



**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, 2011**

February 2012  
Report No. 12-019



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, 2011

SAO Report No. 12-019  
February 2012

## Overall Conclusion

With the exception of certain non-compliance disclosed in this report, the State of Texas complied in all material respects with the federal requirements for the Hazard Mitigation Grant Program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program in fiscal year 2011.

In addition, the State of Texas complied in all material respects with federal requirements for the Homeland Security Cluster of federal programs and the Public Safety Interoperable Communications Grant Program in fiscal year 2011.

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 14 areas, such as 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 \$86,555,601 in federal funds during fiscal year 2011 and (2) other selected federal programs.

From September 1, 2010, through August 31, 2011, the State of Texas expended \$57.5 billion in federal funds for federal programs and clusters of programs. The

### The Homeland Security Cluster of Federal Programs

The Homeland Security Cluster of federal programs 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 for the repair, restoration, reconstruction, or replacement of public facilities or infrastructure.

#### The Public Safety Interoperable Communications Grant Program

The Public Safety Interoperable Communications (PSIC) Grant Program is a one-time, formula-based, five-year matching grant program intended to enhance interoperable communications for voice, data, and/or video signals. This program provides public safety agencies with the opportunity to achieve improvements to public safety communications interoperability.

*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.*

State Auditor's Office audited compliance with requirements for selected major programs at the Department of Public Safety (Department) and the University of Texas Medical Branch at Galveston (Medical Branch). During fiscal year 2011, the Department spent \$131,223,963 in Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program funds and the Medical Branch spent \$48,462,099 in Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program funds. The Department also spent \$161,673,522 in Homeland Security Cluster funds, \$81,108,943 in Hazard Mitigation Grant Program funds, and \$23,154,073 in Public Safety Interoperable Communications Grant Program funds.

Auditors identified 17 findings, including 2 material weaknesses with material non-compliance, 2 material weaknesses with non-compliance, and 13 significant deficiencies with non-compliance (see text box for definitions of finding classifications).

#### 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.

## Key Points

**The Department had material weaknesses in its financial reporting for the Hazard Mitigation Grant Program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program.**

The Department did not ensure that the financial reports it submitted to the federal government were adequately supported by information from its accounting system. Instead, the Department relied on information from the federal system through which it requested funds.

**The Department had material weaknesses in its Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program. Auditors also identified instances of non-compliance associated with those material weaknesses.**

The Department did not comply with time requirements for disbursing federal funds to its vendors and subrecipients. In addition, the Department did not have controls to ensure that each of its drawdowns of federal funds was supported. Auditors identified eight subrecipient payments that the Department erroneously paid twice, resulting in duplicate drawdowns of federal funds in each of those instances.

The Department does not have a formal system to track, administer, and monitor Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

subgrants that it provides to subrecipients. As a result, it did not consistently enforce and monitor subrecipient compliance with federal requirements and, therefore, did not detect potential subrecipient non-compliance. The Department also did not (1) ensure that its subrecipients obtained Single Audits when necessary or (2) consistently follow up on issues identified in subrecipients' Single Audit reports.

**Auditors identified control weaknesses and non-compliance in the Department's administration of the Homeland Security Cluster of federal programs and the Public Safety Interoperable Communications Grant Program.**

The Department did not ensure that all direct costs that it charged to federal grants were solely allocable to each federal program. Prior to January 2011, for programs administered by the Department's State Administrative Agency, the Department did not have a process to ensure that it charged both payroll and non-payroll expenditures to the correct award or program.

The Department did not calculate, monitor, or remit the interest it earned on federal funds to the federal government as required for these programs. Additionally, for each of those programs, the Department provided hardship advances to its subrecipients without obtaining proof of the subrecipients' subsequent disbursement of those funds.

The Department did not always competitively bid procurements when required. While the procurements that the Department did not competitively bid were made prior to fiscal year 2011, the Department paid vendors for services provided through those procurements during fiscal year 2011.

The Department did not consistently communicate all required award information or enforce and monitor subrecipient compliance with federal requirements and, therefore, did not detect potential subrecipient non-compliance. The Department also did not (1) ensure that its subrecipients obtained Single Audits when necessary or (2) consistently follow up on issues identified in subrecipients' Single Audit reports. That issue also affected the Hazard Mitigation Grant Program; additionally, the Department did not have a process to verify that its subrecipients for the program were not suspended or debarred.

**The Medical Branch had weaknesses in its control structure and instances of non-compliance for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program.**

Auditors identified significant deficiencies and non-compliance at the Medical Branch related to allowable costs, controls over safeguarding equipment, and procurements made after Hurricane Ike.

**Auditors followed up on 11 findings from prior fiscal years for the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program, and the Edward Byrne Memorial Justice Assistance Grant Program - Grants to States and Territories - ARRA.**

The Department fully implemented recommendations for two findings from prior fiscal years.

The Department partially implemented the recommendation for one finding from a prior fiscal year.

The State Auditor's Office reissued eight findings from prior fiscal years as fiscal year 2011 findings in this report. Those eight findings were related to the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) 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 selected major federal programs at the Department and the Medical Branch. Auditors determined that two users at the Department had access to the Department's network that exceeded their business needs.

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

With respect to the selected major programs at the Department and the Medical Branch, 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 selected major programs at the Department and the Medical Branch.

The audit scope covered federal funds that the State spent for the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the

Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program from September 1, 2010, through August 31, 2011. The audit work included control and compliance tests 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program at the Department, and at the Medical Branch for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program only. 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 provided by the Department and the Medical Branch and determined that the data provided 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 programs identified above.

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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, 2011*





John Keel, CPA  
State Auditor

Report on Compliance with Requirements that Could Have a Direct and Material Effect on  
The Homeland Security Cluster of Federal Programs,  
The Hazard Mitigation Grant Program,  
The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program, and  
The Public Safety Interoperable Communications Grant 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program for the year ended August 31, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant 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.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2011. As such, the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2011. The State does not meet the OMB Circular A-133 requirements for a

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program-specific audit and the presentation of the Schedule of 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 or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Hazard Mitigation Grant	Reporting	12-111
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Reporting	12-114

In our opinion, except for the noncompliance described above, 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program for the year ended August 31, 2011. 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	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Activities Allowed or Unallowed	12-106
		Allowable Costs/Cost Principles	
		Matching, Level of Effort, Earmarking	
		Period of Availability of Federal Funds	
		Reporting	
		Special Tests and Provisions - Subgrant Awards	
	Hazard Mitigation Grant	Cash Management	12-107
		Procurement and Suspension and Debarment	12-108
		Subrecipient Monitoring	12-109
		Procurement and Suspension and Debarment	12-110
		Subrecipient Monitoring	

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Cash Management	12-112
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Matching, Level of Effort, Earmarking	
		Period of Availability of Federal Funds	
	Special Tests and Provisions - Project Accounting		
	Public Safety Interoperable Communications Grant Program	Procurement and Suspension and Debarment	12-113
		Subrecipient Monitoring	
		Allowable Costs/Cost Principles	12-115
		Matching, Level of Effort, Earmarking	
Period of Availability of Federal Funds			
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Reporting	
		Cash Management	12-116
		Equipment and Real Property Management	12-117
		Procurement and Suspension and Debarment	12-118
		Subrecipient Monitoring	12-119
		Activities Allowed or Unallowed	12-180
		Allowable Costs/Cost Principles	
		Equipment and Real Property Management	12-181
Procurement and Suspension and Debarment	12-182		

### 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant 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 Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant 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 or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Hazard Mitigation Grant	Reporting	12-111
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Cash Management	12-112
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Matching, Level of Effort, Earmarking	
		Period of Availability of Federal Funds	
	Special Tests and Provisions - Project Accounting		
	Procurement and Suspension and Debarment	12-113	
	Subrecipient Monitoring		
	Reporting	12-114	

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	Cluster or Program	Compliance Requirement	Finding Number	
Department of Public Safety	Homeland Security Cluster	Activities Allowed or Unallowed	12-106	
		Allowable Costs/Cost Principles		
		Matching, Level of Effort, Earmarking		
		Period of Availability of Federal Funds		
		Reporting		
		Special Tests and Provisions - Subgrant Awards		
	Hazard Mitigation Grant	Cash Management	12-107	
		Procurement and Suspension and Debarment	12-108	
		Subrecipient Monitoring	12-109	
		Procurement and Suspension and Debarment	12-110	
		Subrecipient Monitoring	12-115	
		Public Safety Interoperable Communications Grant Program		
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Allowable Costs/Cost Principles	12-116	
		Matching, Level of Effort, Earmarking		
		Period of Availability of Federal Funds		
		Reporting		
		Cash Management		12-117
		Equipment and Real Property Management		12-118
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Procurement and Suspension and Debarment	12-119	
		Subrecipient Monitoring	12-180	
		Activities Allowed or Unallowed	12-181	
Allowable Costs/Cost Principles				
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Equipment and Real Property Management	12-182	
		Procurement and Suspension and Debarment		

### Schedule of Program Expenditures

The accompanying Schedule of Program Expenditures for the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program (Schedule) of the State for the year ended August 31, 2011, 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, 2011*.

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, 2012

**Schedule of Program Expenditures for  
The Homeland Security Cluster of Federal Programs,  
The Hazard Mitigation Grant Program,  
The Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program, and  
The Public Safety Interoperable Communications Grant Program  
For the State of Texas  
For the Year Ended August 31, 2011**

<b>Schedule of Program Expenditures Homeland Security Cluster</b>			
Agency	Pass-through to Non-state Entity	Direct Expenditures	Totals
Department of Public Safety	\$154,250,016	\$7,423,506	\$161,673,522
Total for Homeland Security Cluster	\$154,250,016	\$7,423,506	\$161,673,522
Note: Federal expenditures for the Homeland Security Cluster of federal programs at state entities not included in the scope of this audit totaled \$3,875,531 for the year ended August 31, 2011.			

<b>Schedule of Program Expenditures Hazard Mitigation Grant</b>			
Agency	Pass-through to Non-state Entity	Direct Expenditures	Totals
Department of Public Safety	\$80,664,325	\$444,618	\$81,108,943
Total for Hazard Mitigation Grant	\$80,664,325	\$444,618	\$81,108,943
Note: Federal expenditures for the Hazard Mitigation Grant Program at state entities not included in the scope of this audit totaled \$125,997 for the year ended August 31, 2011.			

<b>Schedule of Program Expenditures Disaster Grants - Public Assistance (Presidentially Declared Disasters)</b>			
Agency	Pass-through to Non-state Entity	Direct Expenditures	Totals
Department of Public Safety	\$117,212,624	\$14,011,339	\$131,223,963
University of Texas Medical Branch at Galveston	0	48,462,099	48,462,099
Total for Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$117,212,624	\$62,473,438	\$179,686,062
Note: Federal expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) at state entities not included in the scope of this audit totaled \$26,494,258 for the year ended August 31, 2011.			

**Schedule of Program Expenditures  
Public Safety Interoperable Communications Grant Program**

Agency	Pass-through to Non-state Entity	Direct Expenditures	Totals
Department of Public Safety	\$20,818,024	\$2,336,049	\$23,154,073
Total for Public Safety Interoperable Communications Grant Program	\$20,818,024	\$2,336,049	\$23,154,073
Note: Federal expenditures for the Public Safety Interoperable Communications Grant Program at state entities not included in the scope of this audit totaled \$1,856,901 for the year ended August 31, 2011.			



# 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, 2011*

## 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 Fiscal Year Ended August 31, 2011*.

### 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 or Cluster
Cluster	Homeland Security Cluster
97.039	Hazard Mitigation Grant Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program
11.555	Public Safety Interoperable Communications Grant Program

### Major programs with Material Weaknesses:

CFDA Number	Name of Federal Program or Cluster
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.

Qualified:

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

Unqualified:

CFDA Number	Name of Federal Program or Cluster
Cluster	Homeland Security Cluster
11.555	Public Safety Interoperable Communications 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 or Cluster
Cluster	Homeland Security Cluster
97.039	Hazard Mitigation Grant Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program
11.555	Public Safety Interoperable Communications Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$86,555,601

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 Fiscal Year Ended August 31, 2011*.

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. 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:

Questioned Cost: \$ 4,585  
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 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 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 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 benefitted 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.**

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**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)

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.

Recommendations:

The Department should:

- Continue to (1) ensure that all payroll and non-payroll costs it charges to the Homeland Security Cluster are allocable to the federal award and (2) base its allocation methods on actual time spent or services provided.
- Ensure that its reimbursements to employees are appropriate and correct based on the amount of expenses that employees incurred.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*We appreciate the acknowledgement that actions taken by the Department in response to the FY 2010 Single Audit issues have addressed these cost allocations issues.*

*After the FY 2010 Single Audit, the Department established controls to ensure payroll costs are charged to the appropriate federal award. In January 2011, the Department implemented a new timekeeping system where SAA employees complete weekly reports to indicate the number of hours they work including the number of hours to be charged to each federal award.*

*Starting in FY 2012, the SAA provides an estimate per grant for the drawdown based on the prior month's actual expenditures. The following month the SAA reconciles the actual employees' time per grant records against the estimate and modifies the next month drawdown as appropriate.*

*Lastly, the Department will implement controls to ensure that reimbursements to employees are appropriate and correct based on the amount of expenses that employees incurred. The over reimbursement of \$14.16 has been collected from the employee.*

*Implementation Date: April 2012*

*Responsible Person: Maureen Coulehan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*



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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).

Questioned Cost: \$ 15

U.S. Department of Homeland Security

**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.

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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

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.

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.
- Follow up with subrecipients that receive hardship advances to ensure that subrecipients minimize the time elapsing between receipt and disbursement of federal funds.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will calculate the amount of interest earned on advanced funds and will 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.*

*Lastly, the Department has implemented procedures to follow up with Sub-recipients that receive hardship advances to ensure the Sub-recipients minimize the time elapsing between receipt and disbursement of federal funds. Specifically, SAA established written guidance explaining the Sub-recipients' responsibility to minimize the time elapsing between receipt and disbursement of federal funds for those who seek advances. SAA required Sub-recipients who received advances in 2011 to timely pay their invoices and, within 30 days of payment, provide proof of the payments made with the advanced funds. The Department will follow up with those Sub-recipients who*

seemingly failed to minimize the time between receipt and disbursement of the advanced funds and, therefore, may have received more than \$100 in interest on advanced funds annually.

Implementation Date: April 2012

Responsible Persons: Maureen Coulehan and Machele Pharr

General Controls

The Department agrees with the recommendations.

- IT Security eliminated this exposure during the audit by removing the two programmers from network access.
- IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.

Implementation Date: September 2012

Responsible Person: Alan Ferretti

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.

Questioned Cost: \$ 580,423

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.

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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)

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.

Recommendations:

The Department should:

- Consistently comply with its procurement policies related to competitive bidding and emergency procurements.
- Use pre-existing statewide contracts appropriately and only for their intended purpose.
- Comply with its procurement policy by obtaining required approvals for all procurements.
- Verify that its subrecipients are not suspended or debarred.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

We appreciate the acknowledgement that actions taken by the Department in response to the FY 2010 Single Audit issues have addressed these compliance issues.

SAA has procured no contracts under an emergency exception since January 2011. Department management is committed to following state law and DPS procurement policies and will consistently comply with procurement policies related to competitive bidding and emergency procurements.

The Department will use pre-existing statewide contracts appropriately and only for their intended purposes. Since January 2011, all SAA DIR contracts have been for permissible IT/communications purposes as intended by the DIR procurement process.

On March 28, 2011, SAA management executed and subsequently follows its HQ-53, Division Signature Authorization. Procurement and Contract Services will implement controls to assure grant expenditures comply with agency procurement policy.

The Department has verified that its Sub-recipients are not suspended or debarred and obtained certifications from Sub-recipients they are not suspended or disbarred.

In October 2011, SAA verified its proposed FY2011 Sub-recipients were neither debarred nor suspended. In addition, in November 2011, SAA required Sub-recipients to certify, as a term of the grant award, that they are neither suspended nor debarred.

Implementation Date: July 2012

Responsible Persons: Machel Pharr and Dana Collins

General Controls

The Department agrees with the recommendations.

- IT Security eliminated this exposure during the audit by removing the two programmers from network access.
- IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.

Implementation Date: September 2012

Responsible Person: Alan Ferretti

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.

Questioned Cost: \$ 0

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.**

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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:

- 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

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.



Recommendations:

The Department should:

- Communicate all required award information in its subrecipient agreements.
- Include all subrecipients in its risk assessment for site visits.
- Ensure that subrecipient Single Audit information in its tracking spreadsheet is accurate and complete.
- 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 it receives those certifications and Single Audit reports.
- Review subrecipients' Single Audit reports within six months of receipt of those reports and issue management decisions when applicable.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will:*

- *Communicate all required award information in its subrecipient agreements.*
- *Include all subrecipients in its risk assessment for site visits.*
- *Ensure that subrecipient Single Audit information in its tracking spreadsheet is accurate and complete.*
- *Require all subrecipients to certify that they will obtain Single Audit if they meet the threshold or certify that they are not required to obtain Single Audit, and follow up with subrecipients to ensure it receives those certifications and Single Audit reports.*
- *Review subrecipients' Single Audit reports within six months of receipt of those reports and issue management decisions when applicable.*

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

*Implementation Date: June 2012*

*Responsible Persons: Machele Pharr and Paula Logan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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.

Questioned Cost: \$ 0

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

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.

Recommendations:

The Department should:

- Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its monitoring records.
- Track all subrecipients to determine whether they are required to obtain a Single Audit.
- Monitor subrecipient Single Audit report submissions, follow up on findings, and issue management decisions when necessary.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will improve the sub-recipient monitoring process to ensure we:*

- *Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its monitoring records.*
- *Track all subrecipients to determine whether they are required to obtain a Single Audit.*
- *Monitor subrecipient Single Audit report submissions, follow up on findings, and issue management decisions when necessary.*

*Implementation Date: June 2012*

*Responsible Person: Paula Logan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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).

Questioned Costs: \$0
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 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.

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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

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.

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.
- Submit financial reports to awarding entities within the required time frames.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations. We will improve internal controls to ensure we report required information based on adequate support and to ensure we submit financial reports timely.*

*Implementation Date: April 2012*

*Responsible Persons: Shari Ramirez-MacKay and Maureen Coulehan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*

- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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).

Questioned Cost: \$ 118,577
U.S. Department of Homeland Security

**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.

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- 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



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3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008

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.

Recommendations:

The Department should:

- Comply with the three-day time frame in the Treasury-State Agreement when receiving and disbursing federal funds to subgrantees.
- Implement controls to prevent and identify duplicate payments to subgrantees to ensure that its drawdown amounts are supported.
- Comply with FEMA-approved grant guidelines regarding advances of funds in proportion to the approved award amounts.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will implement controls to ensure the three-day time frame is met and to prevent and identify duplicate payments to subgrantees.*

*TDEM has amended the State Administrative Plan for Ike and following disasters. TDEM will follow the sub-recipient payment process in the appropriate plan.*

*Implementation Date: April 2012*

*Responsible Persons: Maureen Coulehan and Paula Logan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*

- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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.

Questioned Cost: \$ 0

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.

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.

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**PUBLIC SAFETY, DEPARTMENT OF**

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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

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.

Recommendations:

The Department should:

- Establish a formal process to track and monitor all active subrecipient and Department projects.
- Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its monitoring records.
- Retain documentation of its during-the-award monitoring activities and communicate deficiencies identified during its monitoring process to subrecipients.
- Ensure that information in the Department's Single Audit tracking spreadsheet is accurate.
- 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.
- Review subrecipients' Single Audit reports within six months of receipt of those reports and issue management decisions when applicable.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will:

- Establish a formal process to track and monitor all active subrecipient and Department projects.
- Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its monitoring records.
- Retain documentation of its during-the-award monitoring activities and communicate deficiencies identified during its monitoring process to subrecipients.
- Ensure that information in the Department's Single Audit tracking spreadsheet is accurate.
- 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.
- Review subrecipients' Single Audit reports within six months of receipt of those reports and issue management decisions when applicable

Implementation Date: December 2012

Responsible Person: Paula Logan

General Controls

The Department agrees with the recommendations.

- IT Security eliminated this exposure during the audit by removing the two programmers from network access.
- IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.

Implementation Date: September 2012

Responsible Person: Alan Ferretti

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).

Questioned Cost: \$ 0

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
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

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.

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.
- Ensure that it submits financial reports to awarding entities within the required time frames.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations. We will improve internal controls to ensure we report required information based on adequate support and to ensure we submit financial reports timely.*

*Implementation Date: April 2012*

*Responsible Persons: Shari Ramirez-MacKay and Maureen Coulehan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*



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.

Questioned Cost: \$ 0

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.

Recommendations:

The Department should:

- Charge only allocable payroll and non-payroll costs to the PSIC grant program and base its expenditure allocation methods on actual time spent or services provided.
- Maintain sufficient documentation to support the costs it charges to the PSIC grant program.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendations and will charge only allocable payroll and non-payroll costs to the PSIC grant program and base its expenditure allocation methods on actual time spent or services provided. We will maintain sufficient documentation to support the costs charged to the PSIC grant program.*

*Implementation Date: January 2011*

*Responsible Persons: Mabelle Pharr and Maureen Coulehan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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**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).

Questioned Cost: \$ 0

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.

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.

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.
- Follow up with subrecipients that receive hardship advances to ensure that subrecipients minimize the time elapsing between receipt and disbursement of federal funds.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*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.*

*Lastly, the Department has implemented procedures to follow up with Sub-recipients that receive hardship advances to ensure the Sub-recipients minimize the time elapsing between receipt and disbursement of federal funds. SAA established written guidance explaining the Sub-recipients' responsibility to minimize the time elapsing between receipt and disbursement of federal funds for those who seek advances. SAA required Sub-recipients who received advances in 2011 to timely pay their invoices and, within 30 days of payment, provide proof of the payments made with the advanced funds the SAA. The Department will follow up with those Sub-recipients who seemingly failed to minimize the time between receipt and disbursement of the advanced funds and, therefore, may have received more than \$100 in interest on advanced funds annually.*

*Implementation Date: April 2012*

*Responsible Persons: Maureen Coulehan and Mabelle Pharr*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

PUBLIC SAFETY, DEPARTMENT OF

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 ensuring that property is tracked and secured in a manner that is most likely to prevent loss, theft, damage or misuse.

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

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.

Recommendations:

The Department should:

- Correctly record information in inventory systems and affix correct asset tags to assets.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*The Department agrees with the recommendation and will implement controls to improve the recording of information in the inventory system.*

*Implementation Date: August 2012*

*Responsible Persons: Maureen Coulehan and Oscar Ybarra*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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.

Questioned Cost: \$ 0

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.

Recommendations:

The Department should:

- Use pre-existing statewide contracts appropriately and only for their intended purpose.
- Comply with its procurement policy by obtaining required approvals for all procurements.
- Ensure that it verifies that its subrecipients are not suspended or debarred.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.



Management Response and Corrective Action Plan:

*We appreciate the acknowledgement that actions taken by the Department in response to the FY 2010 Single Audit issues has addressed these compliance issues.*

*The Department will use pre-existing statewide contracts appropriately and only for their intended purposes. Since January 2011, all SAA DIR contracts have been for permissible IT/communications purposes as intended by the DIR procurement process.*

*On March 28, 2011, SAA management executed and subsequently follows its HQ-53, Division Signature Authorization. Procurement and Contract Services will implement controls to assure grant expenditures comply with agency procurement policy.*

*The Department has verified that its Sub-recipients are not suspended or debarred.*

*Implementation Date: July 2012*

*Responsible Persons: Mabelle Pharr and Dana Collins*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*
- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

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.

Questioned Cost: \$ 0

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).

#### 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.

#### 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.

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.

Recommendations:

The Department should:

- 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 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.
- Limit network access to key personnel and maintain adequate segregation of duties.
- Conduct periodic reviews of high-profile user accounts on its network.

Management Response and Corrective Action Plan:

*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.*

*Implementation Date: June 2012*

*Responsible Persons: Machele Pharr and Paula Logan*

General Controls

*The Department agrees with the recommendations.*

- *IT Security eliminated this exposure during the audit by removing the two programmers from network access.*

**PUBLIC SAFETY, DEPARTMENT OF**

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- *IT Governance/IT Security will develop a policy and process to conduct a semiannual review of network access to insure adequate segregation of responsibilities and appropriate access control of high profile user accounts.*

*Implementation Date: September 2012*

*Responsible Person: Alan Ferretti*

**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)).

Questioned Cost: \$ 0

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.

Recommendations:

The Medical Branch should:

- Refrain from using federal funds to pay interest expenses it incurs on late payments, and develop and implement procedures to prevent late payment penalties.
- Transfer costs to federal accounts only for allowable activities and costs that support the program to which it charges those costs.

Management Response and Corrective Action Plan:

Management agrees with the audit finding and recommendation and has taken steps to ensure that late payment interest, if incurred, is not charged to Public Assistance awards. The Controller's Office implemented a configuration change to our accounting system that will redirect late payment interest expense to an appropriate, non-federal source. A similar configuration exists to redirect late payment interest if incurred for all other federally sponsored grants and contracts. This control will provide assurance that late payment interest will not be charged to federal funds in the future. We have also taken steps to review all Public Assistance expenditures to transfer any late payment interest previously charged to Public Assistance awards to an appropriate, non-federal source.

It is the university's intent to charge expenditures to the appropriate source when they are originated. Additionally, UTMB accounting staff regularly reviews Public Assistance expenditures for appropriateness and transfers any unsupported costs to non-federal funds as appropriate. At the point of final determination and final obligation; UTMB will perform a final, thorough review of expenditures charged to a Public Assistance project worksheet to ensure that all, and only, allowable and supportable costs have been charged, before closing the project.

Implementation Date: March 31, 2012

Responsible Person: Craig Ott

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.

Questioned Cost: \$60,386  
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

Recommendations:

The Medical Branch should:

- Develop and implement controls to ensure that it has adequate safeguards to prevent the loss, damage, or theft of equipment.
- Sufficiently document its investigative efforts regarding missing equipment and the results of those investigations.

Management Response and Corrective Action Plan:

*Management agrees with the recommendation and will review existing policies and procedures to improve controls over equipment inventory, including the documentation of efforts taken to locate items initially identified as “unaccounted for” or “missing”.*

*For the four items identified by the State Auditor during the audit as missing, which due to their movable nature were not accounted for during the most recent physical inventory or located while the auditor’s were onsite, UTMB’s Office of Audit Services located and validated the physical existence of both vehicles and the software on January 19, 2012. The internal auditors determined that the fourth item, the Mastercycler-Gradient PRC, had been returned to the manufacturer, a credit received and the replacement installed with a new identification number. UTMB is in the process of updating the inventory records.*

*Implementation Date: August 31, 2012*

*Responsible Person: Craig Ott*

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

Questioned Cost: \$ 71,052  
  
U.S. Department of Homeland Security

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.

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.

Recommendations:

The Medical Branch should:

- Maintain documented justification to support procurements for which competition is limited.
- Adhere to its guidelines for all procurements through obtaining competitive bids, providing justification for limiting competition, or identifying an emergency basis for limiting competition.

Management Response and Corrective Action Plan:

*Management agrees with the audit finding and recommendation and will take the appropriate measures to reinforce the existing procurement policies and procedures. Additionally, a quality review process will be implemented for Public Assistance worksheet purchases over \$5,000 to ensure that all supporting documentation related to contract bid and award is available.*

*Implementation Date: March 31, 2012*

*Responsible Person: Kyle Barton*



## 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 2010 Schedule of Findings and Questioned Costs.
- Each finding in the 2010 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, 2011) has been prepared to address these responsibilities.

### Department of Public Safety

Reference No. 11-31

#### Equipment

**CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program – Grants to States and Territories – ARRA**

**Award year – October 1, 2009 to September 30, 2010**

**Award numbers – SU-09-A10-22820-01 and SU-09-A10-22822-01**

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

Governmental units will manage 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 ensuring that property is tracked and secured in a manner that is most likely to prevent loss, theft, damage, or misuse.

Initial Year Written: 2010  
Status: Implemented

U.S. Department of Justice

The Department of Public Safety (DPS) policies require that all controlled assets must have an inventory tag attached. Forty-five assets were selected including thirty-five patrol vehicles and content items and ten information technology equipment items. One vehicle radar and nine information technology equipment items were noted not to have an affixed inventory tag. All of these assets were properly safeguarded, locatable based on property record details, identifiable by serial number, and included in the property record system.

#### Corrective Action:

Corrective action was taken.

PUBLIC SAFETY, DEPARTMENT OF

Reference No. 11-107

**Allowable Costs/Cost Principles**

**Matching, Level of Effort, Earmarking**

(Prior Audit Issues 10-35 and 09-38)

**Homeland Security Cluster**

**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), Part 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 program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee 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:

Initial Year Written: 2008  
Status: Partially Implemented  
  
U.S. Department of Homeland Security

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Are 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 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, Part 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 awards, for the State of Texas. **SAA employees complete weekly time sheets to indicate the number of hours worked, including the number of hours charged to each federal award. However, the Department does not base its charges to each federal award solely on the time charged.** Instead, it distributes wages 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.

**For all 11 monthly payroll charges tested, the Department did not base its payroll charges to federal awards on actual work completed, although most employees did submit weekly timesheets.** According to the tool the Department used to allocate payroll charges to federal awards, the Department charged \$33,862 to the Homeland Security Cluster for the monthly payrolls tested. For these 11 employees, the Department charged a total of \$52,761 for the payroll period to all federal programs administered by the SAA. As a result of incorrectly charging federal grants based on factors other than actual time worked, the Department overcharged the Homeland Security Cluster \$7,566 for the 11 payroll charges tested. Total salaries and benefits charged to the Homeland Security Cluster for fiscal year 2010 were \$2,201,786. Because the SAA uses this allocation methodology to charge payroll costs to all

of its federal awards, this issue affects all federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered eight other federal grant programs, which are listed below.

**Additionally, for 1 (9 percent) of the 11 monthly payroll charges tested, the Department could not provide an employee's timesheets for the majority of the time charged during the period tested.**

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, CFR, Part 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.

**Four (8 percent) of 49 non-payroll expenditures tested that the Department charged to the Homeland Security Cluster were not solely allocable to the Homeland Security Cluster.** All four expenditures were paid to temporary staffing firms for M&A services. These services benefited multiple grant programs, including the Homeland Security Cluster and other federal programs listed below, and should have been allocated across the M&A budgets for each of these grant programs. In fiscal year 2010, the Department charged \$313,971 to the Homeland Security Cluster for the services of two temporary staffing firms that were included in auditors' allowable costs testing.

**The Department does not use an allocation process to ensure that it charges expenditures for contract labor to the correct award. Instead, the Department charges contractor invoices to program budgets that have remaining M&A funds available.** The contractor invoices auditors reviewed did not contain detailed descriptions of the work performed; therefore, auditors were unable to determine the amount of questioned costs associated with these errors. Because the Department does not use a proper allocation methodology for contract labor, it is not charging the cost of contract labor to the federal grant programs that benefited from the services provided. This issue also affects other 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.

**Additionally, the Department did not classify one of the four payments for temporary services discussed above as an M&A cost, although it was an administrative cost.** As a result, the Department did not treat this expenditure in the same manner that it treated similar expenditures. Not properly recording M&A expenditures could cause the Department to charge more M&A expenditures to Homeland Security Cluster programs than is permitted by the Department's grant agreements. This issue is discussed in more detail below.

Earmarking

According to U. S. Department of Homeland Security grant guidance, the Department is required to limit M&A expenditures to a percentage of the award amount. The percentages were 3 percent for award years 2005, 2008, and 2009 (Title 6, United States Code, Section 609(a)(11)) and 5 percent for award years 2006 and 2007 (Title 42, United States Code, Section 3714(c)(2); Title III, Pub. L. No. 108-334; and Conference Report 109-241 to the Fiscal Year 2006 Department of Homeland Security Appropriations Act (Pub. L. No. 109-90)). The Department establishes separate M&A budget codes within its accounting system to track M&A expenditures and monitors its compliance with earmarking limits. It then classifies expenditures using these budget codes and monitors amounts charged to M&A budget codes to ensure that it does not exceed earmarking limits.

Proper classification and allocation of expenditures across budget codes is important to successful tracking of M&A expenditures and for the Department to ensure that it does not exceed earmarking percentages. As discussed above, however, **the Department does not have a process to allocate direct charges to the appropriate federal programs.** As a result, the Department is relying on incomplete and inaccurate data to monitor its compliance with earmarking requirements. However, that data indicates that the Department complied with earmarking requirements during fiscal year 2010.

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**PUBLIC SAFETY, DEPARTMENT OF**

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The Department received the following Homeland Security Cluster awards:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
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

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

- Buffer Zone Protection Program. (CFDA 97.078)
- Emergency Management Performance Grant. (CFDA 97.042)
- Emergency Operations Center Grant Program. (CFDA 97.052)
- Interoperable Emergency Communications Grant. (CFDA 97.001)
- Non-profit Security Grant Program. (CFDA 97.008)
- Operation Stonegarden. (CFDA 97.067)
- Public Safety Interoperable Communications. (CFDA 11.555)
- Regional Catastrophic Preparedness Grant Program. (CFDA 97.111)
- Transit Security Program Grant. (CFDA 97.075)

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 in 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 code 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:

This finding was reissued as current year reference number: 12-106

Reference No. 11-108

**Cash Management**

**Period of Availability of Federal Funds**

**Special Tests and Provisions – Subgrant Awards**

**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).

Initial Year Written: 2010 Status: Partially Implemented  U.S. Department of Homeland Security
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**The Department of Public Safety (Department) did not calculate or monitor interest 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 earned on advanced federal funds. These funds are received by the Texas Comptroller of Public Accounts and deposited into a treasury account along with non-Homeland Security funds. The Department has not entered into an arrangement with the Texas Comptroller of Public Accounts to isolate the interest earned solely on Homeland Security funds. Therefore, the Department has never remitted any interest earned to the U. S. Treasury. Auditors tested a sample of 85 transactions and estimated an interest liability of \$59.89 related to those transactions. The Department drew down \$132,498,105 of federal Homeland Security Cluster funds during that period.

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. When advance payment procedures are used, recipients 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 7 (13 percent) of 52 subrecipients tested, the Department provided hardship advances to subrecipients without obtaining proof of subsequent disbursement.** The Department allows subrecipients to request cash advances in cases of economic hardship. However, it does not follow up with subrecipients that have received hardship advances to ensure that they spent the federal funds. The Department does not require subrecipients to submit proof of payment for advanced funds. As a result, the Department cannot provide reasonable assurance that recipients of hardship advances are minimizing the time between receipt and disbursement of federal funds.

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**PUBLIC SAFETY, DEPARTMENT OF**

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The Department passed through funds and received advanced funds from the following Homeland Security Cluster awards:

<u>Award Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
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

Period of Availability of Federal Funds and Special Tests and Provisions – Subgrant Awards

Although the general control weakness described below applies to period of availability of federal funds and special tests and provisions – subgrant awards, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provide 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 in 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 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:

This finding was reissued as current year reference number: 12-107

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**PUBLIC SAFETY, DEPARTMENT OF**

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Reference No. 11-109

**Procurement and Suspension and Debarment**

**Homeland Security Cluster**

**Award years – see below**

**Award numbers – see below**

**Type of finding – Material Weakness and Material 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
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U.S. Department of Homeland Security
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Emergency Procurements

The Department of Public Safety's (Department) purchasing policy outlines proper procurement procedures and emphasizes the importance of competitive bidding, including in the case of emergency purchases. That policy requires staff to notify the Department's accounting function immediately before initiating any bidding or purchasing and provide written justification to the accounting function before processing any payments on the procurement. The policy also states that failure to anticipate need does not constitute an emergency.

The Department classified 4 (80 percent) of the 5 procurements that auditors tested as emergency procurements. **For 3 (75 percent) of those 4 emergency procurements totaling \$486,633, the Department was not able to provide sufficient documentation to support that the circumstances constituted an emergency. In each of these three instances, Department documentation indicated that the Department either (1) did not allow sufficient time to complete a competitive bidding process prior to expiration of a current contract or (2) disregarded the results of a competitive bidding process and purchased the services from an existing vendor using an emergency procurement process.** Each of the three emergency procurements was an extension of a previous emergency contract into which the Department had entered. Based on Department documentation and the Department's purchasing policy, those three purchases should have been competitively procured.

**For one of the three emergency procurements discussed above, Department management overrode established procurement procedures to award a contract to a preferred vendor.** The Department originally solicited and evaluated competitive bids for this purchase. However, when the result of the bid scoring favored a vendor that was not management's preferred vendor, the Department overrode existing controls to cancel the procurement and enter into an emergency contract with its preferred vendor. The amount of this procurement was \$225,000. After it awarded the emergency contract to its preferred vendor, the Department modified its request for proposal (RFP) to include specifications not included in the original RFP and initiated another competitive bidding process. Under the revised RFP specifications, the proposal that the Department's preferred vendor submitted was scored the highest. The proposal review team that scored the proposals consisted of the same reviewers who scored the proposals submitted in response to the original RFP, and the Department awarded a new contract to its preferred vendor. After the State Auditor's Office informed Department executive management about the circumstances surrounding this procurement, the Department canceled its contract with the vendor effective January 31, 2011.

Department of Information Resources (DIR) Procurements

The Department's State Administrative Agency (SAA) used existing contracts through the Texas Department of Information Resources (DIR) to procure consultant services to assist in the administration of the homeland security program and other programs that the SAA administered. DIR's contract provides information technology (IT) staff augmentation services to state entities.

Based on information SAA staff provided, SAA management identified specific individuals whom it wanted to hire as consultants. SAA management then contacted the DIR-approved vendor and requested that the vendor provide

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**PUBLIC SAFETY, DEPARTMENT OF**

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the services of these specific individuals through the DIR contract. **This allowed the SAA to retain the services of specific individuals and not use the Department's competitive bidding process.**

The Department was not able to provide detailed information regarding the work that the consultants who worked through the DIR contract performed. However, based on Department documentation and interviews conducted with Department staff, the SAA used the DIR contract to obtain management and administrative support for federal programs that the SAA administered. Most of the consultants paid through the DIR contract did not specifically provide IT staff augmentation services. **As a result, the SAA inappropriately used an existing DIR contract to obtain non-IT services and circumvented the Department's established process to procure non-IT consultant services.**

Department invoices indicated the Department paid the consultants discussed above \$420,336 during fiscal year 2010 for services performed for federal programs administered by the SAA. Of that amount, the department charged \$151,265 to the Homeland Security Cluster. In fiscal year 2011, the SAA entered into a subrecipient agreement with a local government entity and instructed the local government entity to subcontract with a different contractor for the services of the same consultants obtained through the DIR contract.

Because the Department allocates the costs paid under the DIR contract to multiple federal awards, the contracting issues discussed above affected other federal grant programs that the SAA administered, including the programs and awards listed below.

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

- Buffer Zone Protection Program (CFDA 97.078).
- Emergency Management Performance Grant (CFDA 97.042).
- Emergency Operations Center Grant Program (CFDA 97.052).
- Interoperable Emergency Communications Grant (CFDA 97.001).
- Non-profit Security Grant Program (CFDA 97.008).
- Operation Stonegarden (CFDA 97.067).
- Public Safety Interoperable Communications (CFDA 11.555).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Transit Security Program Grant (CFDA 97.075).

The issues discussed above affected the following awards that had procurements in fiscal year 2010:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
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



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 in 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 code 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:

This finding was reissued as current year reference number: 12-108

Reference No. 11-110

**Reporting**

(Prior Audit Issue 10-36)

**Homeland Security Cluster**

**Award years – see below**

**Award numbers – see below**

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

Reporting

Recipients of Homeland Security Cluster funds are required to report the financial status of their federal awards on a quarterly basis through the Federal Financial Report (SF-425). 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, Section 13.41).

Initial Year Written: 2009  
Status: Implemented

U.S. Department of Homeland  
Security

**For 4 (67 percent) of 6 reports tested at the Department of Public Safety (Department), the reported amounts of cash receipts and cash disbursements did not agree with data from the Department's accounting system.** For 3 (75 percent) of those 4 reports, the Department did not correct the errors in subsequent quarterly reports.

To ensure accurate reporting, the Department requires reconciliations for each budget number included in the Federal Financial Report. Budget analysts are required to document explanations for all differences between internal spreadsheets and the Department's accounting system and all differences between expenditures and revenue. For all four reports discussed above, budget reconciliations were either missing or contained errors. In some cases, the reconciliation totals did not agree with totals in the Federal Financial Report. As a result, the amounts of cash receipts and cash disbursements the Department reported were not completely accurate. For each report, the errors accounted for less than 1 percent of total reportable grant activity.

**PUBLIC SAFETY, DEPARTMENT OF**

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The following awards were affected by the above finding:

<u>Award Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011

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 in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high level security access to the MSA accounting system.** This is a weak segregation of duties since a programmer could introduce changes to MSA that the programmer could then exploit as an accounting user. 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. 11-111

**Subrecipient Monitoring**

(Prior Audit Issues 10-37 and 09-43)

**Homeland Security Cluster**

**Award years – see below**

**Award numbers – see below**

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

During-the-award Monitoring

Recipients of Homeland Security Cluster funds are required to monitor grant 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).

Initial Year Written: 2008 Status: Partially Implemented  U. S. Department of Homeland Security
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The Department of Public Safety (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. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department's controls did not detect instances of subrecipient noncompliance with federal requirements.** Specifically:

- For 34 (65 percent) of 52 subrecipients tested, either (1) the Department did not monitor the subrecipient's compliance with quarterly reporting requirements or (2) the subrecipient did not comply with quarterly reporting requirements. All 34 subrecipients received federal funds during fiscal year 2010.

- Five (10 percent) of the 49 subrecipients in the test sample with moderate or high scores on the Department's risk assessment had never received a site visit from the Department as of October 7, 2010. As a result, the Department could not provide documentation showing that those subrecipients' procurement and equipment policies and procedures had ever been monitored. In addition, two of those subrecipients were not included in the Department's 2010 risk assessment and, therefore, were not considered for site visits.
- For 4 (9 percent) of 44 subrecipients at which the Department conducted site visits, the Department did not maintain documentation that management had reviewed and approved the documented results of the site visits.
- For 7 (24 percent) of 29 subrecipients at which the Department's site visits had uncovered deficiencies, the Department did not maintain documentation showing that its monitoring staff followed up on those deficiencies.

In addition, **the Department did not fully use its risk assessment to select the subrecipients at which it would conduct site visits.** For example, some subrecipients had high risk assessment scores but the Department did not visit them during 2010. However, the Department did visit several subrecipients with low risk assessment scores.

**Also, 1 (2 percent) of 52 subrecipients tested received reimbursement for costs incurred outside of the period of performance specified on the subaward between the Department and the subrecipient.** Although subrecipients are denied access to the State Preparedness Assessment and Reporting Service (SPARS) at the close of their period of performance, the Department allows subrecipients to submit invoices via fax or mail for 90 days after the end of that period. The Department then processes those invoices and enters them into SPARS. This subrecipient submitted two invoices in this manner, but Department staff did not identify that the subrecipient's costs were not incurred during the period of performance and that the 90-day period had ended.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

#### A-133 Compliance Monitoring

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 A-133 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 an A-133 audit. As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain an A-133 audit or that subrecipients that did not comply had been appropriately sanctioned.**

For 13 (25 percent) of 52 subrecipients tested, the Department did not verify whether the subrecipient obtained an A-133 audit. Ten of those subrecipients were not included in the Department's A-133 tracking spreadsheet and, therefore, the Department did not monitor them for compliance with A-133 audit requirements. The remaining three were included on that spreadsheet, but they either (1) did not respond to the Department's Single Audit questionnaire or (2) did not submit their A-133 audit report within nine months of their fiscal year end. In addition, three subrecipients had findings in their A-133 audit reports, but the Department's tracking spreadsheet did not contain documentation of a management decision because that spreadsheet lacks fields to document follow-up actions and management decisions regarding audit findings. For all cases discussed above, the Department's A-133 monitoring files did not contain evidence that it responded to subrecipient noncompliance in accordance with its sanction policy. Finally, one subrecipient submitted an audit report that the Department did not review within the required six-month time period.

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Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above effect 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

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 in 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:

This finding was reissued as current year reference number: 12-109

Reference No. 11-112

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

**Public Assistance Cluster**

**Award years – see below**

**Award numbers – see below**

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

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, lists factors affecting allowability of costs, including that costs must be (1) necessary and reasonable for proper and efficient performance and administration of federal awards, (2) allocable to federal awards under the provisions of the circular, and (3) be adequately documented. For the Public Assistance program, allowable costs must be for the federally approved project as described on the project worksheet and supporting documentation.

Initial Year Written: 2010 Status: Partially Implemented  U.S. Department of Homeland Security
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**PUBLIC SAFETY, DEPARTMENT OF**

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**For 1 (2 percent) of 50 items tested, the Department of Public Safety (Department) did not ensure that its drawdowns of federal funds were properly supported. Specifically, errors the Department made while accumulating information in timesheets led to questioned costs of \$1,965 in state management costs.** While the Department has a control to review drawdown information, that control is not adequate to identify inaccuracies in the manual process of inputting timesheets into a spreadsheet that tracks payroll costs per disaster. During fiscal year 2010, the Department did not perform a subsequent review of the information that was included in the drawdown of federal funds. Not having accurately supported documentation could cause unallowable costs to be awarded to the Department and could jeopardize future funding.

These following programs were affected by the above issue:

<u>Disaster</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005

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 Public Assistance program exceeds the State's threshold for major federal assistance programs and, therefore, is subject to the Treasury-State Agreement. The Public Assistance program is subject to the pre-issuance funding technique. Under this 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). In an August 14, 2002, letter from the Federal Emergency Management Agency (FEMA) Region VI Regional Director to the Department's Division of Emergency Management, an exception was allowed for up to seven days for the withdrawal and disbursement of federal funds to sub-grantees.

**For 3 (6 percent) of 50 items tested, the Department did not comply with established time requirements.** In these three instances, the Department distributed funds from 8 to 19 days after the receipt of the federal funds. This occurred due to delays in the manual processing of withdrawal and disbursement of funds to sub-grantees. Not following the required time requirements means that subgrantees are not receiving federal funds in a timely manner.

Disbursement Proportions

According to Title 44, Code of Federal Regulation (CFR), Section 206.207, the State must submit a revised plan to FEMA annually for the administration of the Public Assistance program that must include several items, including procedures for processing requests for advances of funds and reimbursements. According to the State of Texas Administrative Plan for Hurricane Ike, for large projects that were 99 or 100 percent complete when written, the Division of Emergency Management shall disburse 75 percent of the entire federal share for Hurricane Gustav and 90 percent of the entire federal share for Hurricane Ike to the applicant upon obligation of funds by FEMA. Additionally, an applicant may request an advance on an approved large project, not to exceed 75 percent of the federal share for any one project.

**For 15 (30 percent) of 50 items tested, the Department did not ensure that its draws of federal funds complied with the State of Texas Administrative Plan for Hurricane Ike. Specifically, the Department drew down and disbursed 100 percent of the federal share for approved project costs prior to project completion.** This occurred because Department management authorized advance payments for seven subgrantees and for projects that the Department directly managed. This advance of funds exceeded the limit established in the State of Texas Administrative Plan for Hurricane Ike. The Department drew down \$1,044,845 for three subrecipient projects included in auditors' testing. Of that amount, \$146,566 was not eligible for disbursement at the time of the drawdowns based on the requirements in the State Administrative Plan. This could jeopardize future funding under the Public Assistance program.

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

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**PUBLIC SAFETY, DEPARTMENT OF**

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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 (from deposit date to issuance date, where issuance date is the date of the actual release of payments). The Office of the Comptroller of Public Accounts will calculate the clearance pattern for period 2 from issuance date to clearance date.

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

- Determined the number of days in period 1 incorrectly because it calculated the average period 1 time frame for each draw within the time period and then calculated the average of all of those averages.
- Did not correctly calculate the total number of days from the deposit date to the paid date when it calculated period 1. The Department calculated the total number of days from the deposit date to the paid date as 1,630 days when the correct number of days was 1,637.

Errors in the Department's period 1 calculation may result in the State over/under paying interest liabilities to the federal government.

These following programs were affected by the above exceptions:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1356	FEMA-1356-DR	January 8, 2001
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
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
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

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:

This finding was reissued as current year reference number: 12-112

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

**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.

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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

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.

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.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

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 debarement status is verified for all vendors and subrecipients, including those procured under emergency procurement procedures.*

*Implementation date: July 2011*

*The Department has established controls to endure that access to MSA, the mainframe, and the network are based on job duties and responsibilities and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.*

*Implementation Date: Completed February 2011*



*Responsible Persons: Nim Kidd and Mark Doggett*

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.*

*Implementation date: Completed June 2011*

*The Department has established controls to endure that access to MSA, the mainframe, and the network are based on job duties and responsibilities and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.*

*Implementation Date: Completed February 2011*

*Responsible Persons: Nim Kidd and Mark Doggett*

Reference No. 11-114

**Reporting**

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

**Public Assistance Cluster**

**Award years – see below**

**Award numbers – see below**

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

Reporting

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 within 30 days of the end of each quarter (Title 44, Code of Federal Regulations, Section 13.41).

Initial Year Written: 2006 Status: Partially Implemented
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U.S. Department of Homeland Security
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**The Department of Public Safety (Department) did not always ensure that financial reports it submitted were adequately supported by data in the Department's accounting system. Specifically:**

- 1 (9 percent) of 11 SF-425 reports tested included revenue received through cash draws that could not be traced to the accounting system within a reasonable amount.
- 3 (30 percent) of 10 SF-425 reports tested included expenditures that could not be traced to the accounting system within a reasonable amount.

Department management reviewed all reports tested, but those reviews were not sufficient to ensure that all information in the reports was adequately supported. The Department was unable to provide an explanation for the variances between the SF-425 reports and its accounting system. The Department compares information from the SmartLink system and the Federal Payment Management System to prepare its SF-425 reports, but it does not reconcile the information in Smartlink to its accounting system. When the Department submits an inaccurate report, this decreases the reliability of the information intended for the federal government.

**PUBLIC SAFETY, DEPARTMENT OF**

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**Additionally, the Department submitted 5 (45 percent) of 11 SF-425 financial reports tested after the date they were due.** It submitted those five reports for the quarter ending June 30, 2010. The Department submitted them an average of 25 days late because it did not provide the responsible employee with procedures or training.

The issues discussed above affect the following awards:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1606	FEMA-1606-DR	September 24, 2005
1658	FEMA-1658-DR	August 15, 2006
1780	FEMA-1780-DR	July 24, 2008
3216	FEMA-3216-EM	September 2, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008

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:

This finding was reissued as current year reference number: 12-114

Reference No. 11-115

**Subrecipient Monitoring**

**Special Test and Provisions – Project Accounting**

(Prior Audit Issues – 10-42 and 09-48)

**Public Assistance Cluster**

**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 and 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: 2008  
Status: Partially Implemented

U.S. Department of Homeland Security

**The Department does not have a formal system to track, administer, and monitor the subgrants it provides to subrecipients.** Without such a system, the Department relies on informal processes that vary by disaster and by staff member. This inhibits the Department's ability to easily locate and maintain subrecipient files. In fiscal year 2010, the Department passed through \$397,069,684 to subrecipients.

Award Identification

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the federal award name and number, the name of the federal awarding agency, and whether the award is research and development (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

**For 2 (4 percent) of 50 subrecipients that received pass-through funds from the Department, the Department was not able to provide the award agreements into which it entered with each subrecipient.** As a result, the Department was not able to provide evidence that it communicated all required information, including both award information and applicable 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. 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 and Special Tests and Provisions

The Department's primary monitoring tool for Public Assistance subrecipients is the final audit that it conducts on projects designated by the Federal Emergency Management Agency (FEMA) as "large" projects. 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 a review of a subrecipient's compliance with applicable state and federal requirements for each large project.

According to the Department's State Administrative Plan (1) emergency projects, such as debris removal, must be complete within 6 months of the disaster declaration and (2) permanent projects, such as building repair, must be complete within 18 months of the disaster declaration. Subrecipients can request that the Department extend those time periods in some circumstances. **For 17 (71 percent) of 24 projects that had exceeded the time periods allowed, the Department could not provide evidence that it approved a time extension.**

For large ongoing projects, subrecipients are required to submit quarterly reports to the Department. For all projects, subrecipients are required to submit a project completion and certification report after the project is complete. **For 8 (19 percent) of 43 subrecipients, the Department could not provide evidence that it received and reviewed those required reports.** For each of those eight subrecipients, the Department could not provide the project completion and certification report.

**The Department also did not audit, close, and account for projects that appeared to be complete based on the Department's documentation.** Specifically:

- For 2 (17 percent) of 12 large projects that appeared complete, the Department did not request or conduct a final audit.
- For 12 (57 percent) of 21 projects that appeared complete, the Department did not complete final close-out procedures for its audit and could not provide documentation regarding the status of the project.

In addition, the Department uses site inspection visits to monitor subrecipient projects. The Department conducts an on-site visit for some types of large projects and for 20 percent of each subrecipient's small projects. The Department does not conduct on-site visits for projects that were complete at the time the project was approved by FEMA. Based on information the Department provided, **the Department did not use site visits to monitor the 50 subrecipients tested.** Not all of these subrecipients required site visits. **However, at least 6 (12 percent) of the 50 subrecipient projects were large projects requiring a site visit prior to project close-out.** One of these six projects was complete prior to the end of fiscal year 2010.

Insufficient monitoring during the award period increases the risk that the Department would not detect non-compliance by subrecipients administering federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, the Department must ensure that each subrecipient that expends more than \$500,000 in federal funds obtains an OMB Circular A-133 Single Audit and provides a copy of the audit report to the Department within 9 months of the end of the subrecipient's fiscal year (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 Division of Emergency Management Audit and Compliance Unit (Division) is responsible for monitoring its subrecipients' A-133 audit reports. However, the Division did not consistently receive, review, and follow-up on its subrecipients' A-133 audit reports.

**For 10 (20 percent) of 50 subrecipients tested that received funding during fiscal year 2010, the Division was unable to provide evidence that it received an A-133 audit report from the subrecipient or verified that an audit was not required.** Specifically:

- Three of those 10 subrecipients were not included in the Division's A-133 audit tracking spreadsheet and, as a result, the Division did not monitor them for compliance with A-133 audit requirements.
- For seven of those 10 subrecipients, the Division sent a letter requesting a copy of the subrecipient's A-133 audit report or a certification that an audit was not required, but the Division did not ensure that the subrecipients responded to these letters.

Four of those 10 subrecipients submitted an A-133 audit report to the Federal Audit Clearinghouse in fiscal year 2010, and two of those audit reports identified significant deficiencies.

Because the Division did not receive these A-133 audit reports, it was unable to identify potential issues that would require follow-up; as a result, it was unable to issue management decisions on audit findings associated with these subrecipients. Additionally, while the Department has a policy to sanction subrecipients for failure to comply with audit and compliance requirements, it was unable to determine whether sanctions were necessary without this audit information. Most importantly, the Division and the Department are unaware of potential risks related to subrecipients' compliance with federal compliance requirements.

**Additionally, for 1 (2 percent) of 50 subrecipients tested, the Division received and reviewed an A-133 audit report that included a significant deficiency that directly affected the Public Assistance program. However, the Department did not issue a management decision on this finding or follow up to determine the resolution of the finding.** While the Department has a tracking system to document its review of A-133 audit findings, that tracking system did not include fields for following up or issuing management decisions on subrecipients' A-133 audit findings. According to Department management, the Department did not generally follow up on subrecipient deficiencies during fiscal year 2010.

Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

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The issues discussed above affected the following awards:

<u>Disaster</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008T

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:

This finding was reissued as current year reference number: 12-113

Reference No. 09-47

**Reporting**

(Prior Audit Issues 08-91 and 07-26)

**CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)**

**Award years- see below**

**Award number - see below**

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

The Department of Public Safety (Department) must report on a quarterly basis for each Federal Emergency Management Agency (FEMA) approved project a FEMA form 20-10, *Financial Status Report*, per Office of Management and Budget A-133 Compliance Supplement, FEMA *Public Assistance Guide*, and FEMA Grant Applicant Resources. The FEMA *Public Assistance Guide* states that “FEMA has no reporting requirements for applicants, but the State is expected to impose some reporting requirements on applicants so that it can prepare quarterly reports.” Additionally, the guide emphasizes that it is critical that applicants establish and maintain accurate records of events and expenditures related to grant funds.

Initial Year Written: 2006 Status: Partially Implemented  U.S. Department of Homeland Security
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A Department supervisor did review reports to ensure all required information was reported. However, supporting documentation related to the recipients’ share of outlays is not obtained or reviewed, by report preparers or management, in sufficient level of detail to ensure the accuracy of the reports.

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CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)

Auditors tested 13 reports that were filed during fiscal year 2008 for Hazard Mitigation. The non-federal share of a project's costs must be at least 25 percent of the expenditures. For 12 (92 percent) of the 13 reports tested, the matching share reported on the FEMA Form 20-10 was calculated using total outlay amounts reported (that is, 25 percent of the total project amount reported) instead of based on actual costs incurred.

During performance of matching, level of effort, and earmarking test work, auditors selected invoices for review and noted that the Department reimbursed only 75 percent of the total expenditures incurred to the jurisdiction.

The Hazard Mitigation grant has multiple grant sub awards and award years as noted below:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR-TX	October 21, 1998
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR-TX	June 9, 2001
1425	FEMA-1425-DR-TX	July 4, 2002
1439	FEMA-1439-DR-TX	November 5, 2002
1434	FEMA-1434-DR-TX	September 26, 2002
1479	FEMA-1479-DR-TX	July 17, 2003
1606	FEMA-1606-DR-TX	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007

Corrective Action:

This finding was reissued as current year reference number: 12-111

# Appendix

## Objectives, Scope, and Methodology

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### Objectives

With respect to the selected major programs at the Department of Public Safety (Department) and the University of Texas Medical Branch at Galveston (Medical Branch), 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 selected major programs at the Department and the Medical Branch.

### Scope

The audit scope covered federal funds that the State spent for the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program from September 1, 2010, through August 31, 2011. The audit work included control and compliance tests at the Department and the Medical Branch.

### Methodology

The audit methodology included developing an understanding of controls over each compliance area that was material to the Homeland Security Cluster of federal programs, the Hazard Mitigation Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and the Public Safety Interoperable Communications Grant Program at the Department, and at the Medical Branch for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program only. 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 provided by the Department and Medical Branch and determined that the data provided 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 programs identified above.

Information collected and reviewed included the following:

- Department and Medical Branch expenditure, procurement, reporting, cash revenue, required matching, program income, and subrecipient data.

- 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 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.
- Office of Management and Budget Circulars A-21, A-87, A-102, and A-133.
- Federal notices of award and award proposals.
- Department and Medical Branch policies and procedures.

### **Project Information**

Audit fieldwork was conducted from August 2011 through December 2011. 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:

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