The control environment establishes the tone of an organization, influencing the control consciousness of its people and provides discipline, process, and structure for an organization. According to the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control-Integrated Framework*, the control environment encompasses five principles:

- The organization holds individuals accountable for their internal control responsibility in pursuit of objectives.
- The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- The organization demonstrates a commitment to integrity and ethical values.
- The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control.

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<sup>1</sup> Of those 20 findings, 19 were identified at the Department and 1 was identified at the Medical Branch.

- The Department has not maintained proficiency levels that would enable it to consistently achieve compliance with federal requirements.
- The Department has not established an effective structure to account for its federal grant funds with sufficient detail to facilitate informed grant administration decision making. In addition, its subrecipient monitoring, oversight, and reporting processes are not adequate.

**The control environment weaknesses discussed above resulted in material weaknesses and material non-compliance.**

For both the Hazard Mitigation Grant Program and the Public Assistance Program, auditors identified material weaknesses related to the allowability of costs and activities the Department charged to federal grants. For the Hazard Mitigation Grant Program, those weaknesses resulted in non-compliance; for the Public Assistance Program, those weaknesses resulted in material non-compliance. Specifically:

- For both programs, the Department charged indirect costs based on an expired indirect cost rate agreement with the federal government. The Department also did not maintain sufficient support for its most recent indirect cost rate proposal that a contractor prepared.
- For both programs, the Department based its payroll charges on estimates; therefore, those charges did not reflect an after-the-fact distribution of the actual activity of each employee, as required.
- For the Hazard Mitigation Grant Program, the Department could not provide evidence that it obtained required approval from the Federal Emergency Management Agency for equipment that it purchased.
- For the Public Assistance Program, the Department did not correctly allocate non-payroll costs to specific disasters associated with those costs.

For both the Hazard Mitigation Grant Program and the Public Assistance Program, auditors identified material weaknesses and material non-compliance associated with the Department's drawdowns of funds from the federal government. Specifically:

- The Department incorrectly drew down federal funds from the Hazard Mitigation Grant Program for expenditures that were not associated with that program. For the Public Assistance Program, the Department could not support certain drawdowns of federal funds with evidence of actual or identifiable costs.
- For the Hazard Mitigation Grant Program, the Department has not established controls to minimize the time between its drawdowns of federal funds and its expenditure of those funds.
- For the Public Assistance Program, the Department did not correctly calculate the number of days it held federal funds, which is important in determining how

much interest the State must remit to the U. S. Treasury. Additionally, the Department did not always disburse federal funds within required time frames.

For both the Hazard Mitigation Grant Program and the Public Assistance Program, auditors identified material weaknesses and material non-compliance in the Department's monitoring of the non-state entities (subrecipients) to which it passed federal funds. Specifically:

- For both programs, the Department could not provide evidence that it consistently communicated required award information and ensured that its subrecipients were not suspended or debarred.
- For the Hazard Mitigation Grant Program, the Department could not provide evidence that it monitored subrecipients' compliance with requirements related to the allowability of costs, cash management practices, matching funds, and period of availability. In addition, the Department did not always complete a final project audit before issuing final payments to its subrecipients, which limits the effectiveness of that tool.
- For the Public Assistance Program, the Department could not provide evidence that it monitored subrecipients' compliance with requirements related to cash management, equipment, period of availability, and procurement. In addition, most of the Department's monitoring of large projects did not occur until the conclusion of those projects, which indicates that tool might not be effective in identifying subrecipient non-compliance during the performance period of a subgrant.
- For both programs, the Department did not always monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit, and it did not always review and follow-up on deficiencies identified in its subrecipients' Single Audit reports.

Auditors identified material weaknesses and material non-compliance with requirements related to reports the Department was required to submit to federal agencies for both the Hazard Mitigation Grant Program and the Public Assistance Program. Specifically:

- For both programs, the Department did not ensure that its quarterly financial reports to the federal government included all activity in the reporting period, were supported by accounting records, and were fairly presented in accordance with program requirements.
- The Department did not report subawards it made to subrecipients to the Federal Funding Accountability and Transparency Act (FFATA) Reporting System during fiscal year 2012 for the Public Assistance Program.

**Auditors identified other control weaknesses and non-compliance related to the Hazard Mitigation Grant Program and the Public Assistance Program.**

The Department did not always ensure that its subrecipients were eligible for Hazard Mitigation Grant Program funds prior to making subawards to those subrecipients.

For both the Hazard Mitigation Grant Program and the Public Assistance Program, the Department charged direct costs to awards for those programs when it had incurred those costs after the period of performance for those awards had ended. The Medical Branch also charged costs to the Public Assistance Program outside of the period of performance established in the project worksheets for some projects.

**While the Department complied in all material respects with federal requirements for the Homeland Security Grant Program, auditors identified certain control weaknesses and non-compliance in that program. (That program is primarily managed by the Department's State Administrative Agency.) Specifically:**

The Department based its payroll charges for the Homeland Security Grant Program on estimates; therefore, those charges did not reflect an after-the-fact distribution of the actual activity of each employee. In addition, the Department did not correctly allocate some non-payroll direct costs.

The Department did not remit all interest it earned on Homeland Security Grant Program funds to the U. S. Treasury.

The Department did not always monitor its Homeland Security Grant Program subrecipients' compliance with requirements related to equipment and procurement. It also did not always monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit, and it did not always review and follow up on deficiencies identified in its subrecipients' Single Audit reports.

The Department did not always comply with Homeland Security Grant Program limits on its management and administrative costs. It also did not obligate all funds associated with one component of its programs to its subrecipients within the required time frame.

The Department did not always comply with requirements related to competitive bidding for procurements it made in prior fiscal years, but for which it made payments in fiscal year 2012.

The Department did not always submit complete and accurate FFATA reports for the Homeland Security Grant Program.

**Auditors followed up on 15 findings from prior fiscal years regarding the Homeland Security Grant Program, the Hazard Mitigation Grant Program, the Public Assistance Program, and the Public Safety Interoperable Communications Grant Program at the Department. Auditors also followed up on three findings from a prior fiscal year regarding the Public Assistance Program at the Medical Branch.**

The Department fully implemented recommendations for three findings from prior fiscal years associated with the Public Safety Interoperable Communications Grant Program.

The Department partially implemented recommendations for two findings from prior fiscal years for the Public Safety Interoperable Communications Grant Program and one finding for the Public Assistance Program.

Auditors reissued nine findings from prior fiscal years at the Department as fiscal year 2012 findings in this report. Those findings were related to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program.

The Medical Branch fully implemented recommendations for three findings from a prior fiscal year regarding the Public Assistance Program.

## ***Summary of Management's Response***

Management generally concurred with the audit findings. Specific management responses and corrective action plans are presented immediately following each finding in this report.

## ***Summary of Information Technology Review***

The audit work included a review of general and application controls for key information technology systems related to the Hazard Mitigation Grant Program, the Homeland Security Grant Program, and the Public Assistance Program at the Department. Auditors identified weaknesses in administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which the Department uses to track its employees' time and effort.

## ***Summary of Objectives, Scope, and Methodology***

With respect to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program.

The audit scope covered federal funds that the State spent for the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program from September 1, 2011, through August 31, 2012. The audit work included control and compliance work at the Department and the Medical Branch.

The audit methodology included developing an understanding of controls over each compliance area that was material to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures where appropriate. Auditors assessed the reliability of data the Department and the Medical Branch provided and determined that the data was reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program.



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# Independent Auditor's Report

*State of Texas Compliance with  
Federal Requirements for Selected  
Major Programs at the Department of  
Public Safety and the University of  
Texas Medical Branch at Galveston for  
the Fiscal Year Ended  
August 31, 2012*



John Keel, CPA  
State Auditor

Report on Compliance with Requirements that Could Have a Direct and Material Effect on  
The Homeland Security Grant Program,  
The Hazard Mitigation Grant Program, and  
The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program  
and on Internal Control Over Compliance in Accordance with  
U. S. Office of Management and Budget Circular A-133  
Independent Auditor's Report

## Compliance

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program for the year ended August 31, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

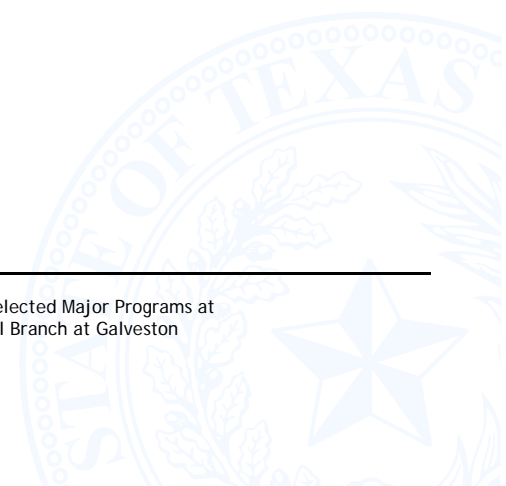
Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
Austin, Texas 78711-2067

Phone:  
(512) 936-9500

Fax:  
(512) 936-9400

Internet:  
[www.sao.state.tx.us](http://www.sao.state.tx.us)



This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2012. As such, the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2012. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.

As identified below and in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to those programs.

| Agency                      | Program   | Compliance Requirement                   | Finding Number                                    |        |
|-----------------------------|---|--|---|--------|
| Department of Public Safety | CFDA 97.039 - Hazard Mitigation Grant   | Cash Management                          | 13-112  |        |
|                             |   | Procurement and Suspension and Debarment | 13-115  |        |
|                             |   | Subrecipient Monitoring                  |   |        |
|                             |   |  | Reporting   | 13-116 |
|                             | CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Activities Allowed or Unallowed          | 13-117  |        |
|                             |   | Allowable Costs/Cost Principles          |   |        |
|                             |   | Cash Management                          | 13-118  |        |
|                             |   | Procurement and Suspension and Debarment | 13-120  |        |
|                             |   | Subrecipient Monitoring                  |   |        |
|                             |   |  | Special Tests and Provisions - Project Accounting |        |
|                             |   | Reporting                                | 13-121  |        |

In our opinion, because of the effects of the noncompliance identified above, the State did not comply in all material respects with the requirements referred to above that could have a direct and material effect on the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. Also, in our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program for the year ended August 31, 2012. However, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items:

| Agency or Higher Education Institution          | Program   | Compliance Requirement  | Finding Number |
|---|---|---|----------------|
| Department of Public Safety                     | CFDA 97.067 - Homeland Security Grant Program   | Activities Allowed or Unallowed Allowable Costs/Cost Principles | 13-103         |
|   |   | Cash Management   | 13-104         |
|   |   | Matching, Level of Effort, Earmarking                           | 13-105         |
|   |   | Procurement and Suspension and Debarment                        | 13-106         |
|   |   | Reporting   | 13-107         |
|   |   | Subrecipient Monitoring   | 13-108         |
|   |   | Special Tests and Provisions - Subgrant Awards                  | 13-109         |
|   |   | Activities Allowed or Unallowed Allowable Costs/Cost Principles | 13-111         |
|   |   | Eligibility   | 13-113         |
|   |   | Period of Availability of Federal Funds                         | 13-114         |
| University of Texas Medical Branch at Galveston | CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Period of Availability of Federal Funds                         | 13-119         |
|   |   | Period of Availability of Federal Funds                         | 13-177         |

### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. In planning and performing our audit, we considered the State’s internal control over compliance with requirements that could have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the State’s internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain

deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control over compliance which are described in the accompanying Schedule of Findings and Questioned Cost to be material weaknesses:

| Agency  | Program   | Compliance Requirement                   | Finding Number |        |
|---|---|--|----------------|--------|
| Department of Public Safety   | CFDA 97.039 - Hazard Mitigation Grant   | Activities Allowed or Unallowed          | 13-110         |        |
|   |   | Allowable Costs/Cost Principles          |                |        |
|   |   | Cash Management                          |                |        |
|   |   | Eligibility                              |                |        |
|   |   | Matching, Level of Effort, Earmarking    |                |        |
|   |   | Period of Availability of Federal Funds  |                |        |
|   |   | Reporting                                |                |        |
|   | CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Subrecipient Monitoring                  | 13-111         |        |
|   |   | Activities Allowed or Unallowed          |                |        |
|   |   | Allowable Costs/Cost Principles          |                |        |
|   |   | Cash Management                          |                | 13-112 |
|   |   | Procurement and Suspension and Debarment |                | 13-115 |
|   |   | Subrecipient Monitoring                  |                | 13-116 |
|   |   | Reporting                                |                |        |
| CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Activities Allowed or Unallowed   | 13-110                                   |                |        |
|   | Allowable Costs/Cost Principles   |  |                |        |
|   | Cash Management   |  |                |        |
|   | Eligibility   |  |                |        |
|   | Matching, Level of Effort, Earmarking   |  |                |        |
|   | Period of Availability of Federal Funds   |  |                |        |
|   | Reporting   |  |                |        |
| CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Subrecipient Monitoring   | 13-117                                   |                |        |
|   | Special Tests and Provisions - Project Accounting                                     |  |                |        |
|   | Activities Allowed or Unallowed   |  |                |        |
| CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Allowable Costs/Cost Principles   | 13-118                                   |                |        |
|   | Cash Management   |  |                |        |

| Agency | Program | Compliance Requirement                            | Finding Number |
|--------|---------|---|----------------|
|        |         | Procurement and Suspension and Debarment          | 13-120         |
|        |         | Subrecipient Monitoring                           |                |
|        |         | Special Tests and Provisions - Project Accounting |                |
|        |         | Reporting   | 13-121         |

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control over compliance which are described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies:

| Agency or Higher Education Institution          | Program   | Compliance Requirement                         | Finding Number                          |        |
|---|---|--|---|--------|
| Department of Public Safety                     | CFDA 97.067 - Homeland Security Grant Program   | Activities Allowed or Unallowed                | 13-103                                  |        |
|   |   | Allowable Costs/Cost Principles                |   |        |
|   |   | Cash Management                                | 13-104                                  |        |
|   |   | Matching, Level of Effort, Earmarking          | 13-105                                  |        |
|   |   | Procurement and Suspension and Debarment       | 13-106                                  |        |
|   |   | Reporting                                      | 13-107                                  |        |
|   |   | Subrecipient Monitoring                        | 13-108                                  |        |
|   |   | Special Tests and Provisions - Subgrant Awards | 13-109                                  |        |
|   |   | CFDA 97.039 - Hazard Mitigation Grant          | Eligibility                             | 13-113 |
|   |   |  | Period of Availability of Federal Funds | 13-114 |
| Period of Availability of Federal Funds         | 13-119  |  |   |        |
| University of Texas Medical Branch at Galveston | CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Period of Availability of Federal Funds        | 13-177                                  |        |

### Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program of the State for the year ended August 31, 2012, is presented for purposes of additional analysis. This information is the responsibility of the State’s management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of

Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of the Governor, the Members of the Texas Legislature, the Legislative Audit Committee, the management of the State, KPMG LLP, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA  
State Auditor

February 21, 2013



**Schedule of Federal Program Expenditures for  
The Homeland Security Grant Program,  
The Hazard Mitigation Grant Program, and  
The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program  
For the State of Texas  
For the Year Ended August 31, 2012**

| Schedule of Federal Program Expenditures<br>CFDA 97.067 - Homeland Security Grant Program   |   |                                |               |
|---|---|--------------------------------|---------------|
| Agency  | Federal Pass-through to<br>Non-state Entity | Federal Direct<br>Expenditures | Totals        |
| Department of Public Safety   | \$148,443,996                               | \$7,592,994                    | \$156,036,990 |
| Total for Homeland Security Grant Program   | \$148,443,996                               | \$7,592,994                    | \$156,036,990 |
| <p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p> <p>Note 2: Federal expenditures for the Homeland Security Grant Program at state entities not included in the scope of this audit totaled \$463,034 for the year ended August 31, 2012.</p> |   |                                |               |

| Schedule of Federal Program Expenditures<br>CFDA 97.039 - Hazard Mitigation Grant Program   |   |                                |              |
|---|---|--------------------------------|--------------|
| Agency  | Federal Pass-through to<br>Non-state Entity | Federal Direct<br>Expenditures | Totals       |
| Department of Public Safety   | \$28,552,465                                | \$1,499,659                    | \$30,052,124 |
| Total for Hazard Mitigation Grant Program   | \$28,552,465                                | \$1,499,659                    | \$30,052,124 |
| <p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p> <p>Note 2: Federal expenditures for the Hazard Mitigation Grant Program at state entities not included in the scope of this audit totaled \$941,743 for the year ended August 31, 2012.</p> |   |                                |              |

| Schedule of Federal Program Expenditures<br>CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program  |   |                                |               |
|--|---|--------------------------------|---------------|
| Agency or Higher Education Institution   | Federal Pass-through to<br>Non-state Entity | Federal Direct<br>Expenditures | Totals        |
| Department of Public Safety  | \$90,177,454                                | \$12,468,926                   | \$102,646,380 |
| University of Texas Medical Branch at Galveston  | 0   | 44,337,867                     | 44,337,867    |
| Total for Disaster Grants - Public Assistance<br>(Presidentially Declared Disasters) Program   | \$90,177,454                                | \$56,806,793                   | \$146,984,247 |
| <p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p> <p>Note 2: Federal expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program at state entities not included in the scope of this audit totaled \$16,739,353 for the year ended August 31, 2012.</p> |   |                                |               |

# Schedule of Findings and Questioned Costs

*State of Texas Compliance with  
Federal Requirements for Selected  
Major Programs at the Department of  
Public Safety and the University of  
Texas Medical Branch at Galveston for  
the Fiscal Year Ended  
August 31, 2012*

## Summary of Auditor's Results

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### Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012*.

### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?                      Yes

Significant deficiency(ies) identified?              Yes

### Major programs with Significant Deficiencies:

| CFDA Number | Name of Federal Program   |
|-------------|---|
| 97.067      | Homeland Security Grant Program   |
| 97.039      | Hazard Mitigation Grant Program   |
| 97.036      | Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program |

### Major programs with Material Weaknesses:

| CFDA Number | Name of Federal Program   |
|-------------|---|
| 97.039      | Hazard Mitigation Grant Program   |
| 97.036      | Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program |

Type of auditor's report issued on compliance for major programs: See below.

Adverse:

| CFDA Number | Name of Federal Program   |
|-------------|---|
| 97.039      | Hazard Mitigation Grant Program   |
| 97.036      | Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program |

Unqualified:

| CFDA Number | Name of Federal Program         |
|-------------|---------------------------------|
| 97.067      | Homeland Security Grant Program |

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

| CFDA Number | Name of Federal Program   |
|-------------|---|
| 97.067      | Homeland Security Grant Program   |
| 97.039      | Hazard Mitigation Grant Program   |
| 97.036      | Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program |

Dollar threshold used to distinguish between type A and type B programs: \$75,562,558

Auditee qualified as low-risk auditee? No

Section 2:

## ***Financial Statement Findings***

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Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012*.

Section 3:

**Federal Award Findings and Questioned Costs**

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by Office of Management and Budget Circular A-133, Section 510(a).

**Department of Public Safety**

Reference No. 13-103

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

(Prior Audit Issues 12-106, 11-107, 10-35, and 09-38)

**CFDA 97.067 - Homeland Security Grant Program**

**Award year – See below**

**Award number – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Payroll Charges

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

Questioned Cost: \$ 5,285

U.S. Department of Homeland Security

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, CFR, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety’s (Department) State Administrative Agency (SAA) conducts most daily management of the Homeland Security Grant Program (HSGP), and the Department’s Grants Finance unit participates in some management functions, such as those related to accounting in the Department’s financial system and remitting interest to the federal government.

**The Department based 5 (28 percent) of 18 HSGP payroll charges tested on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee.** The SAA requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. However, prior to November 2011, the Department did not base its payroll charges on those time sheets; instead, the Department based payroll charges on the budgets established for each employee. As a result, two payroll charges tested that the Department made prior to November 2011 were not supported. In November 2011, the Department began estimating payroll charges based on actual time charged in the previous period. However, the Department's Grants Finance unit did not reconcile the estimated effort with the actual effort for each employee; as a result, three payroll charges were not supported by actual effort. Those errors resulted in questioned costs of \$3,960 associated with award 2010-SS-T0-0008. An additional 12 (67 percent) of 18 payroll charges tested were affected by the control weaknesses described above; however, for those payroll charges, this did not result in questioned costs because the estimated and actual charges were the same.

#### Non-payroll Charges

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

**Nine (16 percent) of 55 non-payroll expenditures tested that the Department charged to the HSGP were not solely allocable to the HSGP.** Specifically:

- The Department erroneously charged one expenditure to its 2010 HSGP award when it should have charged that expenditure to another non-federal budget code. That error occurred because the Department miscoded the expenditure, and the Grants Finance unit's review and SAA's review did not identify the error. This resulted in \$90 in questioned costs associated with award 2010-SS-T0-0008.
- Three expenditures were for temporary staffing charges to the 2010 HSGP award; however, the supporting documentation from the vendor did not identify the grant programs that benefited from the work performed. The Department does not have a policy requiring the vendor to submit adequate documentation specifying the grant programs that benefited, which is necessary to appropriately allocate costs. This resulted in \$823 in questioned costs associated with award 2010-SS-T0-008.
- Three expenditures charged to the 2009 and 2010 HSGP awards were for management and administrative (M&A) costs that could have benefited multiple programs the SAA administers, including the HSGP. The Department does not have a process to allocate M&A costs that benefit multiple federal grant programs.
- The Department erroneously charged two expenditures related to general purpose equipment to the HSGP. The Department should have charged 50 percent of each expenditure to the HSGP, but it incorrectly charged 100 percent of each expenditure to the HSGP. The Grants Finance unit's review and the SAA's review did not identify those errors. This resulted in \$412 in questioned costs associated with award 2009-SS-T9-0064.

In addition to the HSGP, the SAA also manages grant funds for the following federal grant programs:

- Border Interoperability Demonstration Project (CFDA 97.120).
- Buffer Zone Protection Program (CFDA 97.078).
- Emergency Operation Center Program (CFDA 97.052).
- Interoperable Emergency Communications Program (CFDA 97.055).
- Nonprofit Security Program (CFDA 97.008).
- Operation Stonegarden (CFDA 97.067).
- Public Safety Interoperable Communications Grant Program (CFDA 11.555).

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- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Rail and Transit Security Grant Program (CFDA 97.075).

These issues discussed above affected the following HSGP awards from the U.S. Department of Homeland Security:

| <u>Award Number</u>    | <u>Award Period</u>                       | <u>Questioned Cost</u> |
|------------------------|---|------------------------|
| 2008-GE-T8-0034        | September 1, 2008 to<br>February 29, 2012 | \$0                    |
| 2009-SS-T9-0064        | August 1, 2009 to<br>July 31, 2012        | 412                    |
| 2010-SS-T0-0008        | August 1, 2010 to<br>July 31, 2013        | <u>4,873</u>           |
| Total Questioned Costs |   | \$5,285                |

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees.** Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Recommendations:

The Department should:

- Perform quarterly comparisons of actual payroll activity to budgeted distributions and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.
- Properly allocate its charges to the HSGP.
- Require vendors to submit adequate documentation specifying the grant programs that benefit from temporary staffing services.
- Develop and implement a process to allocate M&A costs that benefit multiple federal grant programs.
- Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.
- Design and implement a periodic review of user accounts for ETA.

Management Response and Corrective Action Plan:

Recommendations:

The Department should:

- *Perform quarterly comparisons of actual payroll activity to budgeted distributions and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.*



**PUBLIC SAFETY, DEPARTMENT OF**

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- *Properly allocate its charges to the HSGP.*
- *Require vendors to submit adequate documentation specifying the grant programs that benefit from temporary staffing services.*
- *Develop and implement a process to allocate M&A costs that benefit multiple federal grant programs.*

**Management Response and Corrective Action Plan:**

*The Department agrees with the recommendations. Procedures will be developed to:*

- *Ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.*
- *Ensure proper charges to the HSGP are allocated accordingly.*
- *Ensure adequate documentation is obtained and/or maintained to specify the specific grant programs that benefit from temporary staffing services.*
- *Allocate M & A costs that benefit multiple federal grant programs.*

*Implementation Date: July 2013*

*Responsible Person: Maureen Coulehan*

**Recommendations:**

*The Department should:*

- *Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.*
- *Design and implement a periodic review of user accounts for ETA.*

**Management Response and Corrective Action Plan:**

*We agree with the recommendation and we have:*

- *Reviewed ETA access to ensure only current employees have access and to ensure that access is appropriate for each users' job responsibilities.*
- *Designed and implemented a periodic review of user accounts for ETA.*

*Implementation Date: January 2013*

*Responsible Person: Norma Cortez*

Reference No. 13-104

**Cash Management**

(Prior Audit Issues 12-107 and 11-108)

**CFDA 97.067 - Homeland Security Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Beginning in fiscal year 2005, Homeland Security Grant Program awards to states were exempted from the provisions of the Cash Management Improvement Act. States are permitted to draw down funds up to 120 days

Questioned Cost: \$11,400

U.S. Department of Homeland Security

prior to expenditure/disbursement, provided they maintain procedures to minimize the time elapsing between the receipt and disbursement of funds (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 4, Section 97.067). Additionally, states must place those funds in an interest-bearing account, and the interest earned must be remitted to the U.S. Treasury at least quarterly. Interest amounts up to \$100 per year may be retained by a state for administrative expenses (Title 44, Code of Federal Regulations (CFR), Section 13.21).

Interest on Advances

The Department of Public Safety (Department) has an agreement with the Texas Office of the Comptroller of Public Accounts (Comptroller's Office) to isolate the interest earned solely on Homeland Security Grant Program funds. Under that agreement, the Comptroller's Office sends the Department reports that detail the amount of interest earned each month on Homeland Security Grant Program funds. The Department then tracks that interest on a spreadsheet. The Department's Grants Finance unit coordinates with the Comptroller's Office and oversees the process to remit interest to the U.S. Treasury.

**The Department did not remit all interest earned on Homeland Security Grant Program funds to the U.S. Treasury during fiscal year 2012.** While the Department remitted some interest, it did not remit \$11,393 in interest that it should have remitted because of weaknesses in its processes for tracking and remitting interest. Specifically:

- The spreadsheet the Department used to track interest did not include all components in the Homeland Security Grant Program. As a result, the Department excluded interest earned on its Urban Areas Security Initiative program, and it did not track interest it earned on its 2011 State Homeland Security Program prior to August 2012.
- The Department did not obtain from the Comptroller's Office a monthly report of the interest earned in October 2011. As a result, it did not consider the interest earned that month when it determined the amount that it should remit.
- The Department's procedures for tracking interest allow it to retain up to \$100 in interest per component program for each grant year. However, those procedures conflict with Title 44, CFR, Section 13.21, which allows the Department to retain up to \$100 in interest at the Department level as a whole. As a result of its interpretation of those requirements, if individual components earned less than \$100 in interest during the fiscal year, the Department did not include that interest when it determined the amount it should remit.
- The Department began the year using one spreadsheet to track interest, but during the year it began using a different spreadsheet to track interest. However, when it transitioned to the second spreadsheet, it did not carry forward to that spreadsheet the interest it had already retained. As a result, the Department's calculations using the second spreadsheet overstated the amount of interest it was allowed to retain.
- As of December 2012, the Department had not yet remitted interest it earned from June 2012 through August 2012 to the U.S. Treasury because it has not established a process to ensure that it remitted interest at least quarterly as required.

Additionally, the Department did not begin remitting the interest it earned on federal funds until March 2012, when it began remitting interest for September 2011 and November 2011 through February 2012. Therefore, it did not remit interest on a quarterly basis as required by Title 44, CFR, Section 13.21.

The Department does not have a review process to help ensure that its spreadsheet is complete and accurate or that it performs calculations and remits interest in a timely manner.

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This issue affected the following Homeland Security Grant Program awards from the U.S. Department of Homeland Security:

| <u>Award Number</u>                                   | <u>Award Period</u>                       | <u>Questioned Cost</u> |
|---|---|------------------------|
| 2008-GE-T8-0034                                       | September 1, 2008 to<br>February 29, 2012 | \$ 269                 |
| 2009-SS-T9-0064                                       | August 1, 2009 to<br>July 31, 2012        | 6,932                  |
| 2010-SS-T0-0008                                       | August 1, 2010 to<br>July 31, 2013        | 4,047                  |
| EMW-2011-SS-00019-S01                                 | September 1, 2011 to<br>August 31, 2014   | 245                    |
| Allowance for Interest That the Department Can Retain |   | <u>(100)</u>           |
|   | Total Questioned Costs                    | \$11,393               |

Cash Draws

Cash advances should be limited to the minimum amounts needed and timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, CFR, Section 215.22).

The Department's procedures require that both its Grants Finance unit and its State Administrative Agency (SAA) review and approve each cash draw request. However, **for 5 (8 percent) of 61 cash draws tested, either (1) there was no documented evidence that SAA conducted its review or (2) SAA's and the Grants Finance unit's review was not sufficient to identify errors.** The Department asserted that it had established procedures to hold cash draws until SAA approved them but that it had inadvertently overlooked the missing SAA approvals for four of those five cash draws. For the remaining cash draw, review by the SAA and the Grants Finance unit was not sufficient to detect that the amount of that cash draw was not supported by the Department's actual costs for the Homeland Security Grant Program. That cash draw was associated with the Emergency Operations Center Grant Program. That error resulted in \$7 in questioned costs associated with award 2010-SS-T0-0008.

Not performing sufficient review of cash draw requests increases the risk of improper cash draws.

Recommendations:

The Department should:

- Consistently and accurately track interest due on federal funds and remit amounts it owes to the federal government at least quarterly.
- Revise its process to remit interest that the Department earns in excess of \$100 per year.
- Ensure that management reviews and approves each cash draw request.
- Ensure that each cash draw it makes is supported by actual costs for the Homeland Security Grant Program.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will:*

- *Assure consistent and accurate tracking methods are in place to remit amounts owed to the federal government at least quarterly.*
- *Procedures will be revised to remit interest that the Department earns in excess of \$100 per year.*

**PUBLIC SAFETY, DEPARTMENT OF**

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- *Adjust procedures to ensure that draws are supported by actual costs and that management reviews and approves each cash draw request.*

*Implementation Date: April 2013*

*Responsible Persons: Maureen Coulehan and Machel Pharr*

Reference No. 13-105

**Matching, Level of Effort, Earmarking**

**CFDA 97.067 - Homeland Security Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

According to U.S. Department of Homeland Security grant guidance, the Department of Public Safety (Department) is required to limit management and administrative (M&A) expenditures to a percentage of the award amount. The percentage limits were 3 percent for award years 2008 and 2009 (Title 6, United States Code, Section 609(a)(11)) and 5 percent for award years 2010 and 2011 (FY 2010 Department of Homeland Security Appropriations Act, Pub. L. No. 111-83, Title III (13)(C) and FY 2011 Department of Defense and Full-Year Continuing Appropriations Act, Pub. L. No. 112-10).

Questioned Cost: \$ 693

U.S. Department of Homeland Security

**In fiscal year 2012, the Department charged more to M&A than the maximum allowable amount for its 2008 Homeland Security award.** The Department has M&A budget codes in its accounting system that it could use to track M&A expenditures. However, the Department monitors M&A charges using federal cash draw request information, instead of using actual M&A expenditure data from its accounting system. It does not reconcile the amounts from its monitoring of M&A with the actual M&A expenditures recorded in its accounting system to ensure that its M&A charges do not exceed earmarking limits. Therefore, the Department’s monitoring of its M&A expenditures does not capture expenditures resulting from transfers or adjustments in its accounting system, which can increase the amount charged to M&A budget codes. As a result of this control weakness, the Department exceeded its M&A limit for award 2008-GE-T8-0034 by a total of \$693.

Although auditors identified questioned costs for only one award, the issue discussed above also represented a control weakness for all of the following Homeland Security awards:

| <u>Award Number</u> | <u>Beginning Date</u> | <u>End Date</u>   |
|---------------------|-----------------------|-------------------|
| 2008-GE-T8-0034     | September 1, 2008     | February 29, 2012 |
| 2009-SS-T9-0064     | August 1, 2009        | July 31, 2012     |
| 2010-SS-T0-0008     | August 1, 2010        | July 31, 2013     |

Recommendation:

The Department should monitor M&A limits using expenditure data in its accounting system.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement procedures to monitor M&A limits using expenditure data in our accounting system.

Implementation Date: March 2013

Responsible Person: Maureen Coulehan

Reference No. 13-106

**Procurement and Suspension and Debarment**

(Prior Audit Issues 12-108 and 11-109)

**CFDA 97.067 - Homeland Security Grant Program**

**Award year –2010**

**Award number – 2010-SS-TO-0008**

**Type of finding – Significant Deficiency and Non-Compliance**

In accordance with Title 44, Code of Federal Regulations (CFR), Section 13.36, grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in that CFR section. All procurement transactions must be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals.

Questioned Cost: \$ 901

U.S. Department of Homeland Security

Competitive Bidding Procurements

**For 1 (33 percent) of 3 procurements tested for the Homeland Security Grant Program that required competitive bidding, the Department of Public Safety's (Department) State Administrative Agency inappropriately used an existing Texas Department of Information Resources contract to obtain non-information technology (IT) services and circumvent the Department's established process to procure non-IT consultant services.** That contract ended August 31, 2010, however, the Department paid \$901 in fiscal year 2012 for services the consultant performed in 2010.

Overriding established management controls increases the risk that unauthorized purchases could be made with federal funds, or that procurements might not provide the best value for the State and might not comply with state and federal requirements.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

**One (8 percent) of 13 purchase files tested did not contain evidence that the Department ensured the vendor was not suspended or debarred by checking EPLS.** The Department made that purchase through a statewide TxSmartBuy contract; however, Department procedures required it to include printouts from EPLS indicating that

**PUBLIC SAFETY, DEPARTMENT OF**

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the Department verified that the vendor was not an excluded party. The Department could not provide evidence that it had performed that verification for one vendor. Auditors determined that the vendor was not suspended or debarred by checking EPLS.

When the Department does not verify that vendors are not suspended or debarred, this increases the risk that it could enter into an agreement with an entity that is not eligible to receive federal funds.

Recommendations:

The Department should:

- Consistently comply with its procurement policies related to competitive bidding and use pre-existing statewide contracts appropriately and only for their intended purpose.
- Verify that its vendors are not suspended or debarred.

Management Response and Corrective Action Plan:

*This is a carryover finding related to previous period control issues. It shows up for Fiscal Year 2012 because a payment was made against a 2010 contract.*

*In response to the prior year finding, the Department developed and implemented new policies and procedures for procurements/contracts which all divisions are required to follow. These policies require review by both the Legal and Procurement Department prior to the execution of a contract. Additionally, these procedures include assuring vendors are not suspended or debarred.*

*Implementation Date: April 2012*

*Responsible Person: Dana Collins*

Reference No. 13-107

**Reporting**

**CFDA 97.067 - Homeland Security Grant Program**

**Award year – 2011**

**Award number – EMW-2011-SS-00019-S01**

**Type of finding – Significant Deficiency and Non-Compliance**

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000 no later than the end of the month following the month in which the obligation was made. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations, Chapter 170).

Questioned Cost: \$ 0

U.S. Department of Homeland Security

Additionally, recipients are required to report the net dollar amount of federal funds awarded to subgrantees, including modifications, as the amount of the award. Recipients must report all required elements including the subaward date, subawardee Data Universal Numbering System (DUNS) number, amount of subaward, subaward

obligation or action date, and subaward number (Office of Management and Budget's *Open Government Directive-Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010), Appendix C).

**The Department of Public Safety (Department) did not always report subaward data completely and accurately.** Specifically:

- The Department did not report 2 (7 percent) of 27 subawards tested to the FFATA Subaward Reporting System (FSRS). Those two subawards were associated with the same subrecipient. Although the Department identified those subawards as being subject to FFATA reporting requirements, it inadvertently did not report those subawards to FSRS because of a manual error.
- The Department did not accurately report the amount of the subaward for 3 (12 percent) of 25 subawards tested that it submitted because it made data entry errors in FSRS.
- The Department did not accurately report the obligation date (the date the subaward agreement was signed) for all 25 subawards tested that it submitted. Instead, it erroneously reported the date that it sent the agreements to the subrecipients.

The Department did not identify the errors discussed above because it has not established adequate policies and procedures or a process to review its FFATA reports prior to submission to help ensure that it reports all subawards accurately and completely.

In addition, for all 25 subawards tested that the Department reported to FSRS, the Department did not report subaward data in timely manner. Each subaward tested was obligated between December 2011 and February 2012. The Department's communications with the U.S. Department of Homeland Security indicate that FSRS was available for the Department to report those subawards by March 2012. However, the Department did not begin reporting subaward data to FSRS for the Homeland Security Grant Program until July 2012, more than 90 days after FSRS was available for reporting subawards. The Department indicated that the delay was the result of implementation challenges associated with its reporting process.

Not reporting subaward data to FSRS in a complete, accurate, and timely manner decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Recommendations:

The Department should:

- Develop and implement policies and procedures and a review process to help ensure that it submits required FFATA reports completely and accurately.
- Submit required FFATA reports in a timely manner.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendation and will implement procedures to ensure FFATA reports are complete, accurate and timely.*

*Implementation Date: June 2013*

*Responsible Persons: Maureen Coulehan and Machel Pharr*

Reference No. 13-108

**Subrecipient Monitoring**

(Prior Audit Issues 12-109, 11-111, 10-37, and 09-43)

**CFDA 97.067 - Homeland Security Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Questioned Cost: \$ 0

U.S. Department of Homeland Security

In fiscal year 2012, the Department passed through \$136,222,052 in Homeland Security Grant Program funds to its subrecipients.

During-the-award Monitoring

Recipients of Homeland Security Grant Program funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations (CFR), Section 13.40). Specifically, grantees and subgrantees are required to:

- Maintain proper records for equipment and adequately safeguard and maintain equipment (Title 44, CFR, Section 13.32).
- Enter into procurement contracts and covered transactions in accordance with program requirements (Title 44, CFR, Section 13.36).
- Only withhold the percentage of their sub-award for management and administrative purposes as permitted by federal requirements (Grant Programs Directorate Information Bulletin No. 339).

**For 53 (78 percent) of 68 subrecipients tested, the Department did not monitor the subrecipients' compliance with requirements related to equipment and procurement.** Specifically:

- For 49 subrecipients, the Department did not monitor the subrecipients' compliance with equipment or procurement requirements because it did not conduct a desk review or site visit for the subrecipients during fiscal year 2012. The Department monitors subrecipient activities related to equipment and procurement through desk reviews and site visits, in which it reviews each subrecipient's procurement and equipment maintenance practices to ensure compliance with federal requirements and the terms and conditions of the grant. According to the Department, the limited number of monitoring personnel it has reduces the number of site visits and desk reviews that can be conducted. Additionally, the Department has not established a process to monitor subrecipient procurement practices or equipment maintenance through procedures other than the site visits or desk reviews it performs.
- For 4 subrecipients, the Department did not include the subrecipients in the fiscal year 2012 risk assessment it used to select subrecipients for desk reviews and onsite monitoring. As a result, the Department could not ensure that it monitored those subrecipients' compliance with procurement and equipment maintenance during fiscal year 2012. These subrecipients were not included because the Department prepared the risk assessment based on a report of subrecipients that received funds in prior grant years, instead of based on all active subrecipients.

**In addition, for 2 (3 percent) of 68 subrecipient reimbursement requests tested, the Department could not provide evidence that it reviewed the requests before it paid them as required by its policies.** The Department asserted that those errors most likely occurred when the manager who performs the review was absent. The



Department has designated individuals to serve as backups; however, it processed the reimbursement requests without proper review.

**For its 2010 State Homeland Security grant, the Department did not ensure that the councils of government (COGs) to which it made subawards withheld no more than 5 percent of the sub-award for management and administrative purposes.** The automated control in the Department's grants management system did not limit COGs to 5 percent of their 2010 sub-award. The Department asserted that it relied on the COGs to ensure that they did not exceed the limit.

Insufficient monitoring and lack of management review of reimbursements during the award period increases the risk that the Department will not detect subrecipients' non-compliance with federal requirements and the risk of improper payments to subrecipients.

#### Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Section, 225).

The Department's Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 8 (12 percent) of 67 subrecipients tested, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned the subrecipients that did not comply. Specifically:

- The Department did not include two subrecipients on its tracking spreadsheet. As a result, the Department did not verify whether those subrecipients complied with the requirement to obtain a Single Audit or review those subrecipients' Single Audit reports. Based on a review of the Federal Audit Clearinghouse, those subrecipients did not submit Single Audit reports for fiscal year 2011.
- The Department did not review the Single Audit reports that three subrecipients submitted. The Department incorrectly determined that it did not need to review two of those reports because it did not pass through funds to the subrecipients during fiscal year 2011; however, each of these subrecipients received funds during fiscal year 2012. The Department had not yet reviewed the third Single Audit report at the time of the audit, which was more than six months after it had received that report.
- The Department did not obtain Single Audit reports from three subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.

Three of the subrecipients discussed above had findings related to federal compliance in their Single Audit reports.

The Department's review of subrecipients' Single Audit reports also was not always sufficient and timely. **For all 9 subrecipient Single Audit reports the Department reviewed that contained audit findings, the Department did not issue a management decision regarding those findings within the required time period.** For each of those subrecipients, the Department reviewed the Single Audit reports, but it did not issue a management decision on findings identified in those reports within six months of receiving those reports.

Finally, for 11 (16 percent) of 67 subrecipients tested, the Department's Single Audit tracking spreadsheet was incomplete or contained inaccurate information. This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient non-compliance. Not ensuring that subrecipients obtain Single Audits and not following up on findings in Single Audit reports increases the risk that deficiencies could go unaddressed.

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The issues discussed above affect the following Homeland Security awards:

| <u>Award Number</u>   | <u>Beginning Date</u> | <u>End Date</u>   |
|-----------------------|-----------------------|-------------------|
| 2008-GE-T8-0034       | September 1, 2008     | February 29, 2012 |
| 2009-SS-T9-0064       | August 1, 2009        | July 31, 2012     |
| 2010-SS-T0-0008       | August 1, 2010        | July 31, 2013     |
| EMW-2011-SS-00019-S01 | September 1, 2011     | August 31, 2014   |

Recommendations:

The Department should:

- Develop and implement a process to monitor subrecipient compliance with federal procurement and equipment regulations for all active subrecipients.
- Develop and implement a process to ensure that COGs do not exceed the limits for management and administrative costs for all grants.
- Review all reimbursement requests prior to payment.
- Include all subrecipients in its risk assessment for site visits or desk reviews.
- Include all subrecipients in its Single Audit tracking spreadsheet to determine whether they are required to submit a Single Audit report.
- Review all Single Audit reports for active subrecipients within six months of receipt of those reports, and issue management decisions promptly when findings in those reports could affect pass-through funds.
- Ensure that information in the Single Audit tracking spreadsheet is complete and accurate.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will implement procedures to:*

- *Ensure all active sub-recipients are in compliance with federal procurement and equipment regulations.*
- *Limit the management and administrative costs to the authorized level as prescribed by the Grant Program Guidance for Grant Years 2011 and 2012 as well as developing a manual process for monitoring the 2010 grant year.*
- *Ensure all reimbursement requests are reviewed prior to payment.*
- *Issue management decisions regarding Single Audit Report findings promptly.*

*We have instituted procedures to ensure all open grant subrecipients are included in the A-133 Single Audit Review tracking sheet in a coordinated effort between grant programs and the A-133 review team.*

*Implementation Date: August 2013*

*Responsible Persons: Machele Pharr and Paula Logan*

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Reference No. 13-109

**Special Tests and Provisions – Subgrant Awards**

**CFDA 97.067 - Homeland Security Grant Program**

**Award year – 2011**

**Award number – EMW-2011-SS-00019-S01**

**Type of finding – Significant Deficiency and Non-Compliance**

Under the fiscal year 2011 award for the Homeland Security Grant Program (which includes the State Homeland Security Program (SHSP), Urban Areas Security Initiative (UASI), and Operation Stonegarden (OPSG) component programs), states must obligate funds for subgrants within 45 days after the date of the grant award. States must obligate at least 80 percent of funds under SHSP and UASI and 100 percent of funds under OPSG (U.S. Department of Homeland Security Fiscal Year 2011 Homeland Security Grant Program Guidance and Application Kit).

Questioned Cost: \$ 0

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**The Department of Public Safety (Department) did not obligate all funds associated with the OPSG component of the Homeland Security Grant Program within 45 days after the grant award.** The Department received \$14,103,286 in OPSG funds, but it did not obligate \$1,967,453 of that amount associated with 6 subgrants within 45 days after the date of the grant award. Specifically,

- The Department obligated 1 subaward 5 days late. The Department’s discussions with the subgrantee regarding the preferred terms of the subgrant caused that delay.
- The Department obligated 5 subawards between 15 and 62 days late. Those delays occurred because the Department did not complete certain required eligibility determinations, including verification of the subgrantees’ suspension and debarment status and Data Universal Numbering System (DUNS) numbers, in a timely manner.

Recommendation:

The Department should develop and implement a process to help ensure that it obligates OPSG funds within 45 days after the grant award.

Management Response and Corrective Action Plan:

*The requirement to obligate OPSG funds within 45 days was removed by FEMA in the 2012 Funding Opportunity Announcement (FOA). The Department will implement a process to ensure OPSG awards are obligated as soon as possible after specific county level Operational Orders are approved by FEMA.*

*Implementation Date: February 2013*

*Responsible Person: Machel Pharr*

Reference No. 13-110

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Cash Management**

**Eligibility**

**Matching, Level of Effort, Earmarking**

**Period of Availability of Federal Funds**

**Reporting**

**Subrecipient Monitoring**

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – Multiple**

**Award numbers – Multiple**

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Cash Management**

**Eligibility**

**Matching, Level of Effort, Earmarking**

**Period of Availability of Federal Funds**

**Reporting**

**Subrecipient Monitoring**

**Special Tests and Provisions- Project Accounting**

**CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Material Weakness**

Office of Management and Budget (OMB) Circular A-133 requires agencies to maintain internal control over federal programs that provides reasonable assurance that agencies are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)). In addition, OMB Circular A-133 requires auditors to consider the control environment over federal programs and such factors as the expectation of management’s adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the federal programs (OMB Circular A-133, Subpart E, Section 525(b)).

Questioned Cost: \$ 0

U.S. Department of Homeland Security

The OMB Circular A-133 Compliance Supplement cites the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) *Internal Control-Integrated Framework* as a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of federal laws, regulations, and program compliance requirements (OMB Circular A-133 Compliance Supplement, Part 6, page 6-2). The COSO framework identifies five components, including control environment, risk assessment, control activities, information and communication, and monitoring. The control environment establishes the tone of an organization, influencing the control consciousness of its people and provides discipline, process, and structure for the organization. The control environment encompasses five principles:

- The organization holds individuals accountable for their internal control responsibility in the pursuit of objectives.
- The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

- The organization demonstrates a commitment to integrity and ethical values.
- The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control.

COSO principles suggest that the control environment is the foundation for all other components of internal controls because it provides discipline, process, and structure. The COSO framework incorporates an organization's objectives: operations, reporting, and compliance. The compliance objective relates to the organization's adherence to laws and regulations.

The Department of Public Safety's (Department) control environment contributed to the control and compliance issues auditors identified in findings 13-111 through 13-121 for the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Both the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program are administered by the Department's Grants Finance unit and the Department's Division of Emergency Management. Specifically, the Division of Emergency Management is responsible for the state emergency management program, and it oversees state and local emergency response, recovery, and mitigation efforts in response to federally declared disasters. As part of that responsibility, the Department manages daily interactions with and monitoring of its subrecipients. The Grants Finance unit is responsible for accounting related to those disasters. It also performs other financial activities related to program management.

**The Department has not established an adequate control environment to facilitate compliance with federal requirements, and in some cases that has resulted in repeated non-compliance with federal requirements over multiple years.** Categorized by COSO principle, examples of the weaknesses in the Department's control environment include the following:

- **Holding individuals accountable for internal control responsibilities.** As detailed in findings 13-111, 13-114, 13-117, and 13-119, Department staff have not successfully implemented the control improvements necessary to ensure that payroll, indirect costs, and other types of expenditures charged to federal awards consistently comply with federal requirements. The Department has not established adequate monitoring processes for the activities designed to facilitate compliance with those requirements, which hinders the ability to achieve accountability at the individual level. Additional errors in the Department's review of its drawdowns of federal funds detailed in findings 13-112 and 13-118, also demonstrate that staff have not successfully implemented effective internal controls to ensure consistent compliance with federal requirements.
- **Commitment to attracting, developing, and retaining competent individuals.** As detailed in findings 13-116 and 13-121, the Department has submitted unreliable financial reports to the federal government. Because auditors have identified similar findings in this same area since fiscal year 2006, this demonstrates that the Department has not maintained competency levels that would enable it to consistently achieve compliance with federal requirements.
- **Establishing structures, reporting lines, and appropriate authorities and responsibilities.** As detailed in findings 13-115 and 13-120, the Department's subrecipient monitoring, oversight, and reporting processes were not adequate to facilitate compliance with federal requirements. The Department also reported inaccurate information regarding potential subrecipients of federal funds to the Federal Emergency Management Agency (see finding 13-113). Finally, the Department has not established an effective structure to account for its grant funds with sufficient detail to facilitate informed grant administration decision making, as detailed in findings 13-111, 13-112, 13-114, 13-117, 13-118, and 13-119.

Recommendations:

In addition to implementing the recommendations within the individual findings referenced above, the Department should:

- Provide training designed to enhance the grant compliance and internal control awareness of the Grants Finance unit and the Division of Emergency Management.

- Record and communicate information to staff that is sufficient to support effective federal grant administration, including (1) recording transactions, such as indirect cost transactions, at the time the Department incurs costs and (2) developing a process, using its general ledger system or another tool that permits correlation of federal expenditures and drawdowns with specific project and disaster numbers.
- Implement or strengthen management-level monitoring of key control activities related to federal compliance, such as (1) comprehensive reviews of work products used to incur federal expenditures (for example cash draws, clearance pattern calculations, and direct expenditures) and (2) reviews of detailed information supporting the summary-level information the Department receives from third-party service providers before relying on the summary-level information to incur federal expenses (for example, indirect cost rate proposals).

Management Response and Corrective Action Plan:

*We agree with the recommendations and will:*

- *Provide training to enhance the knowledge and skills that its Grants Finance unit and its Division of Emergency Management.*
- *Record and communicate information to staff that is sufficient to support effective federal grant administration.*
- *Implement or strengthen management-level monitoring of key control activities related to federal compliance.*

*Implementation Date: August 2013*

*Responsible Persons: Maureen Coulehan and Paula Logan*

Reference No. 13-111

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles**

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Non-Compliance**

Allowable Costs/Cost Principles – Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

Questioned Cost: \$ 64,961

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

**The Department of Public Safety (Department) based 16 (76 percent) of 21 Hazard Mitigation payroll charges tested on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee.** The Department requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. The Department then estimates its payroll charges based on actual time charged in a previous period. However, the Department has not established controls to ensure that it reconciles the estimated effort with the actual effort for each employee. This resulted in questioned costs of \$3,162 associated with awards FEMA-1606-DR and FEMA-1999-DR.

Additionally, for 5 (24 percent) of 21 payroll charges tested, the Department did not perform its reconciliation of estimated effort with actual effort; however, for those payroll charges, this did not result in non-compliance because the estimated and actual charges were the same.

Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

Capital expenditures for general purpose equipment are unallowable as direct charges unless those charges are approved in advance by the awarding agency. In addition, special purpose equipment with a unit cost of \$5,000 or more must have prior approval of the awarding agency in order to be allowable as a direct cost (Title 2, CFR, Chapter 225, Appendix B).

**For 2 (4 percent) of 51 direct cost expenditures tested, the Department could not provide evidence that it obtained approval from Federal Emergency Management Agency (FEMA) prior to purchasing equipment.** The Department asserted that it has an informal process to obtain approval from FEMA for the purchase of equipment exceeding \$5,000; however, that process is not documented. This resulted in a questioned cost of \$51,040 associated with award FEMA-1780-DR and \$6,657 in questioned costs associated with award FEMA-1791-DR.

Additionally, the Department's policy requires its Grant Finance unit to review direct expenditures by approving a payment voucher. **For 2 (4 percent) of 51 direct cost expenditures tested, however, the Department could not provide evidence that its Grant Finance unit reviewed and approved vouchers prior to payment as required by its policy.** For one of those expenditures, the Grants Finance unit did not approve the voucher. For the other expenditure, the Department was unable to provide the voucher; therefore, auditors could not determine whether the Grants Finance unit had approved that voucher. Not reviewing and approving vouchers prior to payment increases the risk that the Department will charge unallowable costs to federal grants.

The Department also is required to allocate costs among federal awards in accordance with the benefits that the costs provided. However, **the Department has no control to allocate direct costs to each disaster's federal award based on the benefits received. For example, the Department charged 1 (1 percent) of 72 transactions tested to a general budget code for the Hazard Mitigation Grant program that could have been associated with multiple awards.** The Department asserted that it had not yet drawn federal funds to reimburse those costs and that it would allocate those costs at the time that it drew those funds; however, as of January 14, 2013, it had not allocated those costs to a specific federal award. This increases the risk that the Department will improperly allocate costs to federal grants.

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Indirect Costs

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Chapter 225, Appendix E, (D)(1)).

An Indirect Cost Rate Proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect cost by calculating a ratio of indirect costs to a direct cost base. Those rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E, (B)).

The Department began charging indirect costs to the Hazard Mitigation Grant Program during fiscal year 2012. During 2009, the Department utilized a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Department asserted that the submission delay occurred because it had originally submitted the IDCRP to the incorrect federal cognizant agency. FEMA approved the IDCRP on May 7, 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods from fiscal year 2009 forward. The Department's next IDCRP is due in February 2013.

However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate. As a result, **auditors could not determine whether the indirect cost rate approved in May 2012 was accurate.**

Prior to the approval of its IDCRP, the Department used a previous indirect cost rate agreement to charge indirect costs to federal awards; however, that agreement expired on August 31, 2007. As a result, the Department had been charging indirect costs without a valid rate agreement. Additionally, the Department did not record indirect cost transactions in its financial system at the time it made each charge. As a result, auditors could not identify all indirect cost charges the Department made during the year. Instead, the Department processed an adjusting entry to its schedule of expenditures of federal awards to recognize \$291,187 in indirect cost charges for the Hazard Mitigation Grant program during fiscal year 2012.

As a result of the Department's process for recording indirect cost transactions, auditors also were unable to determine the amount of unallowable charges the Department made under the expired indirect cost rate agreement. However, for 2 (5 percent) of 43 cash draws tested, the Department charged a total of \$974 in indirect costs associated with award FEMA-1624-DR and \$3,128 in indirect cost charges associated with award FEMA-1606-DR under the expired indirect cost rate agreement. Those amounts are considered questioned costs.

The issues noted above affected the following Hazard Mitigation Grant Program awards:

| <u>Award Number</u> | <u>Start Date</u>  | <u>Questioned Cost</u> |
|---------------------|--------------------|------------------------|
| FEMA-1356-DR        | January 8, 2001    | \$ 0                   |
| FEMA-1379-DR        | June 9, 2001       | 0                      |
| FEMA-1425-DR        | July 4, 2002       | 0                      |
| FEMA-1439-DR        | November 5, 2002   | 0                      |
| FEMA-1479-DR        | July 17, 2003      | 0                      |
| FEMA-1606-DR        | September 24, 2005 | 4,598                  |
| FEMA-1624-DR        | January 11, 2006   | 974                    |
| FEMA-1658-DR        | August 15, 2006    | 0                      |
| FEMA-1697-DR        | May 1, 2007        | 0                      |
| FEMA-1709-DR        | June 29, 2007      | 0                      |



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| <u>Award Number</u>    | <u>Start Date</u>  | <u>Questioned Cost</u> |
|------------------------|--------------------|------------------------|
| FEMA-1730-DR           | October 2, 2007    | 0                      |
| FEMA-1780-DR           | July 24, 2008      | 51,040                 |
| FEMA-1791-DR           | September 13, 2008 | 6,657                  |
| FEMA-1931-DR           | August 3, 2010     | 0                      |
| FEMA-1999-DR           | July 1, 2011       | 1,692                  |
| FEMA-4029-DR           | September 9, 2011  | <u>0</u>               |
| Total Questioned Costs |                    | \$64,961               |

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees.** Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Recommendations:

The Department should:

- Compare actual effort charged to federal awards with budgeted amounts and ensure that any adjustments are reflected in the amounts it charges to federal programs.
- Maintain sufficient documentation to support that it obtained required approvals from FEMA for equipment purchases that it charged to the Hazard Mitigation Grant Program.
- Retain documentation of its review and approval of the direct expenditures it charges to the Hazard Mitigation Grant Program.
- Develop and implement a process to allocate costs among federal awards.
- Calculate indirect cost charges using a federally approved indirect cost rate that is in effect at the time the Department charges those costs.
- Retain support for its Indirect Cost Rate Proposal, including support for its indirect cost pool.
- Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.
- Design and implement a periodic review of user accounts for ETA.

Management Response and Corrective Action Plan:

**Recommendations:**

The Department should:

- Compare actual effort charged to federal awards with budgeted amounts and ensure that any adjustments are reflected in the amounts it charges to federal programs.
- Maintain sufficient documentation to support that it obtained required approvals from FEMA for equipment purchases that it charged to the Hazard Mitigation Grant Program.
- Retain documentation of its review and approval of the direct expenditures it charges to the Hazard Mitigation Grant Program.
- Develop and implement a process to allocate costs among federal awards.
- Calculate indirect cost charges using a federally approved indirect cost rate that is in effect at the time the Department charges those costs.
- Retain support for its Indirect Cost Rate Proposal, including support for its indirect cost pool.

**Management Response and Corrective Action Plan:**

The Department agrees with the recommendations and will implement processes and procedures to:

- Compare actual effort charged to federal awards with budgeted amounts and ensure that any adjustments are reflected in the amounts it charges to federal programs.
- Ensure sufficient documentation is maintained to support approvals were obtained from FEMA for equipment purchases.
- Retain documentation of its review and approval of the direct expenditures it charges to the Hazard Mitigation Grant Program.
- Allocate costs among federal awards.
- Calculate indirect cost charges using a federally approved indirect cost rate that is in effect at the time the Department charges those costs.
- Retain support for its Indirect Cost Rate Proposal, including support for its indirect cost pool.

Implementation Date: August 2013

Responsible Persons: Maureen Coulehan and Paula Logan

**Recommendations:**

The Department should:

- Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.
- Design and implement a periodic review of user accounts for ETA.

**Management Response and Corrective Action Plan:**

We agree with the recommendation and we have:

- Reviewed ETA access to ensure only current employees have access and to ensure that access is appropriate for each users' job responsibilities.

- *Designed and implemented a periodic review of user accounts for ETA.*

*Implementation Date: January 2013*

*Responsible Person: Norma Cortez*

Reference No. 13-112

**Cash Management**

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

Funding Technique

A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay (Title 31, Code of Federal Regulations (CFR), Section 205.33).

Questioned Cost: \$521

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Additionally, the state's financial management systems must include written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the Department (Title 2, CFR, Section 215.21(5)).

**The Department of Public Safety (Department) has not established controls to ensure that it minimizes the time elapsing between the drawdown of federal funds and the disbursement of those funds.** Results of audit testing indicated that the Department disbursed funds between 1 and 56 business days after it had drawn those funds. The Department did not disburse funds within 5 business days for 17 (40 percent) of 43 drawdowns tested.

The Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure the timely disbursement of funds. Additionally, the Department's process for drawing funds for payroll costs is not adequately designed to minimize the time between the drawdown of funds and the disbursement of payroll. The Department drew funds for payroll at the same time that it ran its monthly trial balance; on average, that occurred 9.4 days before the Department needed to disburse payroll.

Draw Support

Cash advances to a state shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, CFR, Section 215.22(b)(2)).

**For 5 (12 percent) of 43 draws tested, the Department could not provide sufficient support for the amount of the draw.** Specifically:

- For four of those draws, the Department drew funds for the Hazard Mitigation Grant Program when the supporting documentation indicated that it should have drawn funds from the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. These four draws totaled \$15,997,347. The Department identified errors associated with three of those draws in September 2012 and returned the funds. For the remaining draw, the Department did not identify that it incorrectly drew \$10,899,635 associated with award FEMA-1791-DR until after auditors brought that error to its attention in October 2012. After auditors

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communicated that error, the Department provided evidence that it corrected the error in the federal system that it uses to draw funds.

- For one draw that the Department made to support a payment to a subrecipient, the Department did not draw the correct amount based on the supporting documentation. Based on the invoice the subrecipient submitted, the Department should have drawn \$22,869; however, it erroneously drew \$23,390, which resulted in questioned costs of \$521 associated with award FEMA-1791-DR.

Those errors occurred because the Department's Grants Finance unit has not established an adequate review process for drawdowns. For each of the errors noted above, although Department management reviewed the draw requests prior to the draw, the Department's review did not identify that the draws were unsupported. For two additional draws, the Department could not provide evidence that the draws had been reviewed by all required individuals. Although auditors did not identify compliance errors associated with those two draws, a lack of review increases the risk that errors in those draws could go undetected.

The issues noted above affect the following Hazard Mitigation Grant Program awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  | <u>Questioned<br/>Costs</u> |
|-----------------|---------------------|--------------------|-----------------------------|
| 1379            | FEMA-1379-DR        | June 9, 2001       | \$0                         |
| 1425            | FEMA-1425-DR        | July 4, 2002       | \$0                         |
| 1439            | FEMA-1439-DR        | November 5, 2002   | \$0                         |
| 1479            | FEMA-1479-DR        | July 17, 2003      | \$0                         |
| 1606            | FEMA-1606-DR        | September 24, 2005 | \$0                         |
| 1624            | FEMA-1624-DR        | January 11, 2006   | \$0                         |
| 1658            | FEMA-1658-DR        | August 15, 2006    | \$0                         |
| 1697            | FEMA-1697-DR        | May 1, 2007        | \$0                         |
| 1709            | FEMA-1709-DR        | June 29, 2007      | \$0                         |
| 1730            | FEMA-1730-DR        | October 2, 2007    | \$0                         |
| 1780            | FEMA-1780-DR        | July 24, 2008      | \$0                         |
| 1791            | FEMA-1791-DR        | September 13, 2008 | \$521                       |
| 1931            | FEMA-1931-DR        | August 3, 2010     | \$0                         |
| 1999            | FEMA-1999-DR        | July 1, 2011       | \$0                         |
| 4029            | FEMA-4029-DR        | September 9, 2011  | \$0                         |

**Recommendations:**

The Department should:

- Develop and implement a process to minimize the time elapsing between the drawdown of federal funds and the disbursement of those funds.
- Ensure that cash draws are supported by actual, allowable, and immediate cash needs.

Management Response and Corrective Action Plan:

The Department agrees recommendations and will implement procedures to:

- Minimize the time elapsing between the drawdown of federal funds and the disbursement of those funds.
- Ensure that cash draws are supported by actual, allowable, and immediate cash needs.

Implementation Date: February 2013

Responsible Person: Maureen Coulehan

Reference No. 13-113

**Eligibility**

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Federal rules state that it is the State’s responsibility to identify and select eligible hazard mitigation projects (Title 44, Code of Federal Regulations (CFR), Section 206.435). Entities eligible to apply for the Hazard Mitigation Grant Program include: (1) state and local governments; (2) private nonprofit organizations that own or operate a private nonprofit facility as defined in Title 44, CFR, Section 206.221(e); and (3) Indian tribes or authorized tribal organizations and Alaska Native villages or organizations. In addition, entities eligible for project subgrants must have an approved local or tribal mitigation plan before they can receive Hazard Mitigation Grant Program funds (Title 44, CFR, Section 206.434).

|                                      |
|--------------------------------------|
| Questioned Cost: \$ 0                |
| U.S. Department of Homeland Security |

In accordance with the Local Multi-hazard Mitigation Planning Guidance established by Federal Emergency Management Agency (FEMA), private non-profit entities are eligible subrecipients for the Hazard Mitigation Grant Program if the jurisdiction in which the project is located has a FEMA-approved mitigation plan. Those entities are not required to approve or adopt a plan if they have participated in the development and review of the local or tribal mitigation plan.

**The Department of Public Safety (Department) has not established controls to ensure that its subrecipients are eligible for Hazard Mitigation Grant Program funds prior to making subawards.** As a result, for 9 (15 percent) of 62 subrecipients tested, the subrecipient was ineligible for Hazard Mitigation Grant Program funds at the time that the Department made the subawards. Specifically:

- Seven subrecipients were private non-profit entities, however, the Department could not provide evidence that those subrecipients approved or adopted a hazard mitigation plan or that the subrecipients were involved in the development of a hazard mitigation plan, as required by program guidance.
- Two subrecipients did not have approved hazard mitigation plans in effect at the time the Department granted the subawards. Auditors determined that both of those subrecipients are currently eligible to receive Hazard Mitigation Grant Program funds because they subsequently developed approved hazard mitigation plans.

Because FEMA is closely involved in the award process, auditors concluded that the errors described above did not result in questioned costs.

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Although the Department has information that would enable it to identify whether proposed subrecipients have FEMA-approved hazard mitigation plans prior to making subawards, it does not communicate that information to FEMA when it submits an application on behalf of a potential subrecipient. As a result, FEMA does not always have accurate and complete information regarding the eligibility status of potential subrecipients, which increases the risk that FEMA and the Department could award federal funds to subrecipients who are not eligible for that assistance. The issues discussed above affected the following Hazard Mitigation Grant Program awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1697            | FEMA-1697-DR        | May 1, 2007        |
| 1709            | FEMA-1709-DR        | June 29, 2007      |
| 1730            | FEMA-1730-DR        | October 2, 2007    |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |
| 1931            | FEMA-1931-DR        | August 3, 2010     |
| 1999            | FEMA-1999-DR        | July 1, 2011       |
| 4029            | FEMA-4029-DR        | September 9, 2011  |

Recommendations:

The Department should:

- Ensure that subrecipients meet all eligibility requirements before granting subawards.
- Communicate potential subrecipients' eligibility status to FEMA when it submits project applications to FEMA.

Management Response and Corrective Action Plan:

*We agree with the recommendations and will:*

- *Ensure that subrecipients meet all eligibility requirements before granting subawards, and*
- *Communicate potential subrecipients' eligibility status to FEMA when we submit project applications.*

*Implementation Date: August 2013*

*Responsible Person: Paula Logan*

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Reference No. 13-114

**Period of Availability of Federal Funds**

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

For major disaster declarations, the grantee may expend management cost funds for allowable costs for a maximum of 8 years from the date of the major disaster declaration or 180 days after the latest performance period date of a non-management cost Hazard Mitigation Grant Program project narrative, whichever is sooner (Title 44, Code of Federal Regulations (CFR), Section 207.8(b) and Title 44, CFR Section 207.9(a) and (d)).

Questioned Cost: \$ 42,936

U.S. Department of Homeland Security

The Hazard Mitigation Assistance Unified Guidance, Part VI, Section B.4, states that the period of performance is the period of time during which the grantee is expected to complete all grant activities and to incur and expend approved funds. The period of performance begins on the date that the grant is awarded and ends no later than 36 months from the award of the final subgrant under the grant.

**The Department of Public Safety (Department) charged direct costs to Hazard Mitigation Grant Program awards when it had incurred those costs after the period of performance for those awards. Specifically:**

- For 1 (6 percent) of 18 transfers tested, the Department could not provide evidence that it incurred the original cost supporting that transfer within the period of performance for the award to which it charged the cost. For that transfer, the Department incurred the cost between December 2011 and February 2012; however, based on information provided by the Department, the period of performance for the award ended on August 8, 2007. That resulted in questioned costs of \$17 associated with award FEMA-1439-DR. The Department asserted that it was aware that it should not have charged those costs to that award, but it had not yet transferred those costs to non-federal funds.
- For 3 (6 percent) of 51 direct cost expenditures tested, the Department incurred direct costs after the period of performance for the federal awards to which it charged those costs. The Department incurred two of those costs in August 2011, but the period of performance for the award ended in June 2009. The Department incurred the remaining cost in May 2012, but the period of performance for the award ended in March 2012. That resulted in questioned costs of \$8,769 associated with award FEMA-1606-DR and \$261 associated with award FEMA-1697-DR.
- The Department incurred 2 (10 percent) of 21 payroll expenditures tested after the end of the period of performance for the awards to which it charged those costs. Further analysis of the entire population of Department payroll charges during fiscal year 2012 indicates that the Department charged a total of \$33,890 in payroll costs after the end of the period of performance for the awards to which it charged those costs (see “Questioned Costs Related to Payroll” below for the individual awards to which the Department charged the \$33,890).
- For 1 (5 percent) of 21 payroll expenditures tested, auditors could not determine whether the Department incurred the cost during the period of performance for the award because the Department assigned that cost to a generic budget code that could be connected with multiple disasters. However, the Department asserted that it had not yet drawn federal expenditures for that transaction.

The errors discussed above occurred because the Department has not established controls to ensure that it does not incur direct costs for disasters after the period of performance for awards has ended.

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The issues noted above affected the following Hazard Mitigation Grant Program awards:

| <u>Award Number</u> | <u>Start Date</u>      | <u>Questioned Costs<br/>Related to Payroll</u> | <u>Other<br/>Questioned<br/>Costs</u> | <u>Total<br/>Questioned<br/>Costs</u> |
|---------------------|------------------------|--|---------------------------------------|---------------------------------------|
| FEMA-1356-DR        | January 8, 2001        | \$ 15  | \$ 0                                  | \$ 15                                 |
| FEMA-1379-DR        | June 9, 2001           | 25,551   | 0                                     | 25,551                                |
| FEMA-1425-DR        | July 4, 2002           | 593  | 0                                     | 593                                   |
| FEMA-1439-DR        | November 5, 2002       | 334  | 17                                    | 351                                   |
| FEMA-1479-DR        | July 17, 2003          | 297  | 0                                     | 297                                   |
| FEMA-1606-DR        | September 24, 2005     | 0  | 8,769                                 | 8,769                                 |
| FEMA-1624-DR        | January 11, 2006       | 2,448  | 0                                     | 2,448                                 |
| FEMA-1658-DR        | August 15, 2006        | 1,280  | 0                                     | 1,280                                 |
| FEMA-1697-DR        | May 1, 2007            | 3,371  | 261                                   | 3,632                                 |
| FEMA-1709-DR        | June 29, 2007          | 0  | 0                                     | 0                                     |
| FEMA-1730-DR        | October 2, 2007        | 0  | 0                                     | 0                                     |
| FEMA-1780-DR        | July 24, 2008          | 0  | 0                                     | 0                                     |
| FEMA-1791-DR        | September 13, 2008     | 0  | 0                                     | 0                                     |
| FEMA-1999-DR        | July 1, 2011           | 0  | 0                                     | 0                                     |
| FEMA-4029-DR        | September 9, 2011      | <u>0</u>                                       | <u>0</u>                              | <u>0</u>                              |
|                     | Total Questioned Costs | \$33,889                                       | \$9,047                               | \$42,936                              |

Recommendation:

The Department should implement a process to ensure that it charges expenditures to disasters only within the period of performance.

Management Response and Corrective Action Plan:

*We agree with the recommendation. We will implement a process to ensure that expenditures will only be charged to disasters within the period of performance.*

*Implementation Date: August 2013*

*Responsible Person: Paula Logan*



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Reference No. 13-115

**Procurement and Suspension and Debarment**

**Subrecipient Monitoring**

(Prior Audit Issue 12-110)

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Questioned Cost: \$ 0

U.S. Department of Homeland Security

In fiscal year 2012, the Department passed through \$28,552,465 to subrecipients.

Award Identification and Subrecipient Suspension and Debarment

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d) to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

The Department communicates federal award information to subrecipients in an award letter that it provides to subrecipients following final approval of a project. However, **prior to January 2012, the award letter template the Department used did not include the CFDA number associated with the award.** As a result, for 61 (98 percent) of 62 subrecipient agreements tested, the Department could not provide evidence that it communicated the CFDA number to the subrecipient. The Department made subawards to those subrecipients prior to January 2012.

The Department requires that subrecipients certify that they are not suspended or debarred at the time they submit an application. **For 1 (2 percent) of 62 subrecipients tested, the Department could not provide evidence that the subrecipient certified that it was not suspended or debarred.** Auditors verified through the EPLS that the subrecipient was not currently suspended or debarred.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Not verifying that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.

During-the-award Monitoring

Recipients of Hazard Mitigation Grant Program grant funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40).

The Department monitors subrecipient activities through review and approval of reimbursement requests and final audits of subrecipient projects. However, **for 3 (5 percent) of 62 subrecipient reimbursement requests tested, the Department could not provide evidence that it monitored the subrecipients for compliance with**

**requirements related to allowability, cash management, or matching; it also could not provide evidence that it reviewed the federal share of costs for accuracy.** For those three subrecipients, the Department could not provide evidence that it had approved those subrecipients' reimbursement requests.

In addition, the Department did not consistently follow up to ensure that subrecipients took corrective action on deficiencies that it noted during its review of the reimbursement requests. **For 1 (25 percent) of 4 reimbursement requests for which the Department noted deficiencies, the Department could not provide evidence that it communicated the deficiencies to the subrecipient or followed up to ensure that the subrecipient took corrective action.**

The Department uses a final project audit as its primary audit tool for monitoring its subrecipients' compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. **However, the Department does not always complete a final project audit prior to making the final payment on a project, which limits the effectiveness of the final project audit to monitor compliance with federal requirements.** The Department also does not perform other types of monitoring of subrecipient compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. As a result, auditors identified the following issues:

- For 30 (91 percent) of 33 subrecipient projects for which the Department was required to monitor the subrecipients' compliance with equipment requirements, the Department could not provide evidence that it monitored subrecipients' record keeping and safeguarding of equipment.
- For 59 (95 percent) of 62 subrecipient projects tested, the Department could not provide evidence that it monitored the subrecipients' compliance with procurement requirements.
- For all 7 subrecipient projects tested that included the acquisition of real property, the Department could not provide evidence that it monitored the subrecipients' compliance with requirements related to acquisition and appraisal.

**The Department does not have a process to ensure that subrecipients spend funds within the period of availability for the subaward.** For all 62 subrecipient projects tested, the Department could not provide evidence that it verified that the subrecipients did not spend funds outside of the established performance period for their subawards.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects.

#### Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Section 225).

The Department's Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 6 (10 percent) of 62 subrecipients tested, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned the subrecipients that did not comply. Specifically:

- The Department did not include one subrecipient on its tracking spreadsheet. As a result, the Department did not verify whether that subrecipient complied with the requirement to obtain a Single Audit or review that subrecipients' Single Audit report. Based on a review of the Federal Audit Clearinghouse, that subrecipient did not submit a Single Audit report for fiscal year 2011.

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- The Department did not obtain Single Audit reports from three subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.
- The Department did not review the Single Audit reports that two subrecipients submitted. The Department incorrectly determined that it did not need to review one of those reports because it did not pass through funds to the subrecipient during fiscal year 2011; however, that subrecipient received funds during fiscal year 2012. The Department had not yet reviewed the other Single Audit report at the time of the audit, which was more than six months after it had received that report.

For all five subrecipient Single Audit reports the Department reviewed that contained audit findings, the Department did not issue a management decision regarding those findings within the required time period. For each of those subrecipients, the Department reviewed the Single Audit reports, but it did not issue a management decision on findings identified in those reports within six months of receiving those reports.

Finally, **for 9 (15 percent) of 62 subrecipients tested, the Department’s Single Audit tracking spreadsheet was incomplete or contained inaccurate information.** This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient noncompliance. Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Hazard Mitigation awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1697            | FEMA-1697-DR        | May 1, 2007        |
| 1709            | FEMA-1709-DR        | June 29, 2007      |
| 1730            | FEMA-1730-DR        | October 2, 2007    |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |
| 1931            | FEMA-1931-DR        | August 3, 2010     |
| 1999            | FEMA-1999-DR        | July 1, 2011       |
| 4029            | FEMA-4029-DR        | September 9, 2011  |

Recommendations:

The Department should:

- Communicate all relevant federal award information and applicable compliance requirements to subrecipients.
- Retain documentation of verification that subrecipients are not suspended or debarred.
- Retain documentation of its during-the-award monitoring activities and communicate deficiencies identified during its monitoring process to subrecipients.
- Implement a process to ensure that it monitors subrecipients during the award for all required compliance areas.
- Track all subrecipients to determine whether they are required to obtain a Single Audit.
- Require all subrecipients to certify that they will obtain a Single Audit if they meet the threshold or certify that they are not required to obtain a Single Audit, and follow up with subrecipients to ensure they respond.

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- Review all Single Audit reports for active subrecipients within six months of receipt of those reports, and issue management decisions promptly when findings in those reports could affect pass-through funds.
- Ensure that information in the Department’s Single Audit tracking spreadsheet is accurate.

Management Response and Corrective Action Plan:

*We agree with the recommendations. We have implemented a procedure to ensure we communicate all relevant federal award information and applicable compliance requirements to subrecipients.*

*Additionally, the Department will implement procedures to ensure:*

- *Documentation of verification that subrecipients are not suspended or debarred is retained,*
- *Documentation of during-the-award monitoring activities is retained and deficiencies identified during the monitoring process are communicated to subrecipients.*
- *Subrecipients are monitored during the award for all required compliance areas.*
- *All open grant subrecipients are included in the A-133 Single Audit Review tracking sheet.*
- *Subrecipients receive notification of the OMB A-133 requirements and obtain a certification that a single audit is not required, or receive a copy of the single audit report and follow up with Subrecipients who do not respond to ensure they respond.*
- *Single Audit reports are reviewed and management decisions are issued within six months of receipt.*
- *The A-133 Review spreadsheet is updated as reports are received and reviewed, reports with findings are forwarded to grant program management for management decisions, and management decisions are received.*

*Implementation Date: August 2013*

*Responsible Person: Paula Logan*

Reference No. 13-116

**Reporting**

(Prior Audit Issues 12-111, 09-47, 08-91, and 07-26)

**CFDA 97.039 – Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. The Office of Management and Budget provides specific instructions for completing the SF-425 in its Federal Financial Report Instructions, including definitions of key reporting elements.

|                                      |
|--------------------------------------|
| Questioned Costs: \$ 0               |
| U.S. Department of Homeland Security |

Additionally, Hazard Mitigation grantees are required to submit quarterly Federal Financial Reports on which obligations and expenditures must be reported (Hazard Mitigation Assistance Unified Guidance, Part VI, Sec. C.1).

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During fiscal year 2012, the Department of Public Safety's (Department) Division of Emergency Management and the Department's Grants Finance unit prepared SF-425 reports. Prior to January 2012, the Division of Emergency Management prepared all reports. In January 2012, the Department moved the reporting function for some disasters to its Grants Finance unit.

**The Department did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements.** That occurred because (1) reports the Division of Emergency Management prepared were not based on information in the Department's financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information for some information it reported. As a result, auditors identified errors in all 13 SF-425 reports tested. Specifically:

- For 11 (85 percent) of 13 reports tested, the Department incorrectly reported its cash disbursements and the federal share of expenditures based on the amount of funds it received according to the federal SmartLink system through which it requested funds, instead of based on expenditure information from the Department's accounting system. The Department also incorrectly reported several other data fields, including cash on hand, total federal share, and the unobligated balance of federal funds because those fields were derived from the incorrectly reported cash disbursement amount. In addition, the Department incorrectly reported the federal share of unliquidated obligations for those 11 reports.
- For 2 (15 percent) of the 13 reports tested, both of which the Grants Finance unit prepared, the Department indicated that it prepared the reports on a cash basis; however, the supporting accounting data indicated the reports were prepared on an accrual basis.
- For all 13 reports tested, the Department did not correctly report information associated with matching amounts for each project. Specifically, for the two reports the Grants Finance unit prepared, the total recipient share required and the recipient share of expenditures were based on incorrect formulas. For the 11 reports the Division of Emergency Management prepared, the amounts reported for total recipient share required and recipient share of expenditures were supported by spreadsheets the Department used to track recipient expenditures; however, the Department does not reconcile those spreadsheets with its accounting data; therefore, the Department should not rely on those spreadsheets. As a result of those errors, the Department also incorrectly reported the remaining subrecipient share to be provided for all 13 reports tested.
- For all 13 reports tested, the Department did not include indirect cost expenditures in the amount it reported for cash disbursements as required. The Department omitted those expenditures because it had not established a method to record them in the accounting system when it charges those expenditures to a federal grant.

Unsupported, omitted, and inaccurate information in reports increases the risk that federal agencies could rely on inaccurate information.

The issues noted above affected the following Hazard Mitigation Program awards:

| <u>Disaster Number</u> | <u>Award Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1356                   | FEMA-1356-DR        | January 8, 2001    |
| 1379                   | FEMA-1379-DR        | June 9, 2001       |
| 1425                   | FEMA-1425-DR        | July 4, 2002       |
| 1439                   | FEMA-1439-DR        | November 5, 2002   |
| 1479                   | FEMA-1479-DR        | July 17, 2003      |
| 1606                   | FEMA-1606-DR        | September 24, 2005 |
| 1624                   | FEMA-1624-DR        | January 11, 2006   |

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| <u>Disaster Number</u> | <u>Award Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1658                   | FEMA-1658-DR        | August 15, 2006    |
| 1697                   | FEMA-1697-DR        | May 1, 2007        |
| 1709                   | FEMA-1709-DR        | June 29, 2007      |
| 1730                   | FEMA-1730-DR        | October 02, 2007   |
| 1780                   | FEMA-1780-DR        | July 24, 2008      |
| 1791                   | FEMA-1791-DR        | September 13, 2008 |
| 1931                   | FEMA-1931-DR        | August 3, 2010     |
| 1999                   | FEMA-1999-DR        | July 1, 2011       |
| 4029                   | FEMA-4029-DR        | September 9, 2011  |

Recommendation:

The Department should develop and implement a process to report required information based on supporting information, including information from its financial systems or other accounting information.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendation and will implement a process to assure reported information is properly supported.*

*Implementation Date: July 2013*

*Responsible Person: Maureen Coulehan*

Reference No. 13-117

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles**

**CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

Allowable Costs/Cost Principles Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

Questioned Cost: \$ 785,738

U.S. Department of Homeland Security

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, CFR, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

**The Department of Public Safety (Department) based 7 (54 percent) of 13 Disaster Grants - Public Assistance (Presidentially Declared Disasters) payroll charges tested that were based on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee.** The Department requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. The Department then estimates its payroll charges based on actual time charged in a previous period. However, the Department has not established controls to ensure that it reconciles the estimated effort with the actual effort for each employee. That resulted in questioned costs of \$8,004 associated with the awards listed in the column “Question Costs Related to Payroll” in the table below.

Additionally, for 6 (46 percent) of 13 payroll charges tested that were based on budget estimates, the Department did not perform its reconciliation of estimated effort with actual effort; however, for those payroll charges, this did not result in non-compliance because the estimated and actual charges were the same.

For 1 (6 percent) of 18 payroll charges tested, the Department did not allocate the cost correctly. The percentage of effort the Department charged to the disaster did not match the percentage of effort that staff worked on the disaster. That resulted in a questioned cost of \$346 associated with award FEMA-1791-DR.

Controls relating to payroll expenditures were not always operating effectively to ensure compliance with applicable federal requirements. **For 1 (6 percent) of 18 payroll charges tested, the Department could not provide all of the evidence of its review or approval of the associated employee time sheets.** Therefore, auditors were unable to determine whether that expenditure was supported by timesheets and whether there were related questioned costs.

Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

**One (2 percent) of 64 non-payroll expenditures tested at the Department was unallowable.** The Department charged an expenditure for food to a Disaster Grants - Public Assistance (Presidentially Declared Disasters) grant, but it did not have a corresponding, approved project worksheet. This resulted in questioned costs of \$1,564 associated with award FEMA-4029-DR.

**In addition, 4 (6 percent) of 64 non-payroll expenditures tested were not solely allocable to individual awards within the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, but the Department charged all of those expenditures to that program.** Specifically:

- The Department charged one expenditure to the wrong disaster. Although the Department reviewed that expenditure prior to payment, its review was not sufficient to identify the error. Because that expenditure was

strictly related to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, auditors did not consider this to be a questioned cost.

- The Department's support for one expenditure indicated that the expenditure was related to the Fire Management Assistance Grant program, but the Department incorrectly charged that expenditure to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program. That resulted in questioned costs of \$349 associated with award FEMA-4029-DR.
- The Department's support for two expenditures did not identify the grant programs that benefited from the work performed. Those errors occurred because the Department does not have a policy requiring vendors to submit adequate documentation specifying the grant programs that benefited, which is necessary to appropriately allocate those costs. Those errors resulted in questioned costs of \$43,234 associated with award FEMA-1791-DR.

#### Indirect Costs

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Section 225, Appendix E, (D)(1)).

An Indirect Cost Rate Proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect costs by calculating a ratio of indirect costs to a direct cost base. These rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E (B)).

The Department began charging indirect costs to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program during fiscal year 2012. In 2009, the Department hired a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Department asserted that the submission delay occurred because it had originally submitted the IDCRP to the incorrect federal cognizant agency. The Federal Emergency Management Agency (FEMA) approved the IDCRP on May 7, 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods from fiscal year 2009 forward. The Department's next IDCRP is due in February 2013.

However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate. **As a result, auditors could not determine whether the indirect cost rate approved in May 2012 was accurate.**

Prior to the approval of its IDCRP, the Department used a previous indirect cost rate agreement to charge indirect costs to federal awards; however, that agreement expired on August 31, 2007. As a result, the Department had been charging indirect costs without a valid rate agreement. Additionally, the Department did not record indirect cost transactions in its financial system at the time it made each charge. Instead, the Department processed an adjusting entry to its schedule of expenditures of federal awards to recognize \$1,123,360 in indirect cost charges for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program during fiscal year 2012; however, based on auditors' analysis, the Department charged \$1,207,153 in indirect costs during fiscal year 2012. (The Department's calculation excluded one indirect cost charge it made in the amount of \$83,793.)

Through analysis of the Department's draw downs and expenditures during fiscal year 2012, auditors identified a total of \$732,241 in indirect costs the Department charged under the expired agreement. That amount is considered questioned costs. (See "Questioned Costs Related to Indirect Costs" below for the individual awards to which the Department charged the \$732,241.)

The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:



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| <u>Award Number</u> | <u>Start Date</u>  | <u>Questioned Costs Related to Payroll</u> | <u>Questioned Costs Related to Non-Payroll Direct Costs</u> | <u>Questioned Costs Related to Indirect Costs</u> | <u>Total Questioned Costs</u> |
|---------------------|--------------------|--|---|---|-------------------------------|
| FEMA-1257-DR        | October 21, 1998   | \$ 0                                       | \$ 0  | \$ 0  | \$ 0                          |
| FEMA-1379-DR        | June 9, 2001       | 1,099                                      | 0   | 0   | 1,099                         |
| FEMA-1425-DR        | July 4, 2002       | 66   | 0   | 0   | 66                            |
| FEMA-1479-DR        | July 17, 2003      | 44   | 0   | 0   | 44                            |
| FEMA-1606-DR        | September 24, 2005 | 0  | 0   | 0   | 0                             |
| FEMA-1624-DR        | January 11, 2006   | 0  | 0   | 0   | 0                             |
| FEMA-1658-DR        | August 15, 2006    | 0  | 0   | 0   | 0                             |
| FEMA-1709-DR        | June 29, 2007      | 22   | 0   | 0   | 22                            |
| FEMA-1780-DR        | July 24, 2008      | 0  | 0   | 83,793  | 83,793                        |
| FEMA-1791-DR        | September 13, 2008 | 346  | 43,234  | 611,181   | 654,761                       |
| FEMA-1931-DR        | August 3, 2010     | 0  | 0   | 23,999  | 23,999                        |
| FEMA-1999-DR        | July 1, 2011       | 0  | 0   | 13,268  | 13,268                        |
| FEMA-3216-EM        | September 2, 2005  | 88   | 0   | 0   | 88                            |
| FEMA-3261-EM        | September 21, 2005 | 0  | 0   | 0   | 0                             |
| FEMA-3277-EM        | August 18, 2007    | 0  | 0   | 0   | 0                             |
| FEMA-3290-EM        | August 29, 2008    | 768  | 0   | 0   | 768                           |
| FEMA-4029-DR        | September 9, 2011  | <u>5,917</u>                               | <u>1,913</u>  | <u>0</u>  | <u>7,830</u>                  |
|                     | Totals             | \$8,350                                    | \$45,147  | \$732,241   | \$785,738                     |

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees.** Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Recommendations:

The Department should:

- Perform quarterly comparisons of actual payroll activity to budgeted distributions and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.
- Properly allocated charges to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program.
- Require vendors to submit adequate documentation specifying the disaster grant program to which provided good or service applies.
- Maintain all required documentation.
- Calculate indirect cost charges using an approved, effective indirect cost rate.
- Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.
- Design and implement a periodic review of user accounts for ETA.

Management Response and Corrective Action Plan:

**Recommendations:**

*The Department should:*

- *Perform quarterly comparisons of actual payroll activity to budgeted distributions and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.*
- *Properly allocated charges to the Disaster Grants - Public Assistance (Presidentially Declared Disasters).*
- *Require vendors to submit adequate documentation specifying the disaster grant program to which provided good or service applies.*
- *Maintain all required documentation.*
- *Calculate indirect cost charges using an approved, effective indirect cost rate.*

**Management Response and Corrective Action Plan:**

*The Department agrees with the recommendations and will develop procedures to ensure:*

- *Payroll charges reflect an after-the-fact distribution of the actual activity of each employee.*

- *Charges are properly allocated to the Disaster Grants — Public Assistance.*
- *Vendors submit adequate documentation specifying the disaster grant program to which provided good or service applies.*
- *All required documentation is maintained.*
- *Indirect cost charges are calculated using an approved, effective indirect cost rate.*

*Implementation Date: August 2013*

*Responsible Persons: Maureen Coulehan and Paula Logan*

**Recommendations:**

*The Department should:*

- *Limit user access to ETA to current employees, and ensure that access is appropriate for users' job responsibilities.*
- *Design and implement a periodic review of user accounts for ETA.*

**Management Response and Corrective Action Plan:**

*We agree with the recommendation and we have:*

- *Reviewed ETA access to ensure only current employees have access and to ensure that access is appropriate for each users' job responsibilities.*
- *Designed and implemented a periodic review of user accounts for ETA.*

*Implementation Date: January 2013*

*Responsible Person: Norma Cortez*

Reference No. 13-118

**Cash Management**

(Prior Audit Issues 12-112 and 11-112)

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

**Funding Technique**

According to the Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State of Texas (Treasury-State Agreement) applicable to fiscal year 2012, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program exceeds the State's threshold for major federal assistance programs (Treasury-State Agreement, Section 4.2). Therefore, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the requirements of the Treasury-State Agreement. Specifically, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the pre-issuance funding technique (Treasury-State Agreement, Section 6.3.2). Under the pre-issuance funding method, the State is required to request that funds be

Questioned Cost: \$275,938

U.S. Department of Homeland Security

deposited into the state account no more than three days prior to the day the State makes a disbursement (Treasury-State Agreement, Section 6.2.1).

**For 25 (38 percent) of 65 drawdowns tested for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, the Department of Public Safety (Department) did not comply with the time requirements for disbursing federal funds.** Specifically, the Department disbursed funds from those 25 drawdowns between 4 and 14 days after it received those funds.

The Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure the timely disbursement of funds. Additionally, the Department's process for drawing funds for payroll costs is not adequately designed to minimize the time between the drawdown of funds and the disbursement of payroll. The Department drew funds for payroll at the same time that it ran its monthly trial balance; on average, that occurred 12.8 days before the Department needed to disburse payroll.

#### Draw Support

Cash advances to a state shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, Code of Federal Regulations (CFR), Section 215.22(b)(2)).

Five (8 percent) of 66 cash draws tested at the Department were not supported by actual or identifiable costs. That occurred because the Department has not implemented sufficient monitoring or review controls over its cash draw process. Additionally, the Department has not identified clear criteria to establish the level of support necessary for each draw down. **Based on additional analysis of Department's fiscal year 2012 drawdowns, the Department drew down a total of \$275,938 in federal funds that were not supported by actual or identifiable costs (see the table below for the awards associated with the \$275,938 in questioned costs).**

#### Calculation of Clearance Pattern

According to Title 31, CFR Section 205.12, the federal government and a state may negotiate the use of mutually-agreed upon funding techniques. Funding techniques should be efficient and minimize the exchange of interest between states and federal agencies. States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. States must ensure that clearance patterns meet the requirements of Title 31, CFR, Section 205.20.

According to the Treasury-State Agreement, the Department must calculate the clearance pattern for period 1 (the number of days from deposit date to issuance date, where issuance date is the date of the actual release of payments). The Texas Office of the Comptroller of Public Accounts will calculate the clearance pattern for period 2 (the number of days from issuance date to clearance date).

**The Department's clearance pattern for period 1 does not comply with the requirements for developing and maintaining clearance patterns in the Treasury-State Agreement.** Specifically, the Department:

- Incorrectly classified its payroll expenses as reimbursements. However, the Department drew down funds for those expenses on a pre-issuance basis. During fiscal year 2012, the Department changed its payroll drawdown process from a reimbursement-based draw process to a pre-issuance draw process, but it did not account for that change when it calculated its clearance pattern for period 1.
- Based its calculation of the clearance pattern for period 1 on an incorrect disbursement date. That occurred because the Department used an incorrect field in its financial system.

As a result of those errors, the Department overstated its clearance pattern for period 1 by 1.08 days. Although management within the Department's Grants Finance unit reviewed the clearance pattern calculation, that review was not sufficient to ensure that the Department correctly calculated the clearance pattern for period 1.

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The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>      | <u>Questioned Costs</u> |
|-----------------|---------------------|------------------------|-------------------------|
| 1257            | FEMA-1257-DR        | October 12, 1998       | \$ 0                    |
| 1379            | FEMA-1379-DR        | June 9, 2001           | 0                       |
| 1425            | FEMA-1425-DR        | July 4, 2002           | 0                       |
| 1479            | FEMA-1479-DR        | July 17, 2003          | 3,142                   |
| 1606            | FEMA-1606-DR        | September 24, 2005     | 0                       |
| 1624            | FEMA-1624-DR        | January 11, 2006       | 0                       |
| 1658            | FEMA-1658-DR        | August 15, 2006        | 0                       |
| 1709            | FEMA-1709-DR        | June 29, 2007          | 0                       |
| 1780            | FEMA-1780-DR        | July 24, 2008          | 72,674                  |
| 1786            | FEMA-1786-DR        | September 2, 2008      | 0                       |
| 1791            | FEMA-1791-DR        | September 13, 2008     | 160,846                 |
| 1931            | FEMA-1931-DR        | August 3, 2010         | 9,306                   |
| 1999            | FEMA-1999-DR        | July 1, 2011           | 1,370                   |
| 3216            | FEMA-3216-EM        | September 2, 2005      | 0                       |
| 3261            | FEMA-3261-EM        | September 21, 2005     | 0                       |
| 3277            | FEMA-3277-EM        | August 18, 2007        | 149                     |
| 3290            | FEMA-3290-EM        | August 29, 2008        | 28,451                  |
| 3294            | FEMA-3294-EM        | September 10, 2008     | 0                       |
| 4029            | FEMA-4029-DR        | September 9, 2011      | <u>0</u>                |
|                 |                     | Total Questioned Costs | \$275,938               |

Recommendations:

The Department should:

- Implement controls to ensure that the time between receipt and disbursement of funds is within the time frame required by the Treasury-State Agreement.
- Ensure that its cash draws are supported by actual, allowable, and immediate cash needs.
- Implement controls to review its calculations related to the Cash Management Improvement Act and to help ensure that it complies with the requirements of the Treasury-State Agreement.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendation and will implement procedures and controls to ensure:*

- *The time between receipt and disbursement of funds is within the time frame required by the Treasury-State Agreement.*
- *Cash draws are supported by actual, allowable, and immediate cash needs.*
- *The accuracy of calculations related to the Cash Management Improvement Act and compliance with the requirements of the Treasury-State Agreement.*

Implementation Date: February 2013

Responsible Person: Maureen Coulehan

Reference No. 13-119

**Period of Availability of Federal Funds**

**CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Period of Availability

For major disaster declarations, the grantee may expend management cost funds for allowable costs for a maximum of 8 years from the date of the major disaster declaration or 180 days after the latest performance period date of a non-management cost Public Assistance project worksheet, whichever is sooner (Title 44, Code of Federal Regulations (CFR), Section 207.8(b) and Title 44, CFR Section 207.9(a) and (d)). Additionally, project worksheets issued by the Federal Emergency Management Agency (FEMA) specify a period of performance for each project.

Questioned Cost: \$ 59,443

U.S. Department of Homeland Security

**The Department of Public Safety (Department) charged direct costs to Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards that it had incurred after the period of performance for those awards.** Specifically:

- For 1 (6 percent) of 16 transfers tested, the Department could not provide evidence that it incurred the original cost supporting that transfer within the period of performance for the award to which it charged the cost. For that transfer, the Department incurred the cost between December 2011 and January 2012; however, based on information the Department provided, the period of performance for the award ended on September 27, 2005. That resulted in questioned costs of \$152 associated with award number FEMA-1257-DR.
- For 1 (2 percent) of 64 non-payroll direct cost expenditures tested, the Department incurred direct costs after the period of performance for the federal award to which it charged that cost. The Department incurred that cost in May 2012; however, based on information the Department provided, the period of performance for the award ended on September 27, 2005. That resulted in questioned costs of \$383 associated with award number FEMA-1257-DR.
- The Department incurred 1 (6 percent) of 18 payroll expenditures tested after the end of the period of performance for the federal awards to which it charged those costs. Further analysis of the entire population of Department payroll charges during fiscal year 2012 indicates that the Department charged a total of \$58,908 in payroll costs after the end of the period of performance for the awards to which it charged those costs (see “Questioned Costs Related to Payroll” below for the individual awards to which the Department charged the \$58,908).
- For 2 (11 percent) of 18 payroll expenditures tested, auditors could not determine whether the Department incurred the cost during the period of performance for the award because the Department assigned that cost to a

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generic budget code that could be connected with multiple disasters. However, the Department asserted that it had not yet drawn federal expenditures for that transaction.

The errors discussed above occurred because the Department has not established controls to ensure that it does not incur direct costs for disasters after the period of performance for awards has ended.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards:

| <u>Disaster</u>        | <u>Award Number</u> | <u>Start Date</u>  | <u>Questioned<br/>Costs Related to<br/>Payroll</u> | <u>Other<br/>Questioned<br/>Costs</u> | <u>Total<br/>Questioned<br/>Costs</u> |
|------------------------|---------------------|--------------------|--|---------------------------------------|---------------------------------------|
| 1257                   | FEMA-1257-DR        | October 21, 1998   | \$305  | \$535                                 | \$840                                 |
| 1379                   | FEMA-1379-DR        | June 9, 2001       | 39,044   | 0                                     | 39,044                                |
| 1425                   | FEMA-1425-DR        | July 4, 2002       | 9,147  | 0                                     | 9,147                                 |
| 1479                   | FEMA-1479-DR        | July 17, 2003      | 760  | 0                                     | 760                                   |
| 1606                   | FEMA-1606-DR        | September 24, 2005 | 0  | 0                                     | 0                                     |
| 1624                   | FEMA-1624-DR        | January 11, 2006   | 9,652  | 0                                     | 9,652                                 |
| 1658                   | FEMA-1658-DR        | August 15, 2006    | 0  | 0                                     | 0                                     |
| 1709                   | FEMA-1709-DR        | June 29, 2007      | 0  | 0                                     | 0                                     |
| 1780                   | FEMA-1780-DR        | July 24, 2008      | 0  | 0                                     | 0                                     |
| 1791                   | FEMA-1791-DR        | September 13, 2008 | 0  | 0                                     | 0                                     |
| 1931                   | FEMA-1931-DR        | August 3, 2010     | 0  | 0                                     | 0                                     |
| 1999                   | FEMA-1999-DR        | July 1, 2011       | 0  | 0                                     | 0                                     |
| 3216                   | FEMA-3216-EM        | September 2, 2005  | 0  | 0                                     | 0                                     |
| 3261                   | FEMA-3261-EM        | September 21, 2005 | 0  | 0                                     | 0                                     |
| 3277                   | FEMA-3277-EM        | August 18, 2007    | 0  | 0                                     | 0                                     |
| 3290                   | FEMA-3290-EM        | August 29, 2008    | 0  | 0                                     | 0                                     |
| 4029                   | FEMA-4029-DR        | September 9, 2011  | <u>0</u>   | <u>0</u>                              | <u>0</u>                              |
| Total Questioned Costs |                     |                    | \$58,908   | \$535                                 | \$59,443                              |

Recommendation:

The Department should implement a process to ensure that it charges expenditures to disasters only within the period of performance.

Management Response and Corrective Action Plan:

*We agree with the recommendation and will implement a process to ensure that expenditures are charged only to disasters within the period of performance.*

Implementation Date: August 2013

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Responsible Person: Paula Logan

Reference No. 13-120

**Procurement and Suspension and Debarment  
Subrecipient Monitoring  
Special Test and Provisions - Project Accounting**  
(Prior Audit Issues 12-113, 11-115, 10-42, and 09-48)

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Materiel Weakness and Material Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients' use of federal awards to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

|                                      |
|--------------------------------------|
| Questioned Cost: \$ 0                |
| U.S. Department of Homeland Security |

In fiscal year 2012, the Department passed through \$90,232,350 in Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds to its subrecipients.

Award Identification and Subrecipient Suspension and Debarment

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), to identify to subrecipients, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

In addition, federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

The Department communicates federal award information to subrecipients on an application for federal assistance and requires that subrecipients sign various assurances to ensure that they are aware of award information and applicable federal compliance requirements. The application also serves as the subrecipients' certification that they are not suspended or debarred from participating in federal contracts.

**For 7 (11 percent) of 65 subrecipients tested, the Department could not provide all signed assurances that it should have maintained in the subrecipients' files.** As a result, the Department could not provide evidence that it communicated the CFDA title and number, award name and number, name of federal awarding agency, and applicable compliance requirements. It also could not provide evidence that it verified that those subrecipients were not suspended or debarred through the subrecipients' certifications. Auditors verified through the EPLS that those subrecipients were not currently suspended or debarred.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Failure to verify that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.



During-the-award Monitoring

Recipients of Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40). The Department monitors subrecipient projects classified as “large” projects through review and approval of payment vouchers, quarterly performance reporting, and audits and inspections of subrecipient projects. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department’s controls did not detect subrecipient non-compliance with federal requirements.**

**For 10 (15 percent) of 65 subrecipients tested, the Department could not provide evidence that it monitored the subrecipients’ compliance with requirements related to period of availability of federal funds. For those 10 projects, the performance period of the subgrant had expired, and the Department could not provide evidence that it had approved an extension of that period.** The Federal Management Emergency Agency’s (FEMA) Public Assistance Grant Guide from June 2007 requires that (1) debris removal and emergency projects be completed within 6 months of a disaster declaration and (2) permanent projects, such as building repair, be completed within 18 months of a disaster declaration. In limited circumstances, a state is authorized to award time extensions to its subrecipients. Additionally, periods of performance are identified in award documentation. However, the Department has not established a formal monitoring process to identify subrecipients that do not complete projects within the established period of performance prior to project close-out. This increases the risk that subrecipients could incur costs outside of the period of performance, and that the non-compliance could go undetected by the Department.

**For 2 (3 percent) of 65 subrecipients tested, the Department did not provide sufficient evidence that it monitored subrecipients’ compliance with cash management requirements.** Specifically, for one subrecipient, the Department could not provide evidence that it ensured that the subrecipient requested an advance through the Department’s advance funds request process, and the Department passed through funds to that subrecipient that were not in compliance with the requirements established in the Department’s State Administrative Plan. As a result, the Department paid that subrecipient with funds that it should have held until the completion of the project. For the second subrecipient, the Department did not follow up with the subrecipient to obtain funds that were due back to the Department and FEMA from insurance proceeds received on the subrecipient’s project. The Department asserted that the subrecipient was still negotiating with FEMA regarding that adjustment; as a result, the Department had not yet required the subrecipient to return those funds.

The Department conducts final audits on projects that FEMA designates as “large” projects according to the Department’s State Administrative Plan for each disaster, and it uses those audits to monitor its subrecipients’ compliance with requirements related to allowable costs and activities, equipment maintenance, and procurement. However, the Department conducts those audits at the conclusion of a project. **Final audits may not always be an effective monitoring tool to identify potential subrecipient non-compliance during the performance period of a subgrant.**

**The Department has not established processes to monitor subrecipients’ compliance with requirements related to equipment maintenance and procurement during the performance period of a subgrant.** Therefore, it could not provide evidence that it monitored subrecipients’ compliance with those requirements during the performance period of a subgrant. Specifically:

- The Department could not provide evidence that it monitored subrecipients’ compliance with requirements related to equipment for 13 (33 percent) of 39 subrecipient projects for which it should have monitored compliance.
- The Department could not provide evidence that it monitored subrecipients’ compliance with requirements related to procurement and suspension and debarment for 29 (50 percent) of 58 subrecipient projects for which it should have monitored compliance.

In addition, the Department did not consistently identify deficiencies in subrecipient compliance, such as deficiencies related to quarterly reporting requirements, submission of required project completion forms, and other deficiencies that auditors noted in subrecipients’ files. It also did not follow up on those deficiencies to ensure that

subrecipients took corrective action. **As a result, for 15 (33 percent) of 45 subrecipients with deficiencies, the Department could not provide evidence that it communicated the deficiencies to the subrecipients in a timely manner or that the subrecipients took corrective action.**

For subrecipients with projects classified as “small” projects (as established by the Department’s State Administrative Plan for each disaster), the Department is required to perform site inspections for at least 20 percent of each subrecipient’s small projects for each disaster. However, the Department exempted from that requirement small projects that are identified as 99 or 100 percent complete at the time that a project worksheet is written. As a result, the Department did not perform during-the-award monitoring of subrecipients with projects that met those criteria, although those subrecipients may have had multiple projects under each disaster. **Auditors identified 3 (5 percent) of 65 subrecipients tested whose projects were closed but for which the Department did not conduct site visits.**

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients’ non-compliance with requirements regarding federally funded projects.

#### Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient’s fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient’s audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133, Section 225).

The Department’s Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 12 (22 percent) of 55 subrecipients tested for which the Department was required to monitor compliance with the requirement to obtain a Single Audit, the Department did not effectively monitor or enforce subrecipient compliance with this requirement during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned subrecipients that did not comply. Specifically:

- The Department did not include one subrecipient on its tracking spreadsheet. As a result, the Department did not verify whether that subrecipient complied with the requirement to obtain a Single Audit or review that subrecipient’s Single Audit report. Based on a review of the Federal Audit Clearinghouse, that subrecipient did not submit Single Audit reports for fiscal year 2011.
- The Department did not review the Single Audit reports that nine subrecipients submitted. The Department incorrectly determined that it did not need to review two of those reports because its Division of Emergency Management did not pass through funds to the subrecipients during fiscal year 2011; however, each of these subrecipients received funds during fiscal year 2012.
- The Department did not obtain Single Audit reports from two subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.

Finally, **for 4 (7 percent) of 55 subrecipients tested, the Department’s Single Audit tracking spreadsheet was incomplete or contained inaccurate information.** This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient noncompliance. Not ensuring that subrecipients obtain Single Audits and not reviewing those Single Audit reports increases the risk that deficiencies could go unaddressed.

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The issues noted above affect the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1257            | FEMA-1257-DR        | October 21, 1998   |
| 1379            | FEMA-1379-DR        | June 9, 2001       |
| 1425            | FEMA-1425-DR        | July 4, 2002       |
| 1479            | FEMA-1479-DR        | July 17, 2003      |
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1709            | FEMA-1709-DR        | June 29, 2007      |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |
| 1931            | FEMA-1931-DR        | August 3, 2010     |
| 1999            | FEMA-1999-DR        | July 1, 2011       |
| 3216            | FEMA-3216-EM        | September 2, 2005  |
| 3290            | FEMA-3290-EM        | August 29, 2008    |
| 3294            | FEMA-3294-EM        | September 10, 2008 |
| 4029            | FEMA-4029-DR        | September 9, 2011  |

Recommendations:

The Department should:

- Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its monitoring records.
- Retain documentation of its verification that subrecipients are not suspended or debarred.
- Establish and implement a formal process to track and monitor all during-the-award monitoring activities for large and small subrecipient projects.
- Track all subrecipients to determine whether they are required to obtain a Single Audit.
- Require all subrecipients to certify that they will obtain a Single Audit if they meet the threshold or certify that they are not required to obtain a Single Audit, and follow up with subrecipients to ensure they comply with those requirements.
- Review all Single Audit reports for active subrecipients within six months of receiving those reports, and issue management decisions promptly when findings in those reports could affect pass-through funds.
- Ensure that information in the Department’s Single Audit tracking spreadsheet is accurate.

Management Response and Corrective Action Plan:

*We agree with these recommendations. We have implemented a procedure to ensure we communicate all relevant federal award information and applicable compliance requirements to subrecipients and will implement a review procedure to ensure compliance with this procedure.*

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Additionally, we will implement policies and procedures to:

- Review files to ensure we retain documentation of verification that subrecipients are not suspended or debarred.
- Track and monitor all during-the-award monitoring activities for large and small subrecipient projects.

We have instituted procedures to ensure all open grant subrecipients are included in the A-133 Single Audit Review tracking sheet.

Additionally, we will:

- Ensure subrecipients receive notification of the OMB A-133 requirements and obtain either a certification that a single audit is not required, or receive a copy of the single audit report. We will follow-up with non-responsive subrecipients to ensure they do respond.
- Institute procedures to ensure Single Audit reports are reviewed and management decisions are issued within six months of receipt.
- Ensure procedures are in place to update the A-133 review spreadsheet as reports are received and reviewed, reports with findings are forwarded to grant program management for management decisions, and management decisions are received.

Implementation Date: August 2013

Responsible Person: Paula Logan

Reference No. 13-121

**Reporting**

(Prior Audit Issues 12-114, 11-114, 10-41, 09-47, 08-91, and 07-26)

**CFDA 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Material Non-Compliance**

SF-425 Reports

Recipients are responsible for managing, monitoring, and reporting performance for each program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. Additionally, the Office of Management and Budget provides specific instructions for completing the SF-425 in its Federal Financial Report Instructions, including definitions of key reporting elements.

|                                      |
|--------------------------------------|
| Questioned Cost: \$ 0                |
| U.S. Department of Homeland Security |

During fiscal year 2012, the Department of Public Safety’s (Department) Division of Emergency Management and the Department’s Grants Finance unit prepared SF-425 reports. Prior to January 2012, the Division of Emergency Management prepared all reports. In January 2012, the Department moved the reporting function for some disasters to its Grants Finance unit.

**The Department did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements.** Those errors occurred because (1) reports the Division of Emergency Management prepared were not based on information in the Department’s financial system (instead, those reports were based on information

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from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information for some information it reported. As a result, auditors identified errors in all 19 SF-425 reports tested. Specifically:

- For 15 (79 percent) of 19 reports tested, the Department reported its cash disbursements and the federal share of expenditures based on the amount of funds it received according to the federal SmartLink system through which it requested funds, instead of based on expenditure information from the Department's accounting system. As a result, the Department also incorrectly reported several other data fields, including cash on hand, total federal share, and unobligated balance of federal funds.
- For 3 (16 percent) of 19 reports, the Department's Grants Finance unit incorrectly reported cash disbursements based on the amount of cash the Department received from its federal awarding agency, instead of based on expenditures.
- For all 19 reports tested, the Department did not correctly report information associated with matching amounts for each project. Specifically, the Department reported its total recipient share required based on an incorrect formula that it applied to all reports. Additionally, it incorrectly reported its recipient share of expenditures because it based the amount it reported on a calculation instead of actual expenditures. As a result of those errors, the Department also incorrectly reported the remaining recipient share to be provided.
- For all 19 reports tested, the Department did not correctly determine its federal share of unliquidated obligations.
- For all 19 reports tested, the Department did not include indirect cost expenditures in the amount it reported for cash disbursements as required. The Department omitted those expenditures because it had not established a method to record them in its accounting system when it charges those expenditures to a federal grant.

Unsupported, omitted, and inaccurate information in reports increases the risk that federal agencies could rely on inaccurate information.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) program awards:

| <u>Disaster Number</u> | <u>Award Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1257                   | FEMA-1257-DR        | October 21, 1998   |
| 1379                   | FEMA-1379-DR        | October 1, 1999    |
| 1425                   | FEMA-1425-DR        | July 4, 2002       |
| 1479                   | FEMA-1479-DR        | July 17, 2003      |
| 1606                   | FEMA-1606-DR        | September 24, 2005 |
| 1624                   | FEMA-1624-DR        | January 11, 2006   |
| 1658                   | FEMA-1658-DR        | August 15, 2006    |
| 1709                   | FEMA-1709-DR        | June 29, 2007      |
| 1780                   | FEMA-1780-DR        | July 24, 2008      |
| 1786                   | FEMA-1786-DR        | September 9, 2008  |
| 1791                   | FEMA-1791-DR        | September 13, 2008 |
| 1931                   | FEMA-1931-DR        | August 15, 2006    |

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| <u>Disaster Number</u> | <u>Award Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1999                   | FEMA-1999-DR        | July 1, 2011       |
| 3216                   | FEMA-3216-EM        | September 2, 2005  |
| 3261                   | FEMA-3261-EM        | September 21, 2005 |
| 3277                   | FEMA-3277-EM        | August 18, 2007    |
| 3290                   | FEMA-3290-EM        | September 7, 2008  |
| 3294                   | FEMA-3294-EM        | September 10, 2008 |
| 4029                   | FEMA-4029-DR        | September 9, 2011  |

Federal Funding Accountability and Transparency Act (FFATA) Reports

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations (CFR), Chapter 170).

During fiscal year 2012, the Department did not attempt to report subawards for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program to the FFATA Reporting System (FSRS). Specifically, the Department could not provide evidence that it attempted to report subawards that it issued under two prime awards that were subject to FFATA to FSRS until October 18, 2012; 405 days after the declaration date for DR-4029 and 475 days after the declaration date for DR-1999. The Department passed-through \$ 28,173,337 to subrecipients for DR-1999 and DR-4029 during fiscal year 2012.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards:

| <u>Disaster Number</u> | <u>Award Number</u> | <u>Start Date</u> |
|------------------------|---------------------|-------------------|
| 4029                   | FEMA-4029-DR        | September 9, 2011 |
| 1999                   | FEMA-1999-DR        | July 1, 2011      |

Not submitting all required reports to FSRS decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Recommendations:

The Department should:

- Develop and implement a process to report required information based on supporting documentation, including information from its financial systems or other accounting information.
- Develop and implement a documented process to identify and report projects subject to FFATA requirements.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendation and will implement processes to:*

- *Assure reported information is properly supported.*

- *Identify and report projects subject to FFATA requirements.*

*Implementation Date: August 2013*

*Responsible Persons: Maureen Coulehan and Paula Logan*

**University of Texas Medical Branch at Galveston**

Reference No. 13-177

**Period of Availability of Federal Funds**

**CFDA 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)**

**Award year – September 13, 2008**

**Award number – FEMA-1791-DR**

**Type of finding – Significant Deficiency and Non-Compliance**

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations (CFR), Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, CFR, Section 215.71(b)).

Questioned Cost: \$ 16,396

U.S. Department of Homeland Security

The Federal Emergency Management Agency (FEMA) enters into an agreement with the State of Texas (State) for each federally declared disaster. That agreement outlines requirements and responsibilities related to the funds provided by the federal government for the disaster. As specified in the FEMA-State Agreement for Hurricane Ike, each approved project must be completed within the time period described in FEMA regulations and documents. Additionally, the State Administrative Plan for Hurricane Ike establishes project time limitations of 6 months for work classified as emergency work and 18 months for work classified as permanent work. Time limitations can be extended in 6-month increments by request to the Texas Division of Emergency Management or FEMA.

**The University of Texas Medical Branch at Galveston (Medical Branch) charged costs to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program outside of the performance period established in the project worksheets for the applicable projects.** Specifically, for 36 (60 percent) of 60 transactions tested that were recorded after the end of the performance period listed in the Medical Branch's tracking system, the Medical Branch incurred the associated expense after the end of the performance period established in the approved project worksheet. Specifically:

- For three of those transactions, the Medical Branch requested a project extension after the performance period had expired for the applicable projects. However, at the time it incurred the expenses associated with those transactions, the Medical Branch had not received a letter approving an extension. The Medical Branch subsequently provided evidence that it had received an extension, but it could not provide evidence of when that extension was approved. Because the evidence of an extension covered the dates of those transactions, there were no questioned costs associated with those transactions.
- For the remaining 33 transactions, the Medical Branch was unable to provide evidence that it had received a project extension. As a result, those transactions were unallowable because the associated expenses were incurred outside of the performance period. This resulted in \$16,396 in questioned costs associated with award FEMA-1791-DR.

In addition, for 28 of the transactions that the Medical Branch incurred after the performance period, it also liquidated those obligations more than 90 days after the end of the period.

The Medical Branch's process is to request project extensions every six months; however, it did not consistently request extensions for the projects discussed above. Additionally, the Medical Branch has not developed controls to prevent it from charging costs to its federal account for Hurricane Ike after it has reached the end of the period of performance for each project.



Recommendations:

The Medical Branch should:

- Request all necessary extensions within a sufficient amount of time to ensure compliance with funding period requirements.
- Establish controls to prevent it from charging expenses incurred outside of the performance period of project worksheets to the related federal award.

Management Response and Corrective Action Plan:

*UTMB Management agrees with the auditor's recommendation and will work with our third party contractors to ensure that all necessary requests for time extensions are submitted within sufficient time to ensure compliance. UTMB will also improve controls to prevent the charging of expenses incurred outside the period of performance of each project worksheet.*

*Implementation Date: March 31, 2013*

*Responsible Person: John B. States*

## Summary Schedule of Prior Year Audit Findings

Federal regulations (OMB Circular A-133) state, “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2011 Schedule of Findings and Questioned Costs.
- Each finding in the 2011 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

The Summary Schedule of Prior Audit Findings (year ended August 31, 2012) has been prepared to address these responsibilities.

### Department of Public Safety

Reference No. 12-106

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Matching, Level of Effort, Earmarking**

**Period of Availability of Federal Funds**

**Reporting**

**Special Tests and Provisions - Subgrant Awards**

(Prior Audit Issues 11-107, 10-35, and 09-38)

**Homeland Security Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Allowable Costs/Cost Principles – Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the federal program. Costs

Initial Year Written: 2008  
Status: Partially Implemented

U.S. Department of Homeland  
Security

charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, CFR, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety's (Department) State Administrative Agency (SAA) manages and administers Homeland Security grant programs, including the Homeland Security Cluster of federal programs, for the State of Texas. SAA employees complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award.

**For all six monthly Homeland Security payroll charges tested prior to January 2011, the Department did not base its payroll charges to federal awards solely on actual work completed, although employees did submit weekly time sheets.** Instead, the Department distributed payroll charges to federal awards using estimates based on the amount of time employees and management charged, as well as the management and administrative (M&A) funds remaining for each grant. As a result, for the six payroll transactions included in auditors' testing, the Department overcharged the Homeland Security Cluster a total of \$4,585. Because the SAA used the same allocation methodology to charge payroll costs to all of its federal awards, this issue affected all federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered nine other federal grant programs, which are listed below.

In January 2011, the Department began using a new timekeeping system. Audit tests of the Department's payroll charges to federal grants after that time determined that payroll charges were based solely on the time each employee recorded.

Additionally, the Department charged the Homeland Security Cluster for all federal program payroll costs associated with the programs that the SAA administers. **The Department initially drew all federal program payroll costs from Homeland Security Cluster funds, without regard to the federal program that benefitted from the effort. The Department subsequently reallocated the payroll charges to the correct grants and reduced its subsequent Homeland Security draw to offset the overcharged payroll costs.** For example, auditors identified \$20,666 in Public Safety Interoperable Communication (PSIC) payroll allocations between January and March for which the Department initially charged and drew funds using Homeland Security Cluster funds. In June 2011, the Department reversed those charges and reallocated them to the PSIC program. As a result, the Department's final charges to the Homeland Security Cluster were allowable; however, the charges were not supported and were not allocable to the Homeland Security cluster at the time the Department drew federal funds.

The Department charged a total of \$2,371,860 in salary and benefit expenses to the Homeland Security Cluster during fiscal year 2011.

#### Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, OMB requires that costs be treated consistently with other costs incurred for the same purposes in like circumstances.

**Two (4 percent) of 53 non-payroll expenditures tested that the Department charged to the Homeland Security Cluster were not solely allocable to the Homeland Security Cluster.** Both expenditures were for payments to a temporary staffing firm. The services the temporary staffing firm provided benefitted multiple grant programs, including the Homeland Security Cluster and other federal programs listed below; therefore, the associated expenditures should have been allocated across the M&A budgets for each of these grant programs. In fiscal year 2011, the Department charged \$155,443 to the Homeland Security cluster of programs for the services of the temporary staffing firm.

Prior to January 2011, the Department did not use an allocation process to ensure that it charged expenditures for contract labor to the correct award. Instead, the Department charged contractor invoices to program budgets that had

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available M&A funds. Those contractor invoices did not contain detailed descriptions of the work performed; therefore, auditors were unable to determine the associated amount of questioned costs. Because the Department did not use a proper allocation methodology for contract labor expenditures, it did not charge the cost of contract labor to the federal grant programs that benefited from those services. In addition to the Homeland Security Cluster, this issue affected nine other programs that the SAA managed and administered, which are listed below.

The Department suspended its contract with the temporary staffing firm discussed above in August 2010; however, it still made payments to that firm through December 2010. **Auditors did not identify non-compliance related to the expenditures for contract labor after the Department corrected its allocation process in January 2011.**

**Additionally, 1 (2 percent) of 53 non-payroll expenditures tested that the Department charged to the Homeland Security Cluster was incorrect.** The Department erroneously reimbursed an employee for \$14 in travel expenses that the employee did not incur. The Department corrected the unallowable cost after auditors brought this issue to management's attention. By erroneously reimbursing the employee, the Department risked using federal funds for unallowable activities.

The Department received the following Homeland Security Cluster awards:

| <u>Grant Number</u> | <u>Beginning Date</u> | <u>End Date</u>   |
|---------------------|-----------------------|-------------------|
| 2007-GE-T7-0024     | July 1, 2007          | December 31, 2010 |
| 2008-GE-T8-0034     | September 1, 2008     | August 31, 2011   |
| 2009-SS-T9-0064     | August 1, 2009        | July 31, 2012     |
| 2010-SS-T0-0008     | August 1, 2010        | July 31, 2013     |

In addition to the Homeland Security Cluster awards, the SAA also manages grant funds for the following grant programs:

- Border Interoperability Demonstration Project (CFDA 97.120)
- Buffer Zone Protection Program (CFDA 97.078)
- Emergency Operation Center Grant Program (CFDA 97.052)
- Interoperable Emergency Communications Grant Programs (CFDA 97.001)
- Nonprofit Security Grant Program (CFDA 97.008)
- Operation Stone Garden (CFDA 97.067)
- Public Safety Interoperable Communication Grant Program CFDA (11.555)
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111)
- Transit Security Grant Program (CFDA 97.075)

Corrective Action:

This finding was reissued as current year reference number: 13-103.

Other Compliance Areas

Although the general control weakness described below applies to matching, level of effort, earmarking; period of availability of federal funds; reporting; and special tests and provisions - subgrant awards, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-107

**Cash Management**

(Prior Audit Issue 11-108)

**Homeland Security Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Interest on Advances

Beginning in fiscal year 2005, Homeland Security Grant Program awards to states were exempted from the provisions of the Cash Management Improvement Act (CMIA). Grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, provided they maintain procedures to minimize the time elapsing between the receipt and disbursement of funds (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 4, Section 97.067). Additionally, grantees must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury at least quarterly. Interest amounts up to \$100 per year may be retained by the grantee for administrative expenses (Title 44, Code of Federal Regulations (CFR), Section 13.21).

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|---|
| Initial Year Written: 2010<br>Status: Partially Implemented<br><br>U.S. Department of Homeland Security |
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**The Department of Public Safety (Department) did not calculate or monitor interest it earned on federal funds for the Homeland Security Cluster, nor did it remit interest earned on federal funds to the U.S. Treasury.** The Department has not established a process to calculate or monitor interest it earns on advanced federal funds. The Texas Office of the Comptroller of Public Accounts receives those funds and deposits them into a state treasury account along with non-Homeland Security funds. The Department has not entered into an arrangement with the Texas Office of the Comptroller of Public Accounts to isolate the interest earned solely on Homeland Security funds. Therefore, the Department has never remitted any interest earned on Homeland Security funds to the U.S. Treasury. Auditors tested a sample of 100 transactions representing 9 percent of the \$149,265,676 in Homeland Security Cluster funds the Department drew down during fiscal year 2011 and estimated associated interest of \$115 for those transactions. Because grantees can retain interest of up to \$100 per year, this resulted in questioned costs of \$15 associated with all awards listed below.

Additionally, the Department draws down funds for its management and administrative costs on an advance basis. As of August 31, 2011, it had a balance of \$312,415 in prepaid federal grant revenue, and it was not calculating or paying interest on those funds. This issue affects all Homeland Security Cluster awards.

Subrecipient Advances

Recipients of federal funds are required to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement of those funds. When recipients use advance payment procedures, they must establish similar procedures for subrecipients. Pass-through entities must ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, CFR, Section 13.37 a(4)). The U.S. Department of Homeland Security requires that grantees and subgrantees be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and disbursement by the grantee or subgrantee (Title 44, CFR, Section 13.21).

**For 13 (22 percent) of 60 subrecipient projects tested, the Department provided hardship advances to subrecipients without obtaining proof of the subrecipients' subsequent disbursement of those funds.** The Department allows subrecipients to request cash advances in cases of economic hardship; however, it did not consistently follow up with subrecipients that had received hardship advances to ensure that they had spent those federal funds. The Department did not require subrecipients to submit proof of payments they made with the advanced funds. As a result, the Department cannot provide reasonable assurance that some subrecipients minimized the time between receipt and disbursement of federal funds. The Department provided evidence that it implemented new procedures in August 2011 to require staff to confirm that subrecipients spent those advances.

During fiscal year 2011, the Department drew down funds from the following Homeland Security Cluster awards:

| <u>Award Number</u> | <u>Beginning Date</u> | <u>End Date</u>   |
|---------------------|-----------------------|-------------------|
| 2006-GE-T6-0068     | July 1, 2006          | June 30, 2010     |
| 2007-GE-T7-0024     | July 1, 2007          | December 31, 2010 |
| 2008-GE-T8-0034     | September 1, 2008     | August 31, 2011   |
| 2009-SS-T9-0064     | August 1, 2009        | July 31, 2012     |
| 2010-SS-T0-0008     | August 1, 2010        | July 31, 2013     |

Corrective Action:

This finding was reissued as current year reference number: 13-104.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-108

**Procurement and Suspension and Debarment**

(Prior Audit Issue 11-109)

**Homeland Security Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

In accordance with Title 44, Code of Federal Regulations (CFR), Section 13.36, grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in that CFR section. All procurement transactions must be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals.

Initial Year Written: 2010  
Status: Partially Implemented

U.S. Department of Homeland Security

Competitive Bidding Procurements

**For 5 (83 percent) of 6 procurements tested for the Homeland Security Cluster that required competitive bidding, the Department of Public Safety (Department) did not competitively bid the procurements.** Those five procurements occurred prior to fiscal year 2011; however, the Department paid the vendors for services provided through those procurements during fiscal year 2011. The five procurements were as follows:

- For one procurement that the Department designated as an emergency procurement, the Department was unable to provide sufficient documentation to support that the circumstances constituted an emergency. Documentation indicated that the Department did not allow for sufficient time to complete competitive bidding prior to the expiration of a contract. Therefore, the Department renewed the contract with the vendor through an emergency procurement. The Department later entered into a new contract in December 2010 using a statewide Texas Department of Information Resources contract as allowed by its policies. Prior to entering into that new contract, however, the Department charged \$458,597 to the original emergency procurement.
- For one procurement that required a competitive bidding process, Department management overrode controls when the results of a competitive bid process were unfavorable to management’s preferred vendor. Although it originally entered into a contract with the preferred vendor, the Department canceled that contract effective January 2011 after auditors notified executive management about the circumstances surrounding the procurement. However, in fiscal year 2011, the Department paid that vendor \$424,980 in Homeland Security Cluster funds, resulting in questioned costs for this cluster.
- For three procurements related to the same vendor and services, the Department’s State Administrative Agency (SAA) inappropriately used an existing Texas Department of Information Resources contract to obtain non-IT services and circumvent the Department’s established process to procure non-IT consultant services. This allowed the SAA to retain the professional services of specific individuals. This contract ended on August 31, 2011; however, the Department charged \$155,443 to the Homeland Security Cluster in fiscal year 2011 for services the consultant performed, resulting in questioned costs for this cluster.

Auditors did not identify instances of non-compliance or management override of controls after January 2011.

Approval Authority for Procurements

The Department requires approval by Department management depending on the amount of the procurement. Specifically, the approval authority requirements are as follows:

- Deputy assistant directors are authorized to approve purchases up to \$50,000.
- Assistant directors are authorized to approve purchases up to \$250,000.

- Deputy directors approve purchases up to \$500,000.

Additionally, the Department's director granted the deputy directors approval authority for purchases they deem appropriate, which allowed the deputy directors to further delegate their approval authority to increase efficiency while maintaining an appropriate level of oversight. However, there is no specific approval authority granted for procurements exceeding \$500,000.

For 10 (30 percent) of 33 Homeland Security Cluster procurements tested, the Department did not provide evidence that it obtained the authorizations required by its policy. Additionally, the Department was unable to provide documentation that it delegated authority to approve those procurements to a level of management differing from the levels described in its policy. This increases the risk that unauthorized purchases could be made with federal funds or that procurements might not comply with state and federal requirements.

Subrecipient Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective to award amount (Title 2, Code of Federal Regulations, Section 180.210).

For 1 (2 percent) of 59 Homeland Security Cluster subrecipient agreements tested, the Department could not provide evidence that the subrecipient had certified that it was not suspended or debarred. The Department was unable to provide a copy of the signed subrecipient agreement; as a result, it could not provide evidence that it verified that the subrecipient was not suspended or debarred at the time of the award. However, auditors determined that the subrecipient was not suspended or debarred by checking the EPLS.

When the Department does not verify that subrecipients are not suspended or debarred, this increases the risk that it could enter into an agreement with an entity that is not eligible to receive federal funding.

The issues discussed above affected the following awards that had procurements in fiscal year 2011:

| <u>Award Number</u> | <u>Beginning Date</u> | <u>End Date</u> |
|---------------------|-----------------------|-----------------|
| 2008-GE-T8-0034     | September 1, 2008     | August 31, 2011 |
| 2009-SS-T9-0064     | August 1, 2009        | July 31, 2012   |
| 2010-SS-T0-0008     | August 1, 2010        | July 31, 2013   |

In addition to the Homeland Security Cluster awards, the Department's SAA also manages grant funds for the following grant programs:

- Border Interoperability Demonstration Project (CFDA 97.120)
- Buffer Zone Protection Program (CFDA 97.078)
- Emergency Operation Center Grant Program (CFDA 97.052)
- Interoperable Emergency Communications Grant Programs (CFDA 97.001)
- Nonprofit Security Grant Program (CFDA 97.008)
- Operation Stone Garden (CFDA 97.067)
- Public Safety Interoperable Communication Grant Program (CFDA 11.555)
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111)



- Transit Security Grant Program (CFDA 97.075)

Corrective Action:

This finding was reissued as current year reference number: 13-106.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-109

**Subrecipient Monitoring**

(Prior Audit Issues 11-111, 10-37, and 09-43)

**Homeland Security Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of the contracts or grant agreements.

In fiscal year 2011, the Department passed through \$138,430,205 in Homeland Security Cluster funding to its subrecipients.

Initial Year Written: 2008  
Status: Partially Implemented

U.S. Department of Homeland Security

Award Identification

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement, Part 3, Section M, to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of the federal awarding agency, and applicable compliance requirements.

The Department communicates federal award information to subrecipients on a subrecipient agreement and requires that subrecipients sign various assurances to ensure they are aware of applicable federal compliance requirements. **For 1 (2 percent) of 59 subrecipient agreements tested, the Department could not provide evidence that the subrecipient had accepted the terms and conditions of the grant for which it had received funds.** As a result, the Department could not provide evidence that it had properly communicated the CFDA title and number, the federal award name and number, the name of the federal awarding agency, and applicable federal compliance requirements at the time it made the subaward.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on a subrecipient's Schedule of Expenditures of Federal Awards (SEFA).

#### During-the-award Monitoring

Recipients of Homeland Security Cluster funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations, Section 13.40).

The Department largely monitors subrecipient activities through review and approval of reimbursement requests, quarterly progress reporting, and site visits it conducts at subrecipients that it selects based on a biennial risk assessment. For example, the Department monitors its subrecipients' compliance with procurement and suspension and debarment and equipment requirements through its site visits. However, for 2 (3 percent) of 60 subrecipient projects tested, the Department did not include the subrecipient in the risk assessment it used to select the subrecipients at which it would conduct site visits. As a result, the Department could not ensure that it monitored those subrecipients' compliance with procurement and suspension and debarment and equipment requirements.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with federal requirements.

#### Subrecipient Audits

According to Office of Management and Budget (OMB) Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with Single Audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. **However, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain Single Audits. As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain Single Audits or that the Department appropriately sanctioned subrecipients that did not comply with that requirement.**

For 15 (26 percent) of 57 subrecipients tested, the Department did not verify whether the subrecipient obtained a Single Audit. Specifically:

- The Department did not include six of those subrecipients on its tracking spreadsheet; therefore, the Department did not monitor them for compliance with requirements to obtain a Single Audit.
- The Department included nine of those subrecipients on its tracking spreadsheet, but those subrecipients did not respond to the Department's questionnaire regarding Single Audits, and there was no other evidence of Department review. Therefore, auditors could not determine whether the Department should have followed up on any findings in those subrecipients' Single Audit reports or if the subrecipients obtained Single Audits.

Seven (47 percent) of those 15 subrecipients discussed above submitted a Single Audit report to the Federal Audit Clearinghouse (FAC).

For all 15 subrecipients discussed above, the Department's A-133 monitoring files did not contain evidence that the Department responded to the subrecipients' non-compliance in accordance with its sanction policy.

**Additionally, weaknesses existed in the Department's review of subrecipients' Single Audit reports. Specifically:**

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- For 1 (2 percent) of 57 subrecipients tested, the Department could not provide evidence that it issued a management decision on a finding in that subrecipient's Single Audit report. While the Department identified the finding in its review of the subrecipient's Single Audit report, it did not address the finding with the subrecipient or make a determination on whether follow-up with the subrecipient was required.
- For 1 (3 percent) of the 33 Single Audit reports that the Department reviewed and auditors tested, the Department did not review the Single Audit report within the required six-month time period.

Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in subrecipients' Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Homeland Security awards:

| <u>Award Number</u> | <u>Beginning Date</u> | <u>End Date</u>   |
|---------------------|-----------------------|-------------------|
| 2007-GE-T7-0024     | July 1, 2007          | December 31, 2010 |
| 2008-GE-T8-0034     | September 1, 2008     | August 31, 2011   |
| 2009-SS-T9-0064     | August 1, 2009        | July 31, 2012     |
| 2010-SS-T0-0008     | August 1, 2010        | July 31, 2013     |

Corrective Action:

This finding was reissued as current year reference number: 13-108.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-110

**Procurement and Suspension and Debarment  
Subrecipient Monitoring**

**CFDA 97.039 - Hazard Mitigation Grant Program**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of the contracts or grant agreements.

Initial Year Written: 2011  
Status: Partially Implemented

U.S. Department of Homeland  
Security

In fiscal year 2011, the Department passed through \$80,664,325 to subrecipients.

**Award Identification and Subrecipient Suspension and Debarment**

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement, Part 3, Section M, to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective to award amount (Title 2, Code of Federal Regulations, Section 180.210).

The Department communicates federal award information to subrecipients in an award letter and packet that it provides to subrecipients following final approval of a project. However, **the award letter template and packet the Department used did not include the CFDA number associated with the award.** Specifically, for 59 (98 percent) of 60 subrecipient agreements tested, the award letters did not include the CFDA number. For the remaining subrecipient agreement, the Department could not provide evidence that it sent an award letter to the subrecipient. As a result, the Department was not able to provide evidence that it communicated all required information, including both award information and applicable federal award requirements.

**The Department does not have a process to verify that subrecipients are not suspended or debarred prior to making a subaward.** For all 60 subrecipient projects tested, the Department could not provide evidence that it verified that the subrecipients were not suspended or debarred. However, auditors verified through the EPLS that none of the subrecipients was currently suspended or debarred.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Failure to verify that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.

**Subrecipient Audits**

According to Office of Management and Budget (OMB) Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases

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of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with Single Audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist.

However, **for 2 (4 percent) of 56 subrecipients tested, the Department did not identify relevant subrecipient Single Audit findings.** For one subrecipient, the Department reviewed the subrecipient's Single Audit report and identified a finding related to the Hazard Mitigation Program. However, the Department could not provide evidence that it issued a management decision or followed up with the subrecipient regarding that finding. The Department did not have the other subrecipient listed on its tracking sheet; as a result, it did not obtain or review the subrecipient's Single Audit report, which identified findings for the Hazard Mitigation Grant Program. Because it did not obtain or review the subrecipient's Single Audit report, the Department did not issue management decisions on those findings.

Additionally, for 3 (5 percent) of 56 subrecipients tested, the Department did not verify whether the subrecipient obtained a Single Audit. This occurred because the Department did not have complete and accurate information in its tracking spreadsheet. According to information in the Federal Audit Clearinghouse (FAC), two of those subrecipients did not submit a Single Audit report to the FAC. The third subrecipient submitted a Single Audit report to the FAC, but that report did not include findings for the Hazard Mitigation Grant Program.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient noncompliance. Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Hazard Mitigation awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1356            | FEMA-1356-DR        | January 8, 2001    |
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1709            | FEMA-1709-DR        | June 29, 2007      |
| 1730            | FEMA-1730-DR        | October 2, 2007    |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |

Corrective Action:

This finding was reissued as current year reference number: 13-115.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-111

**Reporting**

(Prior Audit Issues 09-47, 08-91, and 07-26)

**CFDA 97.039 - Hazard Mitigation Grant Program**

**Award years - See below**

**Award number - See below**

**Type of Finding – Material Weakness and Material Non-Compliance**

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. Reports must be submitted for every calendar quarter of the period of performance within 30 days of the end of each quarter (Title 44, Code of Federal Regulations (CFR), Section 13.41).

Initial Year Written: 2006  
Status: Partially Implemented

U.S. Department of Homeland Security

Additionally, the *FY 2010 Hazard Mitigation Assistance Unified Guidance* and *FY 2011 Hazard Mitigation Assistance Unified Guidance* state that “Grantees shall submit a quarterly Federal Financial Report (FFR). Obligations and expenditures must be reported on a quarterly basis through the FFR (SF-425), which is due to [the Federal Emergency Management Agency (FEMA)] within 30 days of the end of each calendar quarter (e.g., for the quarter ending March 31, the FFR is due no later than April 30).” The guidance also emphasizes that it is critical that grantees establish and maintain accurate records of events and expenditures related to grant funds.

**The Department of Public Safety (Department) did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements.** This occurred because the Department did not base the information it reported on supporting data from its accounting system. Instead, it based its reported amounts on information from the federal system through which it requested funds. As a result, auditors identified the following types of errors in all 11 reports tested:

- The Department reported its “cash disbursements” and “federal share of expenditures” based on the amount of funds received according to the federal SmartLink system, instead of based on supporting expenditure information from its accounting system.
- As a result of its using the SmartLink system discussed above, the Department also incorrectly reported several other data fields, including “cash on hand,” “total federal share,” and “unobligated balance of federal funds.”
- The Department did not report any amount for the “federal share of unliquidated obligations.”

Additionally, for one report tested, the Department could not provide the support that it used to report its “cash receipts” and “total federal funds authorized.”

**The Department also did not correctly report information associated with the amounts it is required to match for each project.** Specifically:

- For all 11 reports tested, the Department incorrectly reported the amount of match it had paid as the “total recipient share required.” That amount should have been the total amount the Department was required to match based on its award agreement.
- For 9 (82 percent) of the 11 reports tested, the “recipient share of expenditures” the Department reported was not supported by the information in the spreadsheets the Department used to track recipient expenditures. Five

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of those nine reports did not have a recipient share total maintained on the spreadsheets because the Department does not track federal and non-federal share information for disasters that occurred prior to September 2005. For the remaining four reports, the recipient shares recorded on the spreadsheets (1) did not match the amounts the Department reported on the corresponding SF-425 reports and (2) were not supported by the Department's accounting records.

The Department requires approval of all SF-425 reports prior to submitting them to FEMA. However, this control was not sufficient to ensure compliance with the reporting requirements. Additionally, auditors noted that 1 (9 percent) of the 11 reports tested did not have a signature documenting management approval.

**In addition, the Department did not consistently ensure that it submitted reports by the due date.** Specifically, it submitted 1 (9 percent) of 11 reports tested 29 days after its due date.

The issues noted above affect the following Hazard Mitigation awards:

| <u>Disaster Number</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1356                   | FEMA-1356-DR        | January 8, 2001    |
| 1379                   | FEMA-1379-DR        | June 9, 2001       |
| 1606                   | FEMA-1606-DR        | September 24, 2005 |
| 1624                   | FEMA-1624-DR        | January 11, 2006   |
| 1658                   | FEMA-1658-DR        | August 15, 2006    |
| 1730                   | FEMA-1730-DR        | October 2, 2007    |
| 1791                   | FEMA-1791-DR        | September 13, 2008 |

Corrective Action:

This finding was reissued as current year reference number: 13-116.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

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Reference No. 12-112

**Cash Management**

**Activities Allowed or Unallowed**

**Allowable Cost/Cost Principles**

**Matching, Level of Effort, Earmarking**

**Period of Availability of Federal Funds**

**Special Tests and Provisions- Project Accounting**

(Prior Audit Issue 11-112)

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Non-Compliance**

Funding Technique

According to the Cash Management Improvement Act agreement between the State of Texas and the U.S. Department of the Treasury (Treasury-State Agreement), the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program exceeds the State’s threshold for major federal assistance programs. Therefore, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the requirements of the Treasury-State Agreement. Specifically, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the pre-issuance funding technique (Treasury-State Agreement, Section 6.3.2). Under that funding method, the State is required to request that funds be deposited in the state account no more than three days prior to the day the State makes a disbursement (Treasury-State Agreement, Section 6.2.1).

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| Initial Year Written: 2010<br>Status: Partially Implemented<br><br>U.S. Department of Homeland Security |
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**For 8 (88.9 percent) of 9 drawdowns of Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program funds tested, the Department of Public Safety (Department) did not comply with the time requirements for disbursing federal funds.** Specifically, for those 8 drawdowns, the Department disbursed federal funds from 4 to 28 days after it received those funds. This occurred due to delays in the Department’s manual process for disbursing funds to subgrantees. The Department does not have sufficient controls to ensure that it disburses payments to vendors and subrecipients within three days as required by the Treasury-State Agreement. When the Department does not comply with the time requirements for disbursing funds, it does not minimize the elapsed time between drawing down funds and disbursing those funds.

In addition, the Department has not implemented controls to ensure that each drawdown is supported. **Specifically, auditors identified eight subrecipient payments that the Department paid twice, resulting in duplicate drawdowns for each of those instances.** This occurred because the Department manually records subrecipient payments in its accounting system, Management Science of America (MSA), and an internal payment database (PaySys). However, MSA and PaySys do not have controls to identify and flag duplicate payments. During fiscal year 2011, the Department:

- Reduced drawdown amounts for seven transactions to correct instances in which it drew down funds and made duplicate payments to Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program subgrantees; those payments totaled approximately \$103,229.
- Drew down an additional \$755,509 in federal funds to issue a duplicate payment to one subgrantee in July 2011. The Department reduced its October 2011 drawdown amount to correct that error after the subrecipient informed the Department that it had received the duplicate payment and returned the excess funds.

The Department became aware of the duplicate payments discussed above during subsequent payment processing, after a final project audit, or when notified by the subgrantees. Based on the manner in which duplicate payments are identified, there is a risk that the Department could make a duplicate payment that could go undetected, resulting in unsupported drawdowns of federal funds.



Disbursement Proportions

According to Title 44, Code of Federal Regulation (CFR), Section 206.207, the State must submit a revised plan to the Federal Emergency Management Agency (FEMA) annually for the administration of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. The plan must include several items, including procedures for processing requests for advances of funds and reimbursements. According to the State of Texas Administrative Plans for Hurricane Ike and Hurricane Alex, for large projects that were 99 or 100 percent complete when FEMA approved them, the Department’s Division of Emergency Management is required to disburse 90 percent of the entire federal share to the applicant upon obligation of funds by FEMA. Additionally, Hurricane Ike applicants may request an advance on an approved large project, but the advance cannot exceed 75 percent of the federal share for the project.

**For 4 (7 percent) of 61 subrecipient payments tested, the Department did not ensure that its payment to the subrecipient complied with allowable disbursement proportions established in the State of Texas Administrative Plans for Hurricane Ike and Hurricane Alex.** Specifically:

- For two subrecipient payments, the Department paid 100 percent of the federal award share for Hurricane Ike projects as an advance, which exceeded the authorized advance limit of 75 percent of the federal award share. This occurred because previous management authorized advance payments for seven subgrantees and for projects that the Department managed directly.
- For two subrecipient payments, the Department paid 90 percent of the federal award share as an advance; however, the associated projects were not 99 percent or 100 percent complete at the time FEMA approved them; therefore, those projects did not meet the established criteria for receiving advance payments.

Additionally, none of the four subrecipients discussed above completed request for advance forms required by the State of Texas Administrative Plans for Hurricane Ike and Hurricane Alex. The Department drew down \$529,399 for the four subrecipient payments discussed above. Of that amount, \$118,577 was not eligible for disbursement at the time of the Department’s drawdowns based on the requirements in the State of Texas Administrative Plans for Hurricane Ike and Hurricane Alex. Not complying with drawdown requirements could jeopardize the Department’s receipt of future funding under the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program.

The issues discussed above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1379            | FEMA-1379-DR        | June 9, 2001       |
| 1425            | FEMA-1425-DR        | July 4, 2002       |
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |
| 1931            | FEMA-1931-DR        | August 3, 2010     |
| 3216            | FEMA-3216-EM        | September 2, 2005  |
| 3277            | FEMA-3277-EM        | August 18, 2007    |
| 3290            | FEMA-3290-EM        | August 29, 2008    |

Corrective Action:

This finding was reissued as current year reference number: 13-118.

Other Compliance Requirements

Although the general control weakness described below applies to activities allowed or unallowed, allowable cost/cost principles, matching, level of effort, earmarking, period of availability of federal funds, and special tests and provisions- project accounting, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-113

**Procurement and Suspension and Debarment**

**Subrecipient Monitoring**

(Prior Audit Issues 11-115, 10-42, and 09-48)

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Material Weakness and Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of contracts or grant agreements.

Initial Year Written: 2008  
Status: Partially Implemented

U.S. Department of Homeland  
Security

**The Department does not have a formal system to track, administer, and monitor the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program subgrants it provides to subrecipients.** Without such

a system, the Department relies on informal processes that vary by disaster and by staff member. This impairs the Department's ability to consistently monitor subrecipient compliance with applicable federal requirements.

In fiscal year 2011, the Department passed through \$117,212,624 in Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program funding to subrecipients.

Award Identification and Subrecipient Suspension and Debarment

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement, Part 3, Section M, to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and

number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective to award amount (Title 2, Code of Federal Regulations, Section 180.210).

The Department communicates federal award information to subrecipients on an application for federal assistance and requires that subrecipients sign various assurances to ensure that they are aware of applicable federal compliance requirements.

**For 3 (4.9 percent) of 61 subrecipients tested, the Department could not provide all signed assurances that it should have maintained in the subrecipients' files.** Specifically:

- For two subrecipients, the Department could not provide evidence that the subrecipients certified they were not suspended or debarred. Auditors verified through the EPLS that neither subrecipient was currently suspended or debarred.
- For the third subrecipient, the Department could not provide evidence that the subrecipient acknowledged receipt and acceptance of applicable federal compliance requirements.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Failure to verify that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.

#### During-the-award Monitoring

Recipients of Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program grant funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations, Section 13.40).

The Department monitors subrecipient activities through review and approval of payment vouchers, quarterly performance reporting, and onsite audits and inspections of subrecipient projects. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department's controls did not detect subrecipient non-compliance with federal requirements.**

According to the Department's State Administrative Plan (1) emergency projects, such as debris removal, must be complete within 6 months of a disaster declaration and (2) permanent projects, such as building repair, must be complete within 18 months of a disaster declaration. Subrecipients can request that the Department extend those time periods in some circumstances. For 2 (3 percent) of 61 subrecipients tested, the Department could not provide evidence that it approved time extension requests for projects that had exceeded the maximum time periods allowed. For both projects, the Department had approved an initial time extension. However, both subrecipients failed to complete project work within the extended time periods approved by the Federal Emergency Management Agency (FEMA); therefore, those subrecipients should have requested additional approvals to further extend the time period.

In addition, for all projects, subrecipients are required to submit a *Project Completion and Certification Report* after a project is complete. However, for 3 (5 percent) of 58 subrecipients whose projects appeared to be complete, the Department did not obtain the required reports from the subrecipients.

The Department also conducts final audits on projects that FEMA designates as "large" projects according to the State Administrative Plan for each disaster. FEMA determines a funding threshold for each disaster (for example, the threshold for Hurricane Ike was \$60,900), and the projects with awarded amounts exceeding that amount are

required to have a final audit and a final project accounting prior to payment of the final invoice. The final project audit includes review of a subrecipient's compliance with applicable state and federal requirements.

Auditors reviewed documentation for the final audits for 25 subrecipients with large projects during fiscal year 2011 and identified the following errors:

- For 1 (4 percent) of those 25 subrecipients, the Department was unable to provide documentation that management had reviewed and approved the final audit results.
- For 4 (21 percent) of the 19 subrecipients for which the final audit identified deficiencies or adjustments, the Department was unable to provide documentation that it communicated the audit results to the subrecipient within a reasonable time. For two of those subrecipients, the Department sent audit letters communicating the results more than one year after the date the audit was conducted. For the other two subrecipients, the Department could not provide documentation that it communicated the audit results.
- For 2 (8 percent) of those 25 subrecipients, the Department conducted limited-scope final audits of the projects. As a result, the Department was unable to provide evidence that it monitored those subrecipients' processes related to cash management, equipment, matching, and procurement.

In addition, the Department is required to conduct an on-site inspection for some types of large projects and for 20 percent of each subrecipient's small projects. However, for 2 (40 percent) of 5 subrecipients that completed the disaster close-out process and had small projects that were subject to on-site inspection, the Department could not provide evidence that it inspected at least 20 percent of those subrecipients' small projects.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects.

#### Subrecipient Audits

According to Office of Management and Budget (OMB) Circular A-133, the Department must ensure that subrecipients expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with Single Audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. **However, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit. As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that subrecipients that did not comply had been appropriately sanctioned.**

For 13 (21 percent) of 61 subrecipients tested, the Department did not verify whether the subrecipient obtained a Single Audit. Specifically:

- Eleven of those subrecipients did not respond to the Department's Single Audit questionnaire or submit an audit to the Federal Audit Clearinghouse (FAC); therefore, auditors could not determine whether the Department was required to follow up on findings or whether the subrecipients complied with the requirement to obtain a Single Audit.
- One subrecipient did not respond to the Department's Single Audit questionnaire. That subrecipient submitted a Single Audit report to the FAC, and the report contained findings that would have required a management decision from the Department.
- One subrecipient responded to the Department's Single Audit questionnaire but did not submit its Single Audit report to the Department. The same subrecipient also did not submit a Single Audit report to the Department in the previous fiscal year.

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**PUBLIC SAFETY, DEPARTMENT OF**

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The Department also could not provide evidence that it complied with its sanction policy when subrecipients did not submit Single Audit reports.

The Department’s review of subrecipient audits was not always sufficient and timely. Specifically:

- For 1 (56 percent) of 18 subrecipient Single Audit reports tested that the Department reviewed, the report identified grant-related findings. However, the Department could not provide evidence that it issued a management decision on those findings. This occurred because the Department’s previous tracking spreadsheet did not contain fields to document its follow-up actions and management decisions regarding audit findings.
- For 2 (11 percent) of 18 subrecipient Single Audit reports tested that the Department reviewed, the Department did not complete its review within the required six-month time period.

Finally, for 2 (3 percent) of 61 subrecipients tested, the Department’s Single Audit tracking spreadsheet contained inaccurate information. This increases the risk that the Department may not identify instances of subrecipient non-compliance, or it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in the Department’s Single Audit tracking spreadsheet can prevent the Department from identifying and addressing subrecipient non-compliance. Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in the subrecipients’ Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1379            | FEMA-1379-DR        | June 9, 2001       |
| 1425            | FEMA-1425-DR        | July 4, 2002       |
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |
| 1931            | FEMA-1931-DR        | August 3, 2010     |

Corrective Action:

This finding was reissued as current year reference number: 13-120.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users’ access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

**PUBLIC SAFETY, DEPARTMENT OF**

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Reference No. 12-114

**Reporting**

(Prior Audit Issues 11-114, 10-41, 09-47, 08-91, and 07-26)

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award years - See below**

**Award number - See below**

**Type of Finding – Material Weakness and Material Non-Compliance**

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. Reports must be submitted for every calendar quarter of the period of performance within 30 days of the end of each quarter (Title 44, Code of Federal Regulations (CFR), Section 13.41).

Initial Year Written: 2006  
Status: Partially Implemented

U.S. Department of Homeland Security

**The Department of Public Safety (Department) did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements.** This occurred because the Department did not base the information it reported on supporting data from its accounting system. Instead, it based its reported amounts on information from the federal system through which it requested funds. As a result, auditors identified the following types of errors in all 14 reports tested:

- The Department reported its “cash disbursements” and “federal share of expenditures” based on the amount of funds received according to the federal SmartLink system, instead of based on supporting expenditure information from its accounting system.
- As a result of its using the SmartLink system discussed above, the Department also incorrectly reported several other data fields, including “cash on hand,” “total federal share,” and “unobligated balance of federal funds.”
- The Department did not report any amount for the “federal share of unliquidated obligations.”

**In addition, the Department did not correctly report information associated with matching amounts for each project.** Specifically, the Department reported its “total recipient share required” based on the amount of federal funds it had received for each project, rather than on the amount it was required to match for each project. It also estimated the amount it reported as the “total recipient share expended,” rather than based on the amounts it matched for each project. As a result, the amounts it reported as the “recipient share to be provided” were incorrect.

**In addition, the Department did not consistently submit SF-425 reports by the due date.** Specifically, it submitted 1 (7 percent) of 14 reports tested 31 days late.

The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program awards:

| <u>Disaster</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|-----------------|---------------------|--------------------|
| 1274            | FEMA-1274-DR        | May 6, 1999        |
| 1379            | FEMA-1379-DR        | June 9, 2001       |
| 1425            | FEMA-1425-DR        | July 4, 2002       |
| 1606            | FEMA-1606-DR        | September 24, 2005 |
| 1709            | FEMA-1709-DR        | June 29, 2007      |
| 1780            | FEMA-1780-DR        | July 24, 2008      |
| 1791            | FEMA-1791-DR        | September 13, 2008 |

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|      |              |                    |
|------|--------------|--------------------|
| 3261 | FEMA-3261-EM | September 21, 2005 |
| 3277 | FEMA-3277-EM | August 18, 2007    |
| 3290 | FEMA-3290-EM | August 29, 2008    |
| 3294 | FEMA-3294-EM | September 10, 2008 |

Corrective Action:

This finding was reissued as current year reference number: 13-121.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 11-113

**Procurement and Suspension and Debarment  
Matching, Level of Effort, Earmarking  
Period of Availability of Federal Funds**

(Prior Audit Issue 10-40)

**Public Assistance Cluster**

**Award years – see below**

**Award numbers – see below**

**Type of finding – Significant Deficiency and Non-Compliance**

Procurement and Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210).

Initial Year Written: 2009  
Status: Partially Implemented

U.S. Department of Homeland Security

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**PUBLIC SAFETY, DEPARTMENT OF**

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**For all 12 procurements tested, the Department of Public Safety (Department) did not verify that the vendors were not suspended or debarred from federal procurements.** Eleven of those 12 procurements were for sheltering services, and the remaining procurement was for the purchase of showers, toilets, and hand-washing stations. Auditors reviewed the EPLS and verified that the vendors for those 12 procurements were not currently suspended or debarred. The 12 procurements totaled \$6,683,329.

**The Department did not have a process to ensure that vendors providing shelter/emergency services and mutual aid services during emergencies were not suspended or debarred from federal procurements.** Failure to verify the suspension and debarment status of all vendors increases the risk that the Department will enter into an agreement with an entity that is not eligible for federal procurements.

**Additionally, the Department could not provide evidence that it verified that 2 (4 percent) of 50 subrecipients were not suspended or debarred before entering into an award agreement.** For these two subrecipients, the Department was not able to provide evidence of subrecipient award documentation, including the subrecipients' certification that they were not suspended or debarred.

The issue discussed above affected the following awards that had procurements and subawards in fiscal year 2010:

| <u>Disaster Number</u> | <u>Grant Number</u> | <u>Start Date</u>  |
|------------------------|---------------------|--------------------|
| 1379                   | FEMA-1379-DR        | June 9, 2001       |
| 1791                   | FEMA-1791-DR        | September 13, 2008 |
| 3290                   | FEMA-3290-EM        | August 29, 2008    |
| 3294                   | FEMA-3294-EM        | September 10, 2008 |

Recommendations:

The Department should develop and implement a process to verify the suspension and debarment status of all vendors and subrecipients, including those procured under emergency procurement procedures.

Management Response and Corrective Action Plan 2010:

*The Department agrees with the recommendation.*

*The Texas Division of Emergency Management has added the requirement to document the review of the suspension and debarment list to the State Operations center Finance Team procedures checklist.*

*We will further review controls to ensure the suspension and debarment status is verified for all vendors and subrecipients, including those procured under emergency procurement procedures.*

Management Response and Corrective Action Plan 2011:

*The Department agreed with the recommendation and developed and implemented a process to verify the suspension and debarment status of all vendors and subrecipients, including those procured under emergency procurement procedures.*

Management Response and Corrective Action Plan 2012:

*The Department agreed with the recommendation and developed and implemented a process to verify the suspension and debarment status of all vendors and subrecipients, including those procured under emergency procurement procedures.*

*Implementation date: Completed June 2011*

*Responsible Person: Nim Kidd*



Matching, Level of Effort, Earmarking and Period of Availability of Federal Funds

Although the general control weakness described below applies to matching, level of effort, earmarking; and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA.** This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Corrective Action:

Corrective action was taken.

Reference No. 12-115

**Allowable Costs/Cost Principles  
Matching, Level of Effort, Earmarking  
Period of Availability of Federal Funds  
Reporting**

**CFDA 11.555 - Public Safety Interoperable Communications Grant Program  
Award year – October 1, 2007 to September 30, 2011  
Award number – 2007-GS-H7-0044  
Type of finding – Significant Deficiency and Non-compliance**

Allowable Costs/Cost Principles – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, Code of Federal Regulations, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, OMB requires that costs be treated consistently with other costs incurred for the same purposes in like circumstances.

Initial Year Written: 2011  
Status: Implemented

U.S. Department of Commerce  
U.S. Department of Homeland  
Security

**Seven (12 percent) of 60 non-payroll direct expenditures for the Public Safety Interoperable Communications (PSIC) grant program tested at the Department of Public Safety (Department) were not solely allocable to the PSIC grant program.** All seven expenditures were for payments made to a temporary staffing firm for management and administrative (M&A) services. The services the temporary staffing firm provided benefited multiple grant programs, including the PSIC grant program and other federal programs; therefore, the Department

should have allocated those expenditures across the M&A budgets for each of those grant programs. In fiscal year 2011, the Department charged \$96,029 to the PSIC grant program for the services of the temporary staffing firm.

Prior to January 2011, the Department did not use an allocation process to ensure that it charged expenditures for contract labor to the correct award. Instead, the Department charged contractor invoices to program budgets that had available M&A funds. Those contractor invoices did not contain detailed descriptions of the work performed; therefore, auditors were unable to determine the associated amount of questioned costs. Because the Department did not use a proper allocation methodology for contract labor expenditures, it did not charge the cost of contract labor to the federal grant programs that benefited from those services. In addition to the PSIC program, this issue affected nine other programs that the Department's State Administrative Agency (SAA) managed and administered, which are listed below.

The Department suspended its contract with the temporary staffing firm discussed above in August 2010; however it still made payments to that firm and charged those payments to the PSIC grant program through October 2010.

In addition to the PSIC grant program, the SAA also manages grant funds for the following grant programs:

- Border Interoperability Demonstration Project (CFDA 97.120)
- Buffer Zone Protection Program (CFDA 97.078)
- Emergency Operation Center Grant Program (CFDA 97.052)
- Homeland Security Cluster
- Interoperable Emergency Communications Grant Programs (CFDA 97.001)
- Nonprofit Security Grant Program (CFDA 97.008)
- Operation Stone Garden (CFDA 97.067)
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111)
- Transit Security Grant Program (CFDA 97.075)

#### Other Compliance Areas

Although the general control weakness described below applies to matching, level of effort, earmarking; period of availability of federal funds; and reporting, auditors identified no compliance issues regarding those compliance requirements.

#### General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

#### Corrective Action:

Corrective action was taken.

**PUBLIC SAFETY, DEPARTMENT OF**

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Reference No. 12-116

**Cash Management**

**CFDA 11.555 – Public Safety Interoperable Communications Grant Program**

**Award year – October 1, 2007 to September 30, 2011**

**Award number – 2007-GS-H7-0044**

**Type of finding – Significant Deficiency and Non-Compliance**

The Public Safety Interoperable Communications (PSIC) Grant Program’s program guidance and application kit permits the drawdowns of funds on an advance basis and requires state grantees to comply with interest requirements of the Cash Management Improvement Act (CMIA). This guidance also states that interest will accrue from the time federal funds are credited to a state account until the time the state pays out funds or transfers the funds to a subgrantee. The grantee must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury at least quarterly. Interest amounts up to \$100 per year may be retained by the grantee for administrative expenses (Title 44, Code of Federal Regulations, Section 13.21).

Initial Year Written: 2011  
Status: Partially Implemented

U.S. Department of  
Commerce  
U.S. Department of Homeland  
Security

Interest on Advances

**The Department of Public Safety (Department) did not calculate or monitor interest it earned on federal funds for the PSIC Grant Program, nor did it remit interest earned on federal funds to the U.S. Treasury.**

The Department has not established a process to calculate or monitor interest it earns on advanced federal funds. The Texas Office of the Comptroller of Public Accounts receives those funds and deposits them into a state treasury account along with non-PSIC Grant Program funds. The Department has not entered into an arrangement with the Texas Office of the Comptroller of Public Accounts to isolate the interest earned solely on PSIC Grant Program funds. Therefore, the Department has never remitted any interest earned on PSIC Grant Program funds to the U.S. Treasury.

Auditors tested a sample of 47 transactions representing 26 percent of the \$25,571,009 in federal PSIC Grant Program funds the Department drew down during fiscal year 2011, and estimated an interest liability of \$52 associated with those transactions.

Recommendations:

The Department should:

- Calculate the amount of interest it earned on advanced funds for fiscal year 2011 and work with the federal awarding agency to return the interest earned.
- Establish and implement procedures to calculate and track interest it earns on advanced federal funds and remit interest exceeding \$100 annually to the U.S. Treasury at least quarterly.

Management Response and Corrective Action Plan 2011:

*The Department agrees with the recommendations and will calculate the amount of interest earned on advanced funds and work with the federal awarding agency to return the interest. Additionally, the Department has implemented procedures to calculate interest earned on federal funds, and will remit interest exceeding \$100 annually to the U.S. Treasury at least quarterly.*

Management Response and Corrective Action Plan 2012:

*Effective in February 2012, DPS began returning interest earned to the federal government. This has become an ongoing process that is completed each quarter. Until clarification was provided by the SAO, we understood that we could maintain \$100 interest per federal award. We received clarification from SAO that we can maintain \$100 per year of interest total. In response, we have returned interest earned in excess of \$100 for fiscal year 2012 and implemented a practice of returning all interest earned in excess of \$100 each year.*

Implementation Date: January 2012

Responsible Person: Maureen Coulehan

Subrecipient Advances

Pass-through entities are required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved (Office of Management and Budget Circular A-133, Section .400(d)(3)).

**For 3 (38 percent) of 8 subrecipients tested, the Department provided hardship advances to subrecipients without obtaining proof of the subrecipients' subsequent disbursement of those funds.** The Department allows subrecipients to request cash advances in cases of economic hardship; however, it did not consistently follow up with subrecipients that had received hardship advances to ensure that they had spent those funds. The Department did not require subrecipients to submit proof of payments they made with the advanced funds. As a result, the Department cannot provide reasonable assurance that some recipients of hardship advances minimized the time between receipt and disbursement of federal funds. The Department provided evidence that it implemented new procedures in August 2011 to require staff to confirm that subrecipients spent those advances.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-117

**Equipment and Real Property Management**

**CFDA 11.555 - Public Safety Interoperable Communications Grant Program**

**Award year – October 1, 2007 to September 30, 2011**

**Award number – 2007-GS-H7-0044**

**Type of finding – Significant Deficiency and Non-Compliance**

The Department is required to manage its equipment in accordance with state laws and procedures (Title 2, Code of Federal Regulations, Part 225, Appendix B). In addition, the Office of Management and Budget Circular A-133 Compliance Supplement, Part 3, Section F, mandates that states receiving federal awards shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. In addition, the Office of the Texas Comptroller of Public Accounts (Comptroller's Office) *SPA Process User's Guide* states that each item of property, capitalized or controlled, must be assigned a unique property inventory number. Each agency is responsible for

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| Initial Year Written: 2011<br>Status: Implemented<br><br>U.S. Department of<br>Commerce<br>U.S. Department of Homeland<br>Security |
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ensuring that property is tracked and secured in a manner that is most likely to prevent loss, theft, damage or misuse.

#### Equipment Identification

Based on the Department of Public Safety's (Department) capital asset section's policies and procedures, when the Department receives an equipment item, its capital assets section receives a copy of the voucher, receiving report, and payment screen from accounts payable. The capital assets section then adds the item to the Department's inventory system and to the State of Texas's State Property Accounting (SPA) system. If a voucher is for an increase to an asset already in inventory, then the capital assets section adds the addition to the Department's inventory system and the SPA system as a component of the asset.

**For two new assets and seven asset additions the Department acquired with Public Safety Interoperability Communication (PSIC) funds, the Department did not add information to its inventory system or to the SPA system.** The Department purchased the two new assets for a total of \$36,500 in March 2011. It purchased the seven asset additions for a total of \$754,868 between November 2010 and March 2011, and the additions were associated with two existing assets that were already recorded in the Department's inventory system and in the SPA system. The Department added the two new assets and seven asset additions to its inventory system and the SPA system after auditors brought this issue to management's attention.

Additionally, auditors identified discrepancies for 2 (5 percent) of 41 equipment items tested. Specifically:

- The Department did not affix an asset tag to one item. Additionally, the description for the item was incorrect in both the Department's inventory system and in the SPA system. The equipment had an associated cost of \$17,570. The Department corrected the asset description in both systems and created and affixed a new asset tag after auditors brought this issue to management's attention.
- The serial number on the other item differed from what the Department reported in the SPA system and what it recorded in its inventory system. For this item, the receiving report that the Department's capital assets section received had the incorrect serial number listed for the equipment item; as a result, the capital assets section input incorrect serial numbers into both systems. The Department updated its inventory system and the SPA system with the correct serial number after auditors brought this issue to management's attention.

Not correctly tagging or adding assets and asset components to the Department's inventory system and to the SPA system increases the risk that the Department may not properly secure assets or may not account for the total cost of each asset.

#### SPA System Information and Property Tag Information

**For 28 (44 percent) of 63 equipment items tested, discrepancies existed between the Department's inventory system and the SPA system.** For those items, serial numbers in the SPA system differed from the serial numbers in the Department's inventory system. According to the Department, the serial numbers it submitted to the SPA system were based on incorrect serial numbers provided by the vendor. When the Department received the items and identified the correct serial numbers, it updated the information in its inventory system, but it did not update the information in the SPA system. The Department updated the SPA system with the correct serial numbers after this matter was brought to its attention.

Incorrect information in inventory systems creates a risk that the Department may not be able to properly identify, safeguard, or account for assets.

#### General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

Reference No. 12-118

**Procurement and Suspension and Debarment**

**CFDA 11.555 - Public Safety Interoperable Communications Grant Program**

**Award years – October 1, 2007 to September 30, 2011**

**Award numbers – 2007-GS-H7-0044**

**Type of finding – Significant Deficiency and Non-Compliance**

In accordance with Title 44, Code of Federal Regulations (CFR), Section 13.36, grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in that CFR section. All procurement transactions must be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals.

Initial Year Written: 2011  
Status: Implemented

U.S. Department of Commerce  
U.S. Department of Homeland  
Security

Competitive Bidding Procurements

**For 1 (50 percent) of 2 procurements tested that required competitive bidding, the Department of Public Safety's (Department) State Administrative Agency (SAA) inappropriately used an existing Texas Department of Information Resources contract to obtain non-IT services and circumvent the Department's established process to procure non-IT consultant services.** This allowed the SAA to retain the professional services of specific individuals. This contract ended on August 31, 2011; however, the Department charged \$96,029 to the Public Safety Interoperable Communications (PSIC) grant program in fiscal year 2011 for the services the consultant performed.

**Auditors did not identify any instances of non-compliance or after January 2011.**

Approval Authority for Procurements

The Department requires approval by Department management depending on the amount of the procurement. Specifically, the approval authority requirements are as follows:

- Deputy assistant directors are authorized to approve purchases up to \$50,000.
- Assistant directors are authorized to approve purchases up to \$250,000.
- Deputy directors approve purchases up to \$500,000.

Additionally, the Department's director granted the deputy directors approval authority for purchases they deemed appropriate, which allowed the deputy directors to further delegate their approval authority to increase efficiency while maintaining an appropriate level of oversight. However, there is no specific approval authority granted for procurements exceeding \$500,000.

**For 3 (23 percent) of 13 PSIC procurements tested, the Department did not provide evidence that it obtained the authorizations required by its policy.** Additionally, the Department was unable to provide documentation that it delegated authority to approve those procurements to a level of management differing from the levels described in its policy. This increases the risk that unauthorized purchases could be made with federal funds or that procurements might not comply with state and federal requirements.

Subrecipient Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective to award amount (Title 2, Code of Federal Regulations, Section 180.210).

For 1 (13 percent) of 8 PSIC subrecipients tested, the Department could not provide evidence that the subrecipient had certified that it was not suspended or debarred. The Department did not obtain a signed copy of the subrecipient agreement until auditors requested it, which was after the performance period for the award had ended.

When the Department does not verify that subrecipients are not suspended or debarred, this increases the risk that it could enter into an agreement with an entity that is not eligible to receive federal funding. However, auditors reviewed the EPLS and determined that the subrecipient discussed above was not suspended or debarred.

In addition to PSIC awards, the Department's SAA also manages grant funds for the following grant programs and clusters of programs:

- Border Interoperability Demonstration Project (CFDA 97.120)
- Buffer Zone Protection Program (CFDA 97.078)
- Emergency Operation Center Grant Program (CFDA 97.052)
- Homeland Security Cluster
- Interoperable Emergency Communications Grant Programs (CFDA 97.001)
- Nonprofit Security Grant Program (CFDA 97.008)
- Operation Stone Garden (CFDA 97.067)
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111)
- Transit Security Grant Program (CFDA 97.075)

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

**PUBLIC SAFETY, DEPARTMENT OF**

Reference No. 12-119

**Subrecipient Monitoring**

**CFDA 11.555 – Public Safety Interoperable Communications Grant Program**

**Award year – October 1, 2007 to September 30, 2011**

**Award number – 2007-GS-H7-0044**

**Type of finding – Significant Deficiency and Non-Compliance**

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of the contracts or grant agreements.

In fiscal year 2011, the Department passed through \$20,818,024 in Public Safety Interoperable Communications (PSIC) funding to its subrecipients.

Initial Year Written: 2011  
Status: Partially Implemented  
  
U.S. Department of Commerce  
U.S. Department of Homeland Security

Award Identification

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement, Part 3, Section M, to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements. The Department's State Administrative Agency (SAA) manages and administers the PSIC program, as well as the Homeland Security Cluster and other federal grant programs, for the State of Texas.

**For 1 (13 percent) of 8 subrecipients tested, the Department could not provide evidence that the subrecipient had accepted the terms and conditions of the grant for which it had received funds.** The Department did not obtain a signed copy of its agreement with that subrecipient until auditors requested it during this audit, which was after the performance period for the award ended. As a result, the Department could not provide evidence that it had properly communicated the CFDA title and number, the federal award name and number, the name of the federal awarding agency, and applicable federal compliance requirements at the time it made the subaward.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on a subrecipient's Schedule of Expenditures of Federal Awards (SEFA).

Corrective Action:

Corrective action was taken.

During-the-award Monitoring

The recipient is responsible for monitoring PSIC award activities, including subawards, to provide reasonable assurance that the award is administered in compliance with federal requirements, including monitoring subrecipient awards (PSIC Program Guidance and Application Kit, Section VI.D).

The Department monitors subrecipient activities through review and approval of reimbursement requests, quarterly progress reporting, and site visits it conducts at subrecipients that it selects based on a biennial risk assessment.

**However, the Department could not provide evidence that it consistently monitored PSIC subrecipients' compliance with reporting requirements.** For 6 (75 percent) of 8 subrecipients tested, the subrecipient did not submit a required narrative progress report. The narrative progress report is a tool that the Department established to monitor the status of each subrecipient's progress toward completion of each project. The Department's process is to deny subrecipients who do not submit required reports access to the automated system through which subrecipients request reimbursement for federal expenditures. However, for those six subrecipients, the Department did not



manually initiate the process to remove the subrecipients' access to that system; therefore, those six subrecipients were still able to request and receive reimbursement.

As a result of this issue, the Department may not identify subrecipients that may not be making expected progress on PSIC projects.

Corrective Action:

Corrective action was taken.

Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with Single Audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. However, **for 1 (13 percent) of 8 subrecipients tested, the Department did not ensure that it obtained a copy of the subrecipient's Single Audit report.** The subrecipient was included in the Department's tracking spreadsheet, however, the Department did not ensure that the subrecipient submitted its Single Audit report within nine months of the end of its fiscal year. The Department asserted that it requested the Single Audit report from the subrecipient, but that the subrecipient did not respond to its request. The Department did not provide evidence that it took additional action, such as sanctioning the subrecipient. Information in the Federal Audit Clearinghouse database indicated that the subrecipient had findings related to the PSIC program in its Single Audit report.

Not obtaining a subrecipient's Single Audit report increases the risk that deficiencies could go unaddressed.

Recommendations:

The Department should:

- Obtain and review subrecipients' Single Audit reports and issue management responses on those reports when necessary.
- Issue sanctions when subrecipients do not comply with requirements to provide Single Audit reports.

Management Response and Corrective Action Plan 2011:

*The Department agrees with the recommendations and will:*

- *Communicate all required award information and obtain signed subrecipient agreements acknowledging acceptance of that information.*
- *Consistently enforce quarterly reporting requirements for all subrecipients.*
- *Obtain and review subrecipient & Single Audit reports and issue management responses on those reports when necessary.*
- *Issue sanctions when subrecipients do not comply with requirements to provide Single Audit reports.*

*SAA currently communicates all of the required award information in its Sub-recipient agreement. SAA retains a signed Sub-recipient agreement as documentation of the information relay. SAA acknowledges that it was missing*

*one of the sampled sub-recipient agreements. SM will implement procedures to ensure that a signed copy of a sub-recipient agreement is received and retained for each grant award made.*

Management Response and Corrective Action Plan 2012:

*We have partially implemented all of these findings in the following manner:*

- 1. Lists have been obtained from the various grant program sections of grant recipients and expenditures passed through TDEM and SAA.*
- 2. Questionnaires have been mailed to subrecipients on list.*
- 3. Single audit reports with findings have been forwarded to grant program management for follow up and decisions.*
- 4. We have held several meetings with grant program management to further explain and facilitate the management decision process.*
- 5. We have provided policy and procedures for the A-133 Single Audit review process when responses were provided to the SAO.*

*To complete and close out these findings the following steps were taken:*

- 1. Program management coordinated contact information for the subrecipients who did not reply to the mailed questionnaires. A-133 staff contacted each subrecipient to explain the need for response to questionnaires.*
- 2. Program management contacted subrecipients with single audit findings to determine if the corrective action plan has been implemented.*
- 3. Program management determined through the management decision process how the findings may impact their programs and notified the subrecipient of their decisions.*
- 4. Program management forward copies of correspondence regarding the management decision to A-133.*
- 5. One small jurisdiction that receives funds from the SAA (non PSIC) has not responded to the questionnaire. We are the process of issuing a letter to the entity informing them that we are holding their reimbursements until the questionnaire has been submitted*

*Implementation Date: October 2012*

*Responsible Persons: Machele Pharr and Paula Logan*

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The Department did not appropriately restrict access to its network.** Specifically, two programmers had administrator-level access to the network. The Department removed that access when auditors brought this matter to its attention. Having inadequate segregation of duties increases the risk of unauthorized modification of data and unauthorized access to information systems.

Additionally, the Department did not conduct periodic reviews of high-profile user accounts at the network level to ensure that all user accounts were current and that users' access was appropriate for their job duties.

Corrective Action:

Corrective action was taken.

**University of Texas Medical Branch at Galveston**

Reference No. 12-180

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles**

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award year – September 13, 2008**

**Award number – FEMA-1791-DR-TX**

**Type of finding – Significant Deficiency and Non-Compliance**

Costs related to fines and penalties resulting from an institution’s failure to comply with requirements are unallowable (Title 2, Code of Federal Regulations (CFR), Appendix A, Section 220 (J)(19)).

Initial Year Written: 2011  
Status: Implemented

U.S. Department of Homeland  
Security

Allowable costs must be reasonable, allocable to sponsored agreements, and be treated consistently. A major consideration involved in the determination of the reasonableness of a cost is whether the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement. A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement or it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods (Title 2 CFR, Appendix A, Section 220 (C)(2-4)).

**Two federal expenditures tested at the University of Texas Medical Branch at Galveston (Medical Branch) were unallowable.** Specifically:

- 1 (1.4 percent) of 70 expenditure transactions tested was unallowable because the expenditure of \$175 was for interest that the Medical Branch incurred for a late payment on an invoice. This expenditure affected Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program project worksheet number 30039. According to Medical Branch reports, the Medical Branch expended \$1,660 in federal funds on interest charges it incurred on late payments it made between June 2009 and November 2011 (\$400 was applicable to fiscal year 2011). The Medical Branch transferred all of those costs to non-federal sources after auditors brought this matter to its attention.
- 1 (7.7 percent) of 13 expenditure transfers tested included a line item that the Medical Branch transferred to a federal account; however, the expenditure could not be tied to a Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program project worksheet or validation package. Therefore, there was no documentation to support that this cost of \$265,159 on food and paper products was reasonable or allocable to the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program. The Medical Branch transferred this cost to non-federal funds after auditors brought this matter to its attention. The Medical Branch originally charged this expenditure against Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program project worksheet number 30027.

Corrective Action:

Corrective action was taken.

Reference No. 12-181

**Equipment and Real Property Management**

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award year – September 13, 2008**

**Award number – FEMA-1791-DR-TX**

**Type of finding – Significant Deficiency and Non-Compliance**

A recipient’s equipment records for equipment acquired with federal funds and federally owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer’s serial number or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment.

Initial Year Written: 2011  
 Status: Implemented  
  
 U.S. Department of Homeland Security

A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the cause of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and the continued need for the equipment.

A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the federal government, the recipient shall promptly notify the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.34 (f))

**The University of Texas Medical Branch at Galveston (Medical Branch) did not adequately safeguard equipment and did not sufficiently document its investigative efforts or the resolution of its investigations regarding the loss or theft of 4 (17percent) of 23 capital equipment items that it acquired during recovery from Hurricane Ike.** Those four items were reported missing during the Medical Branch’s annual inventory process, and the Medical Branch recorded them as missing in its asset management system. For the two vehicles, the Medical Branch attempted to determine why the items were missing; however, it did not document a resolution.

The missing items were:

| <u>Equipment Item</u>      | <u>Acquisition Price</u> | <u>Inventory Addition Date</u> | <u>Missing as of Date</u> |
|----------------------------|--------------------------|--------------------------------|---------------------------|
| Mastercycler-Gradient PRC  | \$ 5,607                 | June 22, 2010                  | August 31, 2011           |
| RADCAL Software            | \$ 24,300                | July 1, 2010                   | August 31, 2011           |
| 2010 Chevrolet HHR SUV     | \$ 15,886                | April 6, 2010                  | August 31, 2011           |
| Kubota RTV900 RL Truckster | \$ 14,593                | March 16, 2010                 | August 31, 2011           |

Corrective Action:

Corrective action was taken.

Reference No. 12-182

**Procurement and Suspension and Debarment**

**CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award year – September 13, 2008**

**Award number – FEMA-1791-DR-TX**

**Type of finding – Significant Deficiency and Non-Compliance**

Title 2, Code of Federal Regulations (CFR), Chapter 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.43, requires that “all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.” In addition, Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price.

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| Initial Year Written: 2011<br>Status: Implemented<br><br>U.S. Department of Homeland Security |
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The University of Texas Medical Branch at Galveston (Medical Branch) has established guidelines for all procurements that equal or exceed \$5,000. Specifically, such procurements must be made through one of the following methods:

- Make the procurement through a competitive bid.
- When an equivalent product or service specified is not available or limited to one manufacturer (sole source), provide a justification with key elements including an explanation of the need for the specific item and the reason competing products were not used.
- When the procurement needs to be processed on an emergency basis due to “patient care or unforeseen situations,” provide a justification with explanations prior to the procurement.

**The Medical Branch did not ensure competition for 2 (3 percent) of 60 procurements tested.** For those two procurements, the Medical Branch did not follow its guidelines to competitively bid, provide a justification for limiting competition, or identify an emergency basis for limiting competition. Instead, the Medical Branch selected vendors that had previously provided services for the Medical Branch and attempted to obtain the best value. However, without adhering to its guidelines, the Medical Branch could not ensure competition. This increases the risk that the Medical Branch could contract with vendors that are not the most qualified for the work to be performed or do not provide the best value. The total cost of the items the Medical Branch obtained through the two procurements was \$31,617.

**The Medical Branch also did not maintain documentation that justified limiting competition for 1 (5 percent) of 20 procurements tested for which competition was limited.** The Medical Branch identified that procurement as having limited competition at the time it selected the vendor; however, it did not maintain a sole source justification form. Without the sole source justification form, the justification for vendor selection could not be determined. The total cost of the item the Medical Branch obtained through that procurement was \$39,435.

Corrective Action:

Corrective action was taken.

# Appendix

## Objectives, Scope, and Methodology

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### Objectives

With respect to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program (Public Assistance Program), the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program.

### Scope

The audit scope covered federal funds that the State spent for the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program from September 1, 2011, through August 31, 2012. The audit work included control and compliance tests at the Department of Public Safety (Department) and the University of Texas Medical Branch at Galveston (Medical Branch).

### Methodology

The audit methodology included developing an understanding of controls over each compliance area that was material to the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program. Auditors selected non-statistical samples for tests of compliance and controls for each compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2012. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population but the accuracy of the extrapolation cannot be measured. In some cases, auditors may use professional judgment to select additional items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population. Auditors conducted tests of compliance and of the controls

identified for each compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data the Department and the Medical Branch provided and determined that the data was reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Hazard Mitigation Grant Program, and the Public Assistance Program.

Information collected and reviewed included the following:

- Department and Medical Branch data on expenditures, procurement, reporting, cash revenue, required matching funds, program income, and subrecipients.
- Federal notices of award and award proposals.
- Transactional support related to expenditures, procurement, and revenues.
- Department-generated and Medical Branch-generated reports and data used to support reports, revenues, and other compliance areas.
- Information system support for Department and Medical Branch assertions related to general controls over information systems that support the control structure related to federal compliance.

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing for samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of design of other controls to assess the sufficiency of the Department's and the Medical Branch's control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

- The Code of Federal Regulations.
- U. S. Office of Management and Budget Circulars A-21, A-87, A-102, and A-133.



- The Federal Funding Accountability and Transparency Act.
- Federal notices of award and award proposals.
- Federal agency circulars, handbooks, and guidance.
- Department and Medical Branch policies and procedures.

### Project Information

Audit fieldwork was conducted from August 2012 through January 2013. Except as discussed above in the Independent Auditor’s Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following members of the State Auditor’s staff performed the audit:

- Audrey O’Neill, CIA, CGAP (Project Manager)
- Jennifer Brantley, MS, CPA (Assistant Project Manager)
- Lilia Christine Srubar, CPA (Team Lead)
- Serra Tamur, MPAff, CIA, CISA (Information Technology Coordinator)
- Ellie Thedford, CGAP (Prior Year Finding Coordinator)
- Scott Armstrong, CGAP
- Isaac A. Barajas
- Pamela A. Bradley, CPA
- Amy Cheeseman
- Michelle DeFrance, CPA, MA (Team Lead)
- Cheryl Durkop
- Arnton W. Gray
- Lindsay Johnson
- Joseph Kozak, CPA, CISA
- Robert Lane

- Karen S. Mullen, CGAP
- Matthew M. Owens, CFE
- Nikhol Remedios
- Sonya Tao, CFE
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Dana Musgrave, MBA (Quality Control Reviewer)
- James Timberlake, CIA (Audit Manager)

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