DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Audit of the State of New Jersey Administration of Disaster Assistance Funds

Office of Audits

DA-14-05

March 2005

COTTON & COMPANY LLP
auditors • advisors

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May 2, 2003

Department of Homeland Security
Office of Inspector General
Washington, DC

In accordance with the terms of our October 15, 2002, contract, Cotton & Company LLP audited the grant management process used by the State of New Jersey, Division of State Police, Office of Emergency Management (OEM), for disaster and emergency awards by the Federal Emergency Management Agency (FEMA) under the Stafford Act.

The primary audit objectives were to determine if OEM administered FEMA disaster and emergency programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. Our audit scope did not include interviews with OEM subgrantees or technical evaluation of the work performed. We identified program management findings primarily related to the Hazard Mitigation (HM) and Public Assistance (PA) grant programs, as well as financial management issues primarily related to cash management and HM and PA grant management costs. We also identified FEMA-wide issues that we address in a separate letter to the Office of the Inspector General.

We conducted the audit in accordance with *Government Auditing Standards,* as revised. We were not engaged to and did not perform a financial statement audit, the purpose of which would be to express an opinion on specified elements, accounts, or items. The audit included the applicable PA and HM grant programs awarded under certain disasters and emergencies.

We understand that this audit was requested for the purpose of determining if OEM administered FEMA disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. This report is intended to meet these objectives and should not be used for other purposes.

Please contact me at (703)836-6701 if you have questions.

Very truly yours,

COTTON & COMPANY LLP

SHadley

Sam Hadley, CPA, CGFM

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ATTACHMENT

Comments from FEMA Regional Office and Grantee

I. EXECUTIVE SUMMARY

Cotton & Company LLP conducted an audit of the administration of disaster assistance grant programs[1] by the State of New Jersey, Division of State Police, Office of Emergency Management (OEM). The audit objectives were to determine if OEM administered Federal Emergency Management Agency (FEMA) disaster grant programs according to federal regulations, properly accounted for and used FEMA program funds, and submitted accurate financial expenditure reports. This report focuses on OEM's systems and procedures for assuring that grant funds were managed, controlled, and expended in accordance with applicable laws and regulations, including the Robert T. Stafford Disaster Relief and Emergency Act and Title 44 of the *Code of Federal Regulations* (CFR).

We audited five major disasters and two emergency declarations declared by the President of the United States, as follows:

Disaster No.	Declaration Date	Programs Reviewed	Federal Share of Obligations	Federal Share of Expenditures Claimed as of 12/31/02
DR-973	12/18/92	PA	$39,533,573	$39,316,180
DR-1189	09/23/97	PA	1,597,790	1,373,865
DR-1206	03/03/98	PA	2,857,807	2,784,200
DR-1295	09/18/99	PA, HM	48,611,621	44,635,713
DR-1337	08/17/00	PA, HM	4,566,456	3,940,745
EM-3148	09/17/99	PA	2,032,514	1,999,864
EM-3169	09/17/01	PA	86,853,845	83,723,118

We did not perform a financial audit of these costs. Accordingly, we do not express an opinion on costs claimed by OEM (Schedules A-1 through A-7). Our audit scope focused on systems and procedures used by OEM to manage, control, and expend grant funds in accordance with applicable laws and regulations, including the Stafford Act and 44 CFR. We divided our findings into two sections: Program Management and Financial Management. Our recommendations for each finding, if implemented by OEM, would improve management, strengthen controls, or correct noncompliance.

Program Management

- Improvements were needed in the preparation of PA and HM administrative plans. HM and PA administrative plans did not include all procedures required by 44 CFR. Also, the PA plans have not been included in the state's overall emergency plan. Finally, the state submitted administrative plans in response to each disaster, but did not submit annual administrative plans to the region.

- OEM was not always submitting complete quarterly HM progress reports. OEM did not submit most required HM quarterly progress reports or respond to FEMA Region II's requests to include more complete information in its progress reports.

[1] In this report, disaster assistance grant programs include both disasters and emergency declarations. We will use the term "disaster" throughout to represent both disasters and emergency declarations.

- OEM did not submit complete HM project application packages. The packages did not contain the required benefit-cost analysis. Also, OEM's application package for certain projects under Disaster No. 1295 did not provide a work schedule, the alternative considered, or mitigation measure narrative, as required by 44 CFR 206.437, *State administrative plan.*

- OEM did not effectively monitor subgrantees' activities. OEM should develop additional policies and procedures over issuing cash advances and obtaining required project extension requests.

Financial Management

- OEM did not have an adequate labor distribution system to support claimed personnel costs for the PA management grants. OEM based claimed labor costs on effort estimates and did not have adequate documentation such as semi-annual certifications or timesheets. The state auditor has reported this finding for several years, and OEM has not taken adequate corrective action.

II. INTRODUCTION

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

PA program grants are awarded to state agencies, local governments, qualifying private nonprofit organizations, and Indian tribes or authorized tribal organizations for the repair and replacement of facilities, removal of debris, and establishment of emergency protective measures necessitated by a disaster. To receive a PA program grant, a designated representative of an organization affected by the disaster must sign a Notice of Interest and send it to the grantee and FEMA, which schedules an inspection of the damaged facilities. The inspection team prepares a Project Worksheet (PW), which identifies the eligible scope of work and estimated project costs. FEMA reviews and approves the PWs and obligates funds to the grantee. The FEMA-State agreement specified the cost-share arrangement for the disaster.

According to the CFR, PA projects must be classified as either small or large. The classification is based on a project threshold amount adjusted annually to reflect changes in the Consumer Price Index (CPI) for all Urban Consumers, as published by the U.S. Department of Labor. For example, the threshold for DR-973 (the oldest declaration) was $41,300. Projects costing under $41,300 were classified as small projects, and projects costing $41,300 and higher were classified as large projects. The threshold for EM-3169 (the most recent declaration) was $50,600.

FEMA awards HM program grants to states to help reduce the potential for damages from future disasters. The state (grantee) must submit a letter of intent to participate in the program, and subgrantees must submit a project proposal to the state. The grantee sets priorities for selecting projects and submits projects to FEMA for final approval. Subgrants are awarded to state agencies, local governments, qualifying private nonprofit agencies, and Indian tribes or authorized tribal organizations. The amount of

assistance available under this program must not exceed 15 percent of total assistance provided under other assistance programs. The FEMA-State agreement specified the cost-share arrangement for the disaster.

Administrative funds provided to the grantee under disasters and emergency measures could consist of three types of assistance to cover the costs of overseeing the PA and HM grant programs as follows:

- Administrative allowance to cover the "extraordinary" costs directly associated with managing the programs, such as overtime wages and travel costs. This allowance was determined using a statutorily mandated sliding scale with payments ranging from one-half to three percent of the total amount of federal disaster assistance provided to the grantee.

- Administrative allowance referred to as "State Management Grants" on a discretionary basis to cover the state's ordinary or regular costs directly associated with program administration.

- Administrative allowance for activities indirectly associated with program administration.

OEM, the state agency (grantee) responsible for administering these programs, is part of the Division of State Police within the State of New Jersey. State appropriations and FEMA Emergency Management Performance Grants fund OEM's daily operations. Disasters are funded through FEMA cost-shared disaster grants. The state pays its share through appropriations or by passing cost-share responsibilities on to local applicants.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

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

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

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

We also evaluated how OEM accounted for and used FEMA program funds to ensure that OEM had internal controls and procedures in place to account for program funds and safeguard federal assets. Finally, we reviewed OEM's financial reporting process to ensure that it submitted accurate financial expenditure reports. These two objectives included review of overall internal controls of OEM, management oversight activities, and the financial management system used by OEM. In our sample of

PA and HM projects noted above, we tested expenditures incurred for allowableness in accordance with applicable cost principles. We also selected several financial reports submitted by OEM and reconciled those reports to:

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

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

Our audit scope consisted of seven disasters and emergencies that were declared and open as of September 30, 2002 (Schedules A-1 through A-7). The two major programs addressed in this audit were PA and HM programs. We conducted our audit in accordance with the March 2001 FEMA Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs provided by the Office of Inspector General (OIG). Audit work included a site visit to the FEMA Region II office in New York City and audit fieldwork at OEM's offices in Trenton, New Jersey.

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

The State of New Jersey receives an annual Single Audit in accordance with Office of Management and Budget (OMB) Circular Number A-133, and OEM is included in this State Single Audit. In Fiscal Years (FYs) 2000 and 2001, the auditors identified findings and recommendations related to FEMA grants; the auditors specifically noted findings in the PA grants for FY 2000. We reviewed these reports and their supporting workpapers to determine if these findings affected our audit scope or specific audit tests and made appropriate changes or additions to our original audit tests. We also reviewed these reports to gain an understanding of internal controls and any identified weaknesses in internal controls.

We requested reports of any audits that the OIG has conducted on OEM. They provided us with audit reports on all OEM subgrantees in recent history. We reviewed these reports to determine if findings affect performance or internal controls at the grantee level.

We conducted the audit in accordance with *Government Auditing Standards,* as revised, as prescribed by the Comptroller General of the United States. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on costs claimed for disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that we would have reported. This report relates only to accounts and items specified and does not extend to any financial statements of the State of New Jersey or OEM.

IV. FINDINGS AND RECOMMENDATIONS

We have summarized audit results in two major sections: Program Management and Financial Management. These sections contain findings and related recommendations. The implementation of these recommendations will improve overall management of FEMA programs and correct noncompliance situations noted during the audit.

A. Program Management

1. Improvements were needed in the preparation of PA and HM administrative plans.

OEM's HM and PA administrative plans did not include all procedures required by 44 CFR. Information contained in some administrative plans was inaccurate. Also, the state submitted PA administrative plans in response to each disaster, but did not submit annual PA administrative plans to FEMA Region II, as required. Our findings by program are discussed in the following paragraphs.

Public Assistance. We reviewed OEM's administrative plans for the disasters in our audit scope, and noted that plans contained errors and did not include all items required by 44 CFR 206.207(b), *State administrative plan*. The PA plan for EM-3169 did not contain procedures for the following activities, as required:

- Notifying potential applicants of program availability.
- Assisting FEMA in determining applicant eligibility.
- Participating with FEMA in conducting damage surveys to serve as bases for obligating funds to subgrantees.
- Participating with FEMA in establishing hazard mitigation and insurance requirements.
- Processing requests for time extensions and approval of overruns.
- Complying with administrative requirements of 44 CFR Parts 13 (*Uniform administrative requirements for grants and cooperative agreements to state and local governments*) and 206.
- Processing requests for advances.

Additionally, the plan for EM-3169 did not identify staffing functions, sources of staff to fill these functions, and management and oversight of each as required by 44 CFR 206.207(b)(ii).

OEM did not think that the administrative plan for EM-3169 needed to include all items specified above, because issues of mitigation measures, insurance, or advances were not affected by this emergency. It further noted that the PA administrative plan for EM-3169 contained less information than prior plans, because it had to be prepared quickly. OEM also noted that the plan was approved by FEMA Region II officials without expressing any concerns. Finally, OEM stated that, while these procedures were not contained in the plan for EM-3169, they will be incorporated into the annual administrative plan currently being prepared.

We also noted that the administrative plans for Disaster Nos. DR-1206 and EM-3169 incorrectly cited OMB Circular A-128 for the required audit procedures. The plans should cite OMB Circular A-133 because OMB Circular A-133 replaced Circular A-128 in 1996.In addition, the administrative plan for Disaster No. DR-1337 incorrectly listed the large project threshold as $47,800 (page 57) while the correct threshold was $48,900. Finally, approved plans were not incorporated into the state emergency plan, as required by 44 CFR 206.207(b)(4). OEM agreed that these errors were included in the administrative plans and will correct them in the future.

Hazard Mitigation. OEM's HM administrative plan did not contain all required elements [44 CFR 206.437(b), *Minimum criteria*]. The plan did not contain the identification of the state hazard mitigation officer and procedures to process requests for advances of funds and reimbursements. OEM was unaware that its plans were insufficient for FEMA, and stated that the regional office had approved plans without comment in the past.

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

Accordingly, we recommend that the Regional Director, FEMA Region II:

1. Establish procedures within the Regional Office to ensure that OEM prepares administrative plans for future disasters that include all elements required by federal regulations; and

2. Strengthen procedures within the Regional Office to ensure that plans are only approved if they contain all required elements.

Management's Response: The Region concurs with the audit recommendations and will implement corrective actions for the review of future PA and HM Administrative Plans. The Region also noted that it will continue to work with FEMA headquarters in finalizing written guidance to be provided to the States to assist in the preparation of the annual plans in the Public Assistance program. In the meantime, deficiencies reported in the finding for PA and HM will be corrected with the onset of the newest declaration, 1530-DR-NY, with an anticipated completion date of December 31, 2004. The state provided revised draft language that will be incorporated into future plans.

Auditor's Additional Comment: The actions proposed by the Regional Director and the state adequately resolves and closes this finding.

2. OEM was not always submitting required HM quarterly progress reports.

OEM did not submit required quarterly progress reports for the HM program, as required by 44 CFR 206.438(c), *Progress reports*. OEM had not submitted 6 of 13 required quarterly progress reports under DR-1295 and 4 of 6 quarterly progress reports under DR-1337. Also, OEM did not include all requested and necessary information in its progress reports.

According to 44 CFR 206.438(c), grantees are required to submit progress reports that indicate the status and completion date for each funded project, as well as problems or circumstances affecting completion dates, scope of work, and project costs. However, the reports submitted by OEM did not always contain

the status of open projects, problems or circumstances affecting the completion dates, and the scope of work. The region requested that OEM enhance its reporting procedures in December 2000; however OEM had not made changes to the progress reports to reflect the Region's request.

OEM noted that it was not notified that reports were inadequate before December 2000. Also, it was severely understaffed after September 11, 2001, and gave priority to handling new disaster needs rather than submitting progress reports. Additionally, OEM believes that the Region was kept updated through frequent emails and phone calls regarding the status of projects. This does not, however, preclude OEM from submitting the required progress reports.

Conclusions and Recommendations: Timely and adequate reporting of subgrantee projects is necessary to ensure that the regional office is aware of project status and has information to make necessary approvals, obligations, and deobligations in a timely manner.

We recommend that the Regional Director, FEMA Region II, re-emphasize to OEM the need to strengthen its procedures for preparing quarterly progress reports to ensure that they are adequately completed and submitted when due.

Management's Response: The Region stated it "has no reason to disagree with the finding. However, the random sample tested were from 1/2000 – 1/2003. As of the Fall of 2003, quarterly progress reports have been submitted in a more timely manner. OEM has agreed to incorporate significant details in the preparation of HM progress reports beginning with 1530-DR-NJ, with an anticipated completion date of March 31, 2005."

Auditor's Additional Comment: The Regional Director and the state agree that reports have been submitted timely since the fall of 2003 and that all information has been incorporated. This finding is resolved and closed.

3. OEM did not submit complete HM project applications.

Some project applications submitted to FEMA Region II for review and approval did not contain all necessary information, but were approved. We found that Project No. 1295-0003 omitted the mitigation measure narrative, Project Nos. 1295-0002 and 1295-0005 omitted work schedules, and Project No. 1295-0005 omitted an evaluation of alternatives considered.

According to 44 CFR 206.436(d), *Hazard mitigation application*, project applications must include a narrative statement of the project that contains pertinent project management information and identify specific mitigation measures for which funding is requested. Additionally, 44 CFR 206.436(d)(7) and (9) require work schedules and alternatives considered to be included in the project application. OEM noted that subgrantees prepare applications, and OEM did not catch these omissions when they reviewed them. Therefore, OEM was not conducting an effective review of the applications to ensure compliance with FEMA requirements.

Additionally, 9 out of 10 projects under DR-1295 and DR-1337 omitted benefit-cost analyses. OEM noted that benefit-cost analysis was not included as part of the application process, because it understood that FEMA Region II performs an additional benefit-cost analysis outside of the one contained in the application; OEM considered it inefficient to also perform an analysis. Without the required benefit-cost analysis, however, OEM may not be able to adequately prioritize eligible projects prior to submitting the project application to FEMA Region II for review and approval.

OEM further noted that they were not notified that project applications were not complete because they were continually approved by FEMA. FEMA Region II noted that they had been preparing the benefit-cost analyses when it was not in the application, but requested that the states or the applicants complete them. If other documentation such as narrative statements are not included in the application, they often will call the state to obtain necessary information, and explain orally that the information should be part of the application package in the future.

Conclusions and Recommendation: HM project applications are required to contain certain information to ensure that the applicant and the grantee have fully reviewed project eligibility and viability and ensure that projects are properly prioritized. Without all required information, the grantee may be requesting funding for ineffective projects, and FEMA may be improperly approving such projects. Also, FEMA Region II should have detected these deficiencies when reviewing the applications and required them to be corrected prior to approving the projects.

We recommend that the Regional Director, FEMA Region II:

1. Require OEM to strengthen procedures for reviewing HM project applications to ensure compliance with FEMA requirements; and

2. Strengthen procedures within the regional office to ensure that HM projects approved for funding comply with FEMA requirements.

Management's Response: The Region stated it has "no reason to disagree with the auditor's findings. The Region has provided cost benefit training to OEM staff. NJOEM has agreed to perform benefit-cost analysis on potential projects during the onset of 1530-DR-NJ." The state noted that they will perform an final review of project applications for completeness and return applications that do not contain all necessary information. Further they noted that they have started to perform benefit-cost analyses on current projects.

Auditor's Additional Comment: The actions proposed by the Regional Director and the state adequately resolves and closes this finding.

4. OEM did not effectively monitor subgrantees' activities.

During our review of 107 PA projects, we noted that advances were provided to subgrantees without adequate cash management and monitoring procedures in place to ensure the timely expenditure of funds, and project completion dates were not monitored to facilitate the execution of time extensions as required by FEMA requirements.

a. **Monitoring Advances.** OEM issued advances for projects under DR-1337 and DR-1295, yet did not implement controls to minimize the time elapsed between the transfer of funds and disbursement by the subgrantee. In addition, OEM did not ensure that interest earned, if any, on the advances were promptly remitted to FEMA. For example, OEM issued two advances under large projects for DR-1337 shortly after the projects had been approved as follows:

PW#	PW Obligation Date	Advance Date	Amount Advanced
4	08/29/2000	09/05/2000	$38,306
13	08/31/2000	03/12/2001	$77,233

At the time of the audit, OEM did not have documentation to show that these advances had been disbursed by the subgrantee. In addition, under DR-1295, OEM advanced more than $11 million to hundreds of subgrantees to complete work under large projects. These advances of federal funds were also made shortly after FEMA obligated the funds for the projects.

OEM did not require the subgrantees to document the date they planned to disburse the funds and, at the time of the audit, did not have any documentation to show that these advances had been disbursed by the subgrantees. OEM did not have procedures in place to monitor subgrantees that receive advances, such as requiring them to identify what bills will be paid, identify when disbursements will be made, or receive supporting documentation regarding amounts paid and payment dates. In addition, OEM did not require the subgrantees to remit any interest that may have been earned on the advances. According to 44 CFR 13.21(c), *Advances*, subgrantees may be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between fund transfer and disbursement. Additionally, 44 CFR 13.21(h)(2)(i), *Interest Earned on Advances,* requires subgrantees to promptly, but at least quarterly, remit interest earned on advances to the federal agency.

Advancing project funds without ensuring accountability provides no incentive for the subgrantee to aggressively complete projects. Subgrantees may be less likely to provide timely and accurate status reports, respond to OEM communications, or provide necessary documentation for project close out.

b. **Monitoring Project Completion.** Sixteen open projects under DR-1295 and DR-1337 did not have necessary project extensions, although project completion deadlines had passed. Project files did not note the project status. In addition, three projects that had been closed were completed late (6 months, 18 months, and 3 months late), and project extension requests or approvals were not obtained. For one additional project [Project No. 44557], a time extension was not requested until 4 months after the project completion deadline had passed.

44 CFR 206.204, *Project performance*, identifies project completion timelines, and further states that if projects cannot be completed within time specified, the grantee may extend deadlines based on extenuating circumstance or unusual project requirements. Project files did not contain project extension requests or approvals or documentation of extenuating circumstances or unusual project requirements.

Many project files did not have information such as subgrantee progress reports or closeout requests, necessary to document project completion dates. Also, OEM could not locate the necessary forms (P.2, P.4, NOI, and closeout requests) for two projects (Nos. 56080 and 1951).

According to 44 CFR 13.40(a), *Monitoring by grantees,* grantees are responsible for managing the daily operations of grant and subgrant activities to ensure compliance with applicable federal requirements and performance goals. Grantee monitoring must cover each program, function, or activity.

By not maintaining adequate project files, OEM does not know when projects have passed their completion deadlines and may not be able to support payments made to subgrantees.

Conclusions and Recommendation: Advancing project funds without adequate internal controls in place may result in excess federal funds held by the subgrantees for extended periods and can make it difficult to recover excess advances. Additionally, monitoring project completion dates as well as processing necessary project extensions is essential for effective project management.

We recommend that the Regional Director, FEMA Region II, require OEM to:

1. Implement controls over advances of FEMA funds to ensure that, prior to disbursement, payments are for a subgrantee's immediate cash needs under a FEMA-approved large project and that subgrantees expend such funds in a timely manner, as required by federal regulations;

2. Strengthen controls over subgrant project files and project completion dates to provide for the documentation of key events, such as receipts of progress reports, requests for time extensions, requests for reimbursement, and justification for advances of FEMA funds.

Management's Response: The Region stated it had no reason to disagree with the finding. FEMA staff will implement corrective actions as recommended and monitor program activity through regular visits and through reviews of future Quarterly Progress Reports. The state noted that they have included revised procedures to monitor subgrantee functions in their proposed annual Administrative Plan.

Auditor's Additional Comment: The actions proposed by the Regional Director and the state adequately resolves and closes this finding.

B. Financial Management

5. OEM did not have an adequate labor distribution system to support personnel costs charged to management grants.

OEM did not maintain activity reports or equivalent records to support personnel salaries charged to management grants. Instead, OEM used estimates of labor effort for each person working on these disaster programs.

Federal cost principles in OMB Circular A-87, Attachment B, 11(h)(5), *Compensation for Personal Services*, requires salary charges to federal grants to be supported by personnel activity reports or equivalent records. For those employees working on more that one activity, labor charges are required to be supported by personal activity reports that:

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

However, OEM did not maintain personnel reports with this information. This deficiency was reported in the State of New Jersey's FY 2000 Single Audit report, and again in the FY 2001 Single Audit report. In a November 27, 2002 memorandum, the New Jersey Department of Law and Public Safety documented a corrective action plan reportedly enacted in April 2002 that required semi-annual certifications and pay-period certifications (activity reports) for those employees charging time to federal grants. However, at the time of the audit in 2003, OEM had not implemented a system to generate the required supporting records.

Conclusions and Recommendations: OEM did not maintain adequate supporting documentation to support labor cost charged to the management grants, and has not revised its timekeeping system to support future charges to the FEMA programs. This must be done to comply with federal record keeping requirements.

Accordingly, we recommend that the Regional Director, FEMA Region II, require OEM to develop and implement a personnel activity reporting system that documents and supports salary cost distributed among the various FEMA funded activities.

Management's Response: The Region stated it has "no reason to disagree with the finding. OEM has implemented the labor distribution system as of May 2003. Further, FEMA concurs with the audit recommendations and will implement corrective actions for review of the NJ submissions of future State Management Costs claims." The state further noted that their office began tracking employee hours through activity reports that show hours worked per active disaster as of October 2003.

Auditor's Additional Comment: The action taken by the Region and the state resolves the finding. However, OEM's revised labor distribution system as of May 2003, did not properly include employee charges to specific FEMA grants. Therefore, to adequately address the finding, the state needs to provide FEMA with information that shows:

- how charges to the administrative grants will be done, and if the labor charges from employee timesheets result in those expenses being segregated in the state's accounting system
- how expenses will be specifically identified as a federal grant expense (whether as a reimbursed cost, or the match portion)
- how the expenses will be segregated as to not be available for allocation to other projects.

This finding will remain open until the Region provides documentation that OEM has developed and implemented a system that adequately supports claimed labor costs in accordance with OMB Circular A-87.

SCHEDULE A-1

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 973 AS OF DECEMBER 31, 2002

	Public Assistance
Award Amounts (FEMA approved)	
Federal Share	$39,977,649
Local Match/State Share	12,779,078
Total Award Amounts	$52,756,727
Source of Funds	
Federal Share (SMARTLINK)	$39,316,180
Local Match/State Share [1]	12,469,809
Total Sources of Funds	$51,785,989
Application of Funds (Expenditures)	
Federal Share	$39,316,180
Local Match/State Share [1]	12,469,809
Total Application of Funds	$51,785,989

1. OEM passed some or all of the cost-share requirements to the subgrantees. Amounts shown here are expenses incurred by OEM directly. OEM did not accumulate the local share of expenditures in its accounting system.

SCHEDULE A-2

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1189 AS OF DECEMBER 31, 2002

	Public Assistance
Award Amounts (FEMA approved)	
Federal Share	$1,602,952
Local Match/State Share	506,813
Total Award Amounts	$2,109,765
Source of Funds	
Federal Share (SMARTLINK)	$1,389,455
Local Match/State Share [1]	234,808
Total Sources of Funds	$1,624,263
Application of Funds (Expenditures)	
Federal Share	$1,373,865
Local Match/State Share [1]	234,808
Total Application of Funds	$1,608,673

SCHEDULE A-3

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1206 AS OF DECEMBER 31, 2002

	Public Assistance
Award Amounts (FEMA approved)	
Federal Share	$2,870,436
Local Match/State Share	910,330
Total Award Amounts	$3,780,766
Source of Funds	
Federal Share (SMARTLINK)	$2,808,925
Local Match/State Share [1]	480,306
Total Sources of Funds	$3,289,231
Application of Funds (Expenditures)	
Federal Share	$2,784,200
Local Match/State Share [1]	480,306
Total Application of Funds	$3,264,506

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1295 AS OF DECEMBER 31, 2002

	Public Assistance	Hazard Mitigation
Award Amounts (FEMA approved)		
Federal Share	$39,290,816	$ 9,895,227
Local Match/State Share	12,574,562	3,212,288
Total Award Amounts	$51,865,378	$13,107,515
Source of Funds		
Federal Share (SMARTLINK)	$35,592,430	$ 9,043,283
Local Match/State Share [1]	11,904,216	1,905,976
Total Sources of Funds	$47,496,646	$10,949,259
Application of Funds (Expenditures)		
Federal Share	$35,592,430	$ 9,043,283
Local Match/State Share [1]	11,904,216	1,905,976
Total Application of Funds	$47,496,646	$10,949,259

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 1337 AS OF DECEMBER 31, 2002

	Public Assistance	Hazard Mitigation
Award Amounts (FEMA approved)		
Federal Share	$4,338,977	$ 942,439
Local Match/State Share	1,395,737	298,694
Total Award Amounts	$5,734,714	$1,241,133
Source of Funds		
Federal Share (SMARTLINK)	$3,285,295	$655,450
Local Match/State Share [1]	1,020,440	———
Total Sources of Funds	$4,305,735	$665,450
Application of Funds (Expenditures)		
Federal Share	$3,285,295	$655,450
Local Match/State Share [1]	1,020,440	*
Total Application of Funds	$4,305,735	$665,450

* The state share of these projects had not been paid.

SCHEDULE A-6

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 3148 AS OF DECEMBER 31, 2002

	Public Assistance
Award Amounts (FEMA approved)	
Federal Share	$2,017,696
Local Match/State Share	645,461
Total Award Amounts	$2,663,157
Source of Funds	
Federal Share (SMARTLINK)	$1,999,864
Local Match/State Share [1]	645,406
Total Sources of Funds	$2,645,270
Application of Funds (Expenditures)	
Federal Share	$1,999,864
Local Match/State Share [1]	645,406
Total Application of Funds	$2,645,270

SCHEDULE A-7

STATE OF NEW JERSEY
DIVISION OF STATE POLICE
OFFICE OF EMERGENCY MANAGEMENT
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER
DISASTER NO. 3169 AS OF DECEMBER 31, 2002

	Public Assistance
Award Amounts (FEMA approved)	
Federal Share	$95,025,809
Local Match/State Share	15,584
Total Award Amounts	$95,041,393
Source of Funds	
Federal Share (SMARTLINK)	$83,723,118
Local Match/State Share	
Total Sources of Funds	$83,723,118
Application of Funds (Expenditures)	
Federal Share	$83,723,118
Local Match/State Share	
Total Application of Funds	$83,723,118

ATTACHMENT

COMMENTS FROM FEMA REGIONAL OFFICE AND GRANTEE

U.S. Department of Homeland Security
Region II
Jacob K. Javits Federal Office Building
26 Federal Plaza, Room 1311
New York, NY 10278-0002

FEMA

October 7, 2004

MEMORANDUM FOR: Gary Barard
Field Office Director

FROM: Joseph F. Picciano
Acting Regional Director

SUBJECT: Audit of the State of New Jersey
Administration of Disaster Assistance Funds

We have reviewed the information supplied to us regarding the above referenced audit report. Per your request, we have evaluated the Grantee's response to resolve and close the findings. Please find below our comments regarding each finding:

FINDING 01:
Improvements were needed in the preparation of PA and HM administration plans.

QUESTIONED COSTS: $0

REGION'S POSITION: We concur with the audit recommendations and will implement corrective actions for the review of NJ submissions of future PA and HM Administrative Plans.

ACTION TO BE TAKEN:. The Region has and will continue to work with HQ in finalizing written guidance to be provided to the States to assist in the preparation of the annual Plans in the Public Assistance program. In the meantime, deficiencies reported in the finding for PA and HM will be corrected with the onset of the newest declaration, 1530-DR-NY.

TARGET COMPLETION DATE: December 31, 2004

FINDING 02:
OEM did not submit all required HM quarterly progress reports.

QUESTIONED COSTS: $0

REGION'S POSITION: The Region has no reason to disagree with the finding. However, the random sample tested were from 1/2000 – 1/2003. As of the Fall of 2003, quarterly progress reports have been submitted in a more timely manner.

ACTION TO BE TAKEN: OEM has agreed to incorporate significant details in the preparation of HM progress reports beginning with 1530-DR-NJ.

TARGET COMPLETION DATE: March 31, 2005

FINDING 03:
OEM did not submit complete HM project application packages.

QUESTIONED COSTS: $0

REGION'S POSITION: We have no reason to disagree with the auditor's findings.

ACTION TO BE TAKEN: The Region has provided cost benefit training to OEM staff. NJOEM has agreed to perform benefit-cost analysis on potential projects during the onset of 1530-DR-NJ.

TARGET COMPLETION DATE: In progress

FINDING 04:
OEM did not effectively monitor sub-grantees' activities (i.e. monitoring advances and project completion deadlines.)

QUESTIONED COSTS: $0

REGION'S POSITION: The Region and the Grantee have no reason to disagree with the finding.

ACTION TO BE TAKEN: FEMA staff will implement corrective actions as recommended by KPMG and monitor program activity through regular visits and through reviews of future Quarterly Progress Reports.

TARGET COMPLETION DATE: In progress

FINDING 05:
OEM did not have an adequate labor distribution system to support claimed personnel costs for the PA management grants.

QUESTIONED COSTS: $0

REGION'S POSITION: We have no reason to disagree with the finding.

ACTION TO BE TAKEN: OEM has implemented the labor distribution system as of May 2003. Further, FEMA concurs with the audit recommendations and will implement corrective actions for review of the NJ submissions of future State Management Costs claims. **We ask that this finding be CLOSED.**

TARGET COMPLETION DATE: In progress

Should you have any questions with the above, please do not hesitate to contact Flora Moy at (212) 680-3647.

Thanks.

AUDIT OF THE STATE OF NEW JERSEY

ADMINISTRATION OF DISASTER ASSISTANCE FUNDS

The following is a corrective action plan in response to the draft audit report on the audit of the State of New Jersey administration of disaster assistance funds which has been submitted by Cotton and Company:

IV. Finds and Recommendations

A. Program Management

1. Improvements were needed in the preparation of PA and HM administrative plans.

Public Assistance

- OEM is in the process of submitting an annual administrative plan.

- Notifying applicants of program availability

Paragraph VB 1 of the proposed Annual Administrative Plan provides:

Notifying Potential Applicants - The New Jersey Office of Emergency Management and Department of Law and Public Safety Public Information Officer(s), along with County and local Offices of Emergency Management will be utilized to notify potential applicants of the assistance that is available and the time and date of the Applicants' Briefing which will be held in their area.

- Assisting FEMA in determining applicant eligibility

Paragraph V.B. 5.2 a-d of the proposed Annual Administrative Plan provides:

5. Applicant Eligibility - New Jersey will assist FEMA in screening all potential applicants for eligibility. Eligible applicants under the Public Assistance Program are:

a. New Jersey agencies, local governments and governmental entities.

b. Private Non-Profit organizations that have an IRS tax exemption letter or a New Jersey Private Non-Profit certification (i.e. Articles/Certificate of Incorporation). Special utility districts must provide a copy of the legislation that grants the district taxing authority. Eligible Private Non-Profit organizations must own or operate educational, utility, emergency, medical, custodial care, or essential governmental service facilities. Essential governmental

services facilities are defined as museums, zoos, community centers, libraries, homeless shelters, senior citizen centers, rehabilitation facilities, shelter workshops, and other facilities which provide a health and safety service of a governmental nature. All such facilities must be open to the general public.

c. Indian tribes or authorized tribal organizations.

d. Such other applicants as may be eligible, from time to time, under the Stafford Act or Federal Regulations.

- Participating with FEMA in conducting damage surveys.

Paragraph IV. A.7. of the proposed Annual Administrative Plan provides as follows:

State Inspectors - Perform initial NJOEM damage assessments and service as members of joint State/FEMA teams. The State Inspectors meet with applicants to discuss applicant needs, and provide assistance in developing projects, writing Project Worksheets, documenting costs and ensuring compliance with FEMA special considerations for project eligibility.

- Participating with FEMA in establishing hazard mitigation and insurance requirements.

Paragraph V. C. 3.c. of the proposed Annual Administrative Plan provides:

3. The applicant will be:

* * *

c. Required to address pertinent environmental and historic preservation requirements, insurance coverage, floodplain management issues and hazard mitigation opportunities.

* * *

Paragraph V.E. 5a-d provides:

5. Insurance Requirements - 44 CFR, Subpart I establishes requirements which apply to disaster assistance provided by FEMA. Prior to approval of a FEMA grant for the repair, restoration or replacement of an insurable facility of its contents damaged by a major disaster:

a. Eligible costs shall be reduced by the amount of any insurance recovery actually received or anticipated, relating to eligible costs. FEMA will base its determination of eligible costs on whether the insurance settlement is reasonable and proper.

b. The full coverage available under the standard flood insurance policy from the National Flood Insurance Program (NFIP) will be subtracted from otherwise eligible costs for an insurable facility and its contents within the

special flood hazard area.

c. If eligible damages are greater than $5,000, an applicant must obtain and maintain insurance to cover the assisted facility for the hazard that caused the major disaster in the amount of the eligible damage to the facility.

d. Assistance will not be provided under Section 406 of the Stafford Act for any facility for which assistance was provided as a result of a previous major disaster unless all insurance required by FEMA as a condition of previous assistance has been obtained and maintained. Not even the deductible amount, or damages in excess of the NFIP limits, or for flood damaged items not covered by standard NFIP policy will be eligible.

e. Recoupment of Federal Funds - If an approved Project Worksheet is totally or partially deobligated, the applicant will be notified as soon as possible. Reimbursement by the applicant to New Jersey will be requested once a supplemental Project Worksheet (deobligating the approved funding) is processed.

- Processing requests for time extensions and approval of overruns.

Paragraph V. 6. Of the proposed Annual Administrative Plan provides:

G. Time Extensions - An applicant may request a time extension on any approved Project Worksheet by submitting a written request to New Jersey. Such a request should be submitted in writing prior to the completion date currently in effect. New Jersey may grant a time extension if the reason for delay is based on extenuating circumstances or unusual project requirements beyond the applicant's control so long as the additional time requested does not exceed the following time frames:

1. Emergency Work = 6 months
2. Permanent Work - 30 months
3. New Jersey will notify FEMA of all time extensions that have been approved. Requests for time extensions beyond New Jersey's authority will be forwarded to FEMA in writing for determination with New Jersey's recommendation in accordance with the requirements of 44 CFR, Section 206.204(d). Work performed after the last approved completion deadline is subject to having funding reduced or withdrawn.

Paragraph V. H. 4. Provides:

Cost Overruns - New Jersey will verify all significant cost overrun appeals submitted by the applicant (on small projects) by conducting a review of all approved small Project Worksheets within the applicant's project application. New Jersey will base its recommendation for additional funding on the information obtained during the review and will forward a report to FEMA for final determination. The cost share is

determined from final actual eligible project costs (whether an overrun or an underrun) and will be adjusted at the time actual eligible costs for all small projects, and each large project re determined, for the grantee and subgrantee.

- The plan for EM-3169 did not identify staffing functions.

Paragraph IV of the proposed Annual Administrative Plan provides as follows:

IV. Administration and Support

A. Administrative Support Staff - Since staffing requirements vary depending on the magnitude, type and extent of the disaster, the following personnel may be used to assist the Governor's Authorized Representative/State Coordinating Officer in meeting program administrative requirements:

1. Legislative Liaison Officer - All contact with State or federal legislators is to be coordinated with the Department of Law and Public Safety Legislative Affairs Office, as such, the approval for this position must be obtained from Legislative Affairs.

2. State Public Assistance Officer (SPAO) - The person responsible for administering the Public Assistance Program at the State level. The SPAO will normally be a member of the New Jersey Office of Emergency Management.

3. Assistant State Public Assistance Officer (ASPAO) - Serves as the SPAO in his absence and is responsible for administering the Public Assistance Program at the State level. The ASPAO will normally be a member of the New Jersey Office of Emergency Management.

4. Project Inspection Engineer - This individual is a licensed engineer. He serves as the engineering inspector for the SPAO, assists applicants in determining eligible scopes of work and preparation of Project Worksheets, evaluates documentation for compliance to scope of work and costs, and reviews appeals for preparation of State's recommendation. This individual serves as a member of the State's damage assessment team. The Project Inspection Engineer also assists in the preparation and delivery of training programs for applicant agents, damage inspection teams and state public assistance office staff members.

5. Grants Management Specialist - Performs actions necessary to process applicants for disaster aid, processes documentation to applicants Project Worksheets including releasing of funds, monitoring progress on projects through required monthly reports and provides guidance to applicants in the areas of work documentation, request for improved

projects and appeals of FEMA's decisions to their Disaster Aid. These individuals prepare quarterly reports of all assigned applicants and provide guidance in the preparation fo the P.4 Project Completion and Certification Report and documentation necessary for closeouts. The Grant Management Specialist also assists in providing training for applicant agents and local officials.

6. Accountant - Performs the accounting procedures necessary to convert completed grant applications from eligible disaster applicants to grant payments from the PA program. He/she also conducts general review of applicant files to reconcile applicant claims with the completed Project Worksheets prepared by FEMA. The accountant prepares payment requests to the New Jersey Department of Treasury for the draw down of Federal disaster funds from SMARTLINK for payment of eligible costs and coordinates payment of applicants by electronic transfer, or Automated Clearing House (ACH) direct check payment to applicants.

7. State Inspectors - Perform initial NJOEM damage assessments and serve as members of joint State/FEMA teams. The State Inspectors meet with applicants to discuss applicant needs, and provide assistance in developing projects, writing Project Worksheets, documenting costs and ensuring compliance with FEMA special considerations for project eligibility.

8. New Jersey Disaster Reservists - The New Jersey Office of Emergency Management (NJOEM) has established the New Jersey Disaster Reservists Program (NJDRP) to assist with response and recovery disaster assistance programs which become available during federally declared disasters.

   a. This program replicates FEMA's Disaster Assistance Employee (DAE) program which was developed to provide FEMA with additional resources when responding to presidentially declared disasters throughout the United States. This national cadre of trained "on call" specialists are activated when personnel and resources are needed to address disaster affected areas.

   b. the New Jersey Disaster Reservists Program (NJDR), as described in this Disaster Assistance Administrative Plan, will significantly enhance the State's capacity to take advantage of federal disaster grant assistance programs for a large scale disaster event in an accelerated time frame.

9. Applicant Liaisons, Resource Coordinators, Project Officers, Program Specialists, Technical Specialists, Technical Specialists - qualified

personnel from applicable State agencies who may assist the New Jersey Office of Emergency Management in determining legal matters, assigning New jersey staff in the Resource Pool, assessing damages, preparing and reviewing Project Worksheets, depending on the level of State involvement, and conducting interim and final inspections when necessary.

B. The New Jersey Office of Emergency Management will provide, from its staff or that of other State Departments, such other Administrative Support Personnel as may be required due to the nature of the emergency, including, but not limited to:

1. Computer Specialist
2. Administrative Technician
3. Clerk/Typist

C. Staff Funding - The initial cost for additional administrative support personnel will be incurred by New Jersey. A claim for reimbursement will be submitted to FEMA in accordance with the management and administrative cost provisions of 44 CFR, 206.228.

- Incorrect reference to OMB Circular Letter A-128.

The proposed Annual Administrative Plan now references OMB Circular Letter A-133.

Hazard Mitigation

- OEM's HM administrative plan did not contain all required elements [44CFR Part 206.437(b), Minimum Criteria]

The Mitigation Unit has revised the Administrative Plan for DR-1530 to include procedures required by 44CFR Part 206.437 (b). which are located in the plan as follows:

- Minimum Criteria: at a minimum, the State administrative plan must include the items listed below:

(1) Designation of the State Agency that will have responsibility for program administration:

Location: Page 3, Section II., Program Responsibilities, Organization and Staffing

(2) Identification of the State Hazard Mitigation Officer responsible for all matters related to the Hazard Mitigation Grant Program:

Location: Page 3, Section II., Program Responsibilities, Organization and Staffing, A., Responsibilities, item 1.,c.

(3) Determination of staffing requirements and sources of staff necessary for administration of the program:

Location: Page 4, C, Staffing, items 1, 2 and Appendix A.

(4) Establishment of procedures to:

(I) Identify and notify potential applicants of the availability of the program:

Location: Page 5, C, Staffing, items (2) and (3); Page 10, Section IV, Program Notification and Identification of Potential Applicants A., Program Notification and B., Identification of Potential Applicants.

(ii) Ensure that potential applicants are provided information on the application process, program eligibility and key deadlines;

Location: Page 10, Section IV., Program Notification and Identification of Potential Applicants, A., Program Notification and B., Identification of Potential Applicants.

(iii) Determine applicant eligibility;

Location: Page 13, Section VI., Eligibility Requirements, A., Applicants.

(iv) Conduct environmental and floodplain management reviews;

Location: Page 17, Section VIII., Program Compliance, A., 44 CFR Part 9, Floodplain Management and Protection of Wetlands and B., 44 CFR Part 10 Environmental Considerations.

(v) Establish priorities for selection of mitigation projects;

Location: Page 11, Section V., Project Identification and Selection, B., Selection.

(vi) Process requests for advances of duns and reimbursement;

Location: Page 20, Section IX, Program Administration, D., Financial Management (note: NJOEM does not typically process the advancement of funds).

(vii) Monitor and evaluate the progress and completion of the selected projects;

Location: Page 19, Section IX., Program Administration, C., Monitoring and Reporting; Page 21 Section IX., Program Administration, E., Closeout.

(viii) Review and approve cost overruns;

Location: Page 20, Section IX., Program Administration, D., Financial Management, item 2. Cost Overruns.

(ix) Process appeals;

Location: Page 19, Section IX, Program Administration, B., Appeals

(x) Provide technical assistance as required to subgrantee(s);

Location: Page 18, Section IX., Program Administration, A., Implementation, item 2.

(xi) Comply with the administrative requirements of 44CFR parts 13 and 206;

Location: Page 1, Section 1., Introduction, B., Authorities and References, 1., item d., (1) and (6). Page 17, Section Viii., Program Compliance, C.

(xii) Comply with audit requirements of 44 CFR part 14;

Location: Page 1, Section 1., Introduction, B., Authorities and References, item d., (7). Page 17, Section VIII., Program Compliance, D.

(xiii) Provide quarterly progress reports to the Regional Director on approved projects;

Location: Appendix D

- The plan did not contain the identification of the state hazard mitigation officer and procedures to process requests for advances of funds and reimbursements.

The state hazard mitigation officer is not identified by name in the Administrative Plan, typically they are identified by position.

The Administrative Plan has been revised to include the process for reimbursement to an applicant. Location: Page 20, Section IX, Program Administration, D., Financial Management (note: NJOEM does not typically process the advancement of funds).

2. OEM did not submit all required HM quarterly progress reports.

- OEM did not submit required quarterly progress reports for the HM program, as required by 44 CFR Part 206.438©). Also, OEM did not include all requested information requested and necessary information in its progress reports.

  Quarterly progress reports have been submitted to FEMA in a timely manner since the fall of 2003. All requested and necessary information has been provided. If FEMA requested additional information, it was provided upon request. A template of the progress report is included in Appendix D.

- Reports submitted by OEM did not always contain the status of open projects, problems or circumstances affecting the completion dates, and the scope of work.

  Quarterly progress reports submitted to FEMA now contain the status of open projects, and any problems or circumstances affecting its completion. Project scope of work is also included.

3. OEM did not submit complete HM project application purchases.

- Project applications submitted to FEMA Region II for review and approval did not contain all necessary information. Project 1295-0003 omitted the mitigation measure narrative, 1295-002 and 1295-0005 omitted the work schedules, 1295-0005 omitted an evaluation of the alternatives considered. According to 44 CFR Part 206.436©) Hazard Mitigation application, project applications must include a narrative statement of the project that contains pertinent project management information and identify mitigation measures for which funding is requested.

  Project applications that will be submitted under DR-1530-NJ and onward will be reviewed for completeness. If an application does not contain all necessary information, the applicant will be notified that the application must be revised, and will be forwarded to FEMA once complete.

- Nine out of ten projects under DR-1295 and DR-1337 omitted benefit-costo analysis. Without the required benefit-cost analysis, OEM may not be able to adequately prioritize eligible projects prior to submitting the project application to FEMA Region II for review and approval.

  Prior to DR-1530-NJ, NJOEM did not perform a benefit-cost analysis for project applications. Benefit-cost analysis was performed by FEMA. NJOEM began performing benefit-cost analysis on potential projects during the inter of 2004, and will continue to do so for all future project applications.

4. OEM did not effectively monitor subgrantee activities.

Procedures to monitor subgrantee functions are addressed in the proposed annual Administrative Plan, Paragraph V.F-K.

B. Financial Management

5. OEM did not have an adequate labor distribution system to support claimed personnel costs for the PA management grants.

   The Public Assistance Office began tracking employee's hours through activity reports in October 2003. These reports show an individual's hours worked per active disaster grant in each pay period.

September 17, 2004