

U.S. Department of Homeland
Security
3003 Chamblee-Tucker Road
Atlanta, Georgia 30341



Homeland
Security

August 12, 2004

MEMORANDUM

TO: Patricia G. Arcuri
Acting Regional Director, FEMA Region III

FROM: 
Gary Barard
Field Office Director

SUBJECT: Audit of the State of Delaware
Administration of Disaster Assistance Funds
Audit Report No. DA-32-04

Attached for your review and follow-up are five copies of the subject audit report that was prepared by an independent accounting firm, Clifton Gunderson, LLP, under contract with the Office of Inspector General. In summary, Clifton Gunderson determined that the Delaware Emergency Management Agency should improve certain program management procedures associated with the administration of disaster assistance funds.

On April 9, 2004 your office responded to the draft report. Based upon your response, Finding 4 is closed and requires no additional action. Finding 1 is resolved, but requires an additional response describing actions taken to implement the recommendation. However, your response to Findings 2 and 3 did not fully address the reported conditions or recommendations. Therefore, these two findings remain unresolved pending an additional response from FEMA Region III.

Please advise the Atlanta Field Office-Audit Division by November 12, 2004 of the action taken. Should you have any questions, please contact George Peoples or me at (770) 220-5242.

Attachments



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

Clifton Gunderson LLP has completed an audit of the Delaware Emergency Management Agency's (DEMA) management and administration of the Federal Emergency Management Agency (FEMA) disaster assistance programs. The audit was conducted at the request of the Department of Homeland Security, Office of Inspector General (OIG).

The purpose of the audit was to determine whether DEMA had 1) administered the FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations, 2) complied with the FEMA-approved disaster assistance administrative plans, 3) properly accounted for and expended FEMA disaster assistance funds, and 4) operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. 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 took place during July through September 2003. The scope of the audit included financial and program activities for three Presidential disaster declarations open as of September 30, 2002. We reviewed all grants for Public Assistance, Hazard Mitigation and Individual and Family Grants.

Very truly yours,

CLIFTON GUNDERSON LLP

A handwritten signature in black ink that reads "William H. Oliver".

William H. Oliver, CPA
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EXECUTIVE SUMMARY

Clifton Gunderson LLP has completed an audit of the State of Delaware's Emergency Management Agency's management and administration of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The objectives of the audit were to determine if the Delaware Emergency Management Agency (DEMA) had:

- administered the FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- complied with the FEMA-approved disaster assistance administrative plans,
- properly accounted for and expended FEMA disaster assistance funds, and
- operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

This report focuses on DEMA's systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Stafford Act and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed for the declared disasters, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on DEMA's financial statements. The sources and applications of funds for the disasters included in the audit are presented in Attachment A of this report.

Our audit included three major disasters declared by the President of the United States between March 1994 and September 1999. One of the disasters, No. 1297, involved all three types of grant programs – Public Assistance (PA) Grants, Individual and Family Grants (IFG), and Hazard Mitigation Grants (HMG). Disasters No. 1017 and No. 1205 did not include the IFG program. The Federal share of obligations for the three disasters was about \$13.2 million. Federal expenditures through September 30, 2002 were approximately \$12.5 million.

In accordance with our agreement with the Office of Inspector General (OIG), our audit focused on DEMA's current program and financial management procedures and practices. During the audit we attempted, to the extent possible, to identify the causes of each finding. We also made recommendations that, if implemented properly, would improve DEMA's management, eliminate or reduce weaknesses in internal controls, and correct noncompliance situations. The findings summarized below are discussed in detail in the body of the report.

1. Documentation of fiscal procedures

DEMA has not documented its day-to-day fiscal procedures used to approve, disburse, and account for expenditures of FEMA disaster grant funds. The failure to do so constitutes a management control weakness, inhibits oversight, and increases the risk of incomplete, erroneous and/or inconsistent management of FEMA grant funds.

2. Verification of HMG State/local Matches

DEMA is not verifying or documenting that matching requirements are being satisfied when they are derived from allowable costs incurred by the grantee, subgrantee, or a cost type contractor, or by allowable costs born by non-federal grants or other non-federal sources. As a result, there is no assurance that full matching requirements are being satisfied under these type cost share arrangements.

3. PA & HM Subgrantee Monitoring

DEMA has no policies or procedures requiring that periodic PA or HM subgrantee monitoring visits be made, specifying the circumstances calling for such visits, detailing what should be reviewed, or specifying what information should be documented. As a result, the timing of subgrantee monitoring site visits as well as what is reviewed is left to the discretion of the visiting officer, and the visits are normally not documented. In the absence of defined and documented subgrantee monitoring activities, there is no assurance that subgrantees are being appropriately monitored to insure performance goals are being achieved, or compliance with applicable Federal requirements met.

4. Staffing Levels

In the past DEMA dedicated separate staff member to serve as Hazard Mitigation and Public Assistance Officers and administer the respective FEMA grant programs. Due to staff turnover and a state hiring freeze, however, there currently is one person filling both positions. In the event of a disaster, it does not appear that one person could effectively administer both grant programs.

BACKGROUND

Federal assistance is usually needed to supplement response efforts after major disasters and emergencies. When Federal assistance is needed, a governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA). FEMA, in turn, can make grants to state agencies, local governments, private citizens, nonprofit organizations, and Indian tribes or authorized tribal organizations through a designated agency within the affected state.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs Presidentially declared disasters. Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster relief grants awarded by FEMA.

The three major disaster programs addressed in this audit are:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are intended to provide funds to individuals or families to permit them to meet those disaster-related necessary expenses or serious needs for which assistance from other means is either unavailable or inadequate. To make assistance under this program available to disaster victims, the Governor must express an intention to implement this program. This expression of intent must include an estimate of the size and cost of the program. The Federal share of the IFG program is 75%, and is made on the condition that the remaining 25% is paid from funds made available by the state.

Public Assistance (PA) Grants may be awarded to State and local governments, private non-profit organizations or institutions, or Indian tribes or authorized tribal organizations. PA grants can be used for debris removal, repair/replacement of facilities, or emergency work necessary as the result of a disaster. Following the declaration of a disaster inspection teams composed of Federal, State, and local representatives prepare Project Worksheets (PW) for each project that identifies the scope of eligible work and its estimated costs. FEMA obligates funds to the Grantee, and the Grantee then approves subgrants based on applicants' approved PW. At least 75% of the cost is paid by FEMA. The remainder is paid by non-Federal sources.

Title 44 CFR calls for PA projects to be classified as either "small" or "large". The classification amount is based on the approved estimate of eligible costs and is adjusted annually to reflect changes in the Consumer Price Index for All Urban Consumers published by the Department of Labor. Projects under this amount classified as small, and projects equal to or greater than this

amount are classified as large. For small projects the grant is based on an estimate of the work. For large projects, the final grant is based on actual eligible costs. To speed up payments to subgrantees for small projects, the Federal share of the cost is to be disbursed as promptly as possible after approval by FEMA. Subgrantees of large projects submit periodic requests to the state for funds to meet expenses incurred. When a project is completed, the state determines and reports the final cost to FEMA. FEMA then adjusts the amount of the large project to reflect the actual cost.

Hazard Mitigation Grants (HMG) are awarded to states to help reduce the potential for future disaster damages. The state must submit a Letter of Intent to participate in the program and subgrantees must submit an HMG proposal to DEMA. DEMA, as the grantee, is responsible for setting priorities for the selection of specific projects, but each project must be approved by FEMA. FEMA awards subgrants to state agencies, local governments, qualifying private nonprofit agencies, Indian tribes, or authorized tribal organizations. The costs of the projects are shared with FEMA with the Federal share not exceeding 75 percent of the costs. However, the amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act.

Under the PA and HMG programs, FEMA may grant three types of administrative funds for overseeing the program:

1. An administrative cost allowance to the grantee to cover extraordinary costs directly associated with administering the program. The allowance amount is determined by a statutorily mandated sliding-scale percentage (ranging from one-half of one percent to three percent) applied to the total Federal disaster assistance awarded under the program. The allowance is for extraordinary costs such as those incurred for preparing damage survey or final inspection reports; processing project applications; conducting final audits and related field inspections; overtime; per diem; and travel expenses. The administrative cost allowance does not include regular time for employees.
2. State Management Costs to cover ordinary or regular expenses directly associated with the program.
3. Indirect costs based on a FEMA approved indirect cost allocation plan.

For the IFG program, up to five percent of the Federal share of total program costs may be granted for administration costs. Delaware chose not to claim allowed IFG administrative costs.

Delaware Emergency Management Agency

The Delaware Emergency Management Agency (DEMA) is the lead state agency for coordination of comprehensive emergency preparedness, training response, recovery and mitigation for the State of Delaware. DEMA is located in the Delaware State Emergency Operations Center in Smyrna, Delaware.

DEMA is a division within the Delaware Department of Safety and Homeland Security, an executive level agency reporting directly to the governor. DEMA is organized into the following sections:

- Finance
- Information and Technology
- Community Relations
- Training and Exercises
- Logistics
- Operations
- Planning

DEMA's organization called for 31 positions at the time of the audit. The number of positions filled was about 25.

DEMA personnel managed the PA and IMG programs to include financial management responsibility. DEMA relied upon the Delaware Division of Health and Social Services/Division of Social Services (DHSS/DSS) to manage the IFG program. Financial responsibility for the IFG program resided with DHSS/DSS.

OBJECTIVES, SCOPE, AND METHODOLOGY

The **objectives** of this audit were to determine if the State of Delaware (the grantee) had:

- administered FEMA disaster and emergency assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- complied with the FEMA-approved disaster assistance administrative plans,
- properly accounted for and expended FEMA disaster assistance funds, and
- operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included grant programs within the following three declarations that were open at September 30, 2002 (See Attachment A). These disasters and emergencies were declared between March 1994 and September 1999.

Declarations			Grant Programs Status at September 30, 2002		
Number	Date	Disaster/Emergency	PA	IFG	HMG
DR 1017	03/16/94	Severe Ice Storms/Flooding	Closed	N/A	Open
DR 1205	02/13/98	Winter Storms	Closed	N/A	Open
DR 1297	09/21/99	Hurricane Floyd	Open	Open	Open

The cut-off date for the audit was September 30, 2002. However, we also reviewed more current activities related to conditions found during our audit to determine whether appropriate corrective actions had been taken.

Our audit fieldwork was initiated at the FEMA Region III Office in Philadelphia, Pennsylvania. Region III has jurisdiction over FEMA disaster programs in several states, including the State of Delaware. Our **methodology** included interviews with FEMA headquarters, regional office, and state officials to obtain an understanding of internal control systems and to identify current issues or concerns relative to DEMA's management of disaster programs. Our audit considered FEMA and state policies and procedures as well as the applicable Federal requirements. Documentation received from DEMA, as well as from FEMA headquarters, and the regional office was reviewed. The audit also included discussions with DEMA officials concerning the state's policies, procedures, and processes for managing the grant programs.

We selected and tested IFG cases administered by the Delaware Division of Health and Social Services/Division of Social Services (DHSS/DSS)¹ and representative projects at DEMA to help ensure that the disaster assistance grants had been conducted in compliance with applicable regulations. DEMA's systems and procedures were evaluated to identify systemic causes of internal control system weaknesses or noncompliance situations. The views of officials at

¹DHSS/DSS managed the IFG program for the State of Delaware.

FEMA headquarters, regional officials, DEMA and DHSS/DSS officials were considered in writing this report. Our review included all aspects of **program management** including application, approval, monitoring, reporting, and program closure.

DEMA's policies and procedures for procurement, and property management, cash management, and financial reporting were also evaluated. We reviewed DEMA's internal control systems and evaluated DEMA's financial management system to determine compliance with the standards set forth in 44 CFR 13.20. Our tests of financial transactions included: comparing DEMA's financial records with supporting documentation for sampled costs claimed for the IFG, PA, and HMG programs, reviewing DEMA's system for allocating costs to disaster programs, and testing the timeliness and accuracy of payments to IFG recipients, PA and HMG subgrantees, and vendors.

We reviewed prior audits conducted within the timeframe of the disasters included in our scope. This included Single Audit Act audits conducted in compliance with OMB Circular A-133. Our audit scope did not include interviews with or visits to DEMA subgrantees or project sites. We also did not evaluate the technical aspects of the repairs to disaster caused damage.

The audit was conducted in accordance with *Government Auditing Standards* issued 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 the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified. The report does not extend to any financial statements of DEMA or the State of Delaware and should not be used for that purpose.

FINDINGS AND RECOMMENDATIONS

Audit results are summarized below and relate to program management.

1. *Documentation of fiscal procedures*

DEMA has not documented all its procedures used to approve, disburse, and account for expenditures of FEMA disaster grant funds. While the procedures relating to the official accounting system, the Delaware Financial Management System, were documented, fiscal procedures covering day-to-day programmatic functions were not. Also undocumented were procedures followed to review subgrantee requests for reimbursement to determine if claimed costs were allowable in accordance with cost principles in OMB Circular A-87.

To fulfill internal control requirements specified by 44 CFR 13.20, grantees are required to perform a variety of functions to insure disaster grant funds are appropriately expended and controlled. These program management functions are identified in 44 CFR Chapter 1, Subchapter D, Subpart G for Public Assistance, and Subpart N for Hazard Mitigation. Included are procedures used to review subgrantee requests for payment, obtain required approvals, track subgrantee authorizations, determine the adequacy of documentation, issue checks, and determine if costs were reasonable and allowable under OMB guidelines.

Through discussions with DEMA personnel, we were able to gain an understanding of fiscal practices currently used at DEMA. If consistently applied as described they should provide adequate accountability and control over grant funds; and no exceptions were noted during testing. Notwithstanding our conclusions and testing, until DEMA documents all current fiscal practices, they are subject to individual interpretation that could lead to incomplete, erroneous and/or inconsistent management of FEMA grant funds.

Conclusions and Recommendations

DEMA has not thoroughly documented all its fiscal procedures. The failure to do so constitutes a management control weakness, inhibits oversight, and increases the risk of incomplete, erroneous and/or inconsistent management of FEMA grant funds.

The Acting Director, FEMA Region III, should require DEMA to fully document all fiscal policies and procedures used to account for and control FEMA disaster funds.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III, agreed with the audit finding and will follow-up with DEMA to ensure that written procedures have been established. The Region III staff will review the procedures to determine if they satisfy the recommendation, and will monitor to ensure compliance.

Actions being taken by management appear adequate to resolve the condition cited; however, the finding cannot be closed until the planned actions are complete.

2. Verification of HMG State/Local Matches

DEMA is not verifying or documenting that matching requirements are being satisfied when they are derived from allowable costs incurred by the grantee, subgrantee, or a cost type contractor, or by allowable costs born by non-federal grants or other non-federal sources.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity [44 CFR 13.40]. Federal regulations allow matching or cost sharing requirement to be satisfied by allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-federal grants or by others cash donations from non-federal third parties [44 CFR 13.24(a)(1)]. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost type contractors. These records must show how the value placed on third party in-kind contributions was derived [44 CFR 13.24(a)(6)].

Our review of selected hazard mitigation grants disclosed two projects where the matching requirement was met by allowable costs incurred by the subgrantee, or by undertaking related projects funded by non-federal sources. In one case DEMA reimbursed the Delaware Department of Agriculture, Forest Service \$21,000 (97%) of a \$21,554 invoice which appeared to be the total cost for Project No. 10-R, 1017-DE-DR. We were informed this project was cost shared where the state furnished materials, equipment, labor, computers, and software. We requested documentation that cost share requirements were met and were provided a September 10, 2003 letter from the former State Hazard Mitigation Officer estimating that state project contributions totaled \$7,500. No documentation was provided verifying that these contributions were made, or showing how the value placed on them was derived. We do not believe this meets the cost share verification requirements envisioned in 44 CFR 13.24.

The second project is ongoing and at the time of our audit DEMA had reimbursed the City of Delaware City, Delaware over \$225,000 under Project No. 2-R, 1297-DE-DR.

The match requirement for this project is being met by related projects funded by non-federal sources. There is no indication in the file that DEMA is periodically verifying that these related projects were undertaken and are continuing in a manner and scale that will ensure matching requirements are satisfied.

In discussions with grantee officials we were told that DEMA has not established procedures to verify matching requirements satisfied by subgrantee allowable costs, or by allowable costs born by non-federal grants or other non-federal sources; and they do not verify that such matching requirements are met.

Conclusions and Recommendations

DEMA is not fulfilling its grant management responsibilities with respect to verifying that matching requirements are being satisfied when they are derived by allowable costs incurred by the subgrantee, subgrantee, or a cost type contractor, or by allowable costs born by non-federal grants or other non-federal sources.

The Acting Director, FEMA Region III should require DEMA to establish procedures to verify and document that matching or cost sharing requirements are being satisfied by subgrantees.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III, accepted the DEMA Director's response to the finding. However, the DEMA Director implied that such procedures were in place to verify and document the matching requirements at the time of the audit. This is contrary to the facts obtained during the audit. Accordingly, the finding remains unresolved pending an additional response from FEMA Region III validating that the matching requirements have been satisfied for the Hazard Mitigation projects awarded to the Delaware Department of Agriculture, Forest Service; and to the City of Delaware City, Delaware.

3. *Subgrantee Monitoring*

DEMA has no policies or procedures requiring that periodic PA or HM site visits be made, specifying the circumstances calling for site visits, detailing what should be done during the visits, or specifying what information should be documented as a result of the visit.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity [44 CFR 13.40(a)]. These administrative requirements are specifically referenced with respect to PA grants [44 CFR 206.207(a)]. PA grantees are expected to report to the RD

any problems or circumstances expected to result in nonconformance with the approved grant conditions [44 CFR 206.204(f)]. Similarly in the case of HM grants the State serving as grantee has primary responsibility for project management and accountability of funds as indicated in 44 CFR part 13. The State is also responsible for ensuring that subgrantees meet all program administrative requirements [44 CFR 206.438(a)].

We reviewed public assistance files for 20 PA projects and identified 10 cases where site visits might have been appropriate considering the size and duration of the project. While some files did contain final inspection reports, we found no other documentation of periodic on-site project monitoring. Our review of the HMG file for the only open project also failed to disclose evidence of periodic site visits. This project is a large project of long duration with matching requirements. We discussed this situation with the Delaware Hazard Mitigation Officer who is also currently functioning as the Public Assistance Officer and were told that while site visits to PA and HM subgrantees are routinely made, they are usually not documented. Further, what is reviewed during site visits is left to the discretion of the visiting officer.

Conclusions and Recommendations

In the absence of policies and procedures requiring periodic subgrantee site visits, establishing when they should be made, specifying what should be reviewed during such visits, and detailing how they should be documented - management has no assurance that subgrantees are being appropriately monitored to insure performance goals are being achieved, or compliance with applicable Federal requirements met. Further, in the event of staff turnover or reassignment, the lack of clear policies and procedures increases the risk of inconsistency in dealing with subgrantees and errors in administering grant requirements.

The Acting Director, FEMA Region III, should require that DEMA develop policies and procedures to comply with the subgrantee monitoring requirements stated in 44 CFR 13.40.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III, concurred with this audit finding related to the Public Assistance Program and recommend that DEMA take a more "hands-on" approach with program management activities. Also, DEMA will be advised to develop policies and procedures to comply with monitoring requirements outlined in 44 CFR 13.40.

Management actions regarding the Public Assistance Program appear adequate to resolve the issues cited. However, FEMA Region III failed to provide any comments with regard to the Hazard Mitigation Program. Accordingly, the finding is unresolved pending a response from FEMA Region III regarding the Hazard Mitigation Program.

4. *Staffing Levels*

DEMA has one person serving as both the Hazard Mitigation and Public Assistance Officer. In the event of a disaster, it does not appear that one person could effectively administer both the Hazard Mitigation and Public Assistance programs.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities [44 CFR 13.40(a)]. Implicit in this requirement is providing adequate staff to effectively perform required activities. For each of the programs these activities are numerous – beginning with initial program inception and continuing throughout the life of awarded grants [44 CFR 206.207(b)(iii); 44 CFR 206.437(a)(4)].

DEMA identifies key individuals who are responsible for the day-to-day management of its hazard mitigation and public assistance programs in the respective administrative plans. In the past, each of these programs had a DEMA staff member dedicated to their administration. Due to staff turnover, however, at present DEMA has one person who is serving as both the Public Assistance Officer and the Hazard Mitigation Officer. A state-hiring freeze has precluded adding additional staff. In discussions with DEMA we were told that in the event of a major disaster where both the PA and HM programs were extensively used, one person could not adequately perform all required grant administration functions. If a disaster occurs, initial program activities would probably be accomplished by DEMA and FEMA, with supplemental staff added as needed from other states (made available by DEMA's participation in the Emergency Management Assistance Compact (EMAC)), or through contract employees. While this may be adequate during early program administration, this supplemental assistance will not be available to accomplish long term grant management responsibilities. DEMA had not, however, developed contingency plans setting forth strategies designed to insure effective long-term grant administration. Further, DEMA has not formulated policies and procedures that detail the specific activities required in managing PA and HM grants. These documented policies and procedures could help insure appropriate and consistent grant administration if supplemental staff is required.

Conclusions and Recommendations

In the event of a disaster DEMA may not have adequate personnel to effectively carry out required functions of the PA and HM programs. Additionally, the lack of established policies and procedures might make long term grant administration by supplementary staff inconsistent and less effective than it could be.

The Acting Director, FEMA Region III, should require DEMA to assess the staffing level needed to effectively perform HM and PA grant programs management functions, and make efforts to staff accordingly. If hiring restrictions make this impracticable, DEMA should develop contingency plans containing defined strategies designed to provide adequate staff for complete and effective grant administration. Along with these

plans, DEMA should develop policies and procedures to guide staff performing the various grant functions, and to facilitate effective management of the programs.

Management Response and Auditor's Analysis

The Acting Director, FEMA Region III, concurred with this audit finding and commented that the Public Assistance Program is complex and the grantee has a very intricate role in program management, particularly in the post Disaster Field Office phase of operations. The Public Assistance Program provides a generous reimbursement to the grantee to help offset costs associated with administering the Public assistance Program, including staff time. Region III believes that DEMA should consider placing someone in the role of Public Assistance Officer on a fulltime, permanent basis and develop standard operating procedures for managing the Public Assistance Program.

The actions taken by management appear adequate to resolve the conditions cited, and the finding is considered closed.

FEMA

**Delaware Emergency Management Agency
State of Delaware**

ATTACHMENTS

Sources and Applications of Funds
As of September 30, 2002

All Disasters In Scope of Audit

	<u>Public Assistance</u>	<u>Individual Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA Approved)				
Federal Share	\$10,966,898.75	\$224,174.25	\$2,002,342.00	\$13,193,415.15
Local Match/State Share	\$ 3,619,076.59	\$73,977.50	\$ 660,772.86	\$ 4,353,827.00
Total Award Amt	\$14,585,975.34	\$298,151.75	\$2,663,114.86	\$17,547,242.15
Sources of Funds				
Fed Share (Smartlink)	\$10,648,003.18	\$224,174.25	\$1,236,475.15	\$12,108,652.58
Local Match/State Share	\$ 3,513,841.05	\$73,977.50	\$ 408,036.80	\$ 3,995,855.35
Total sources of funds	\$14,161,844.23	\$298,151.75	\$1,644,511.95	\$16,104,507.93
Undrawn Federal Authorizations	\$318,895.57	\$0.00	\$765,866.85	\$1,084,762.57
Application of Funds (Expenditures)				
Federal Share	\$10,940,316.27	\$224,174.25	\$1,299,319.19	\$12,463,809.71
Local Match/State Share	\$ 3,548,810.62	74,724.75	\$ 417,479.21	\$ 4,041,014.58
Total App of Funds	\$14,489,126.89	\$298,899.00	\$1,716,798.40	\$16,504,824.29
Balance of Federal Funds on Hand	(\$292,313.09)	\$0.00	(\$62,844.04)	(\$355,157.13)

NOTE: Numbers in parenthesis indicate state expenditures at this date in excess of Federal drawdowns.

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1017
Declared March 16, 1994

	<u>Public Assistance</u>	<u>Individual Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA Approved)				
Federal Share	\$ 5,445,842.00	\$0.00	\$ 901,268.00	\$ 6,347,110.00
Local Match/State Share	\$ 1,797,127.86	\$0.00	\$ 297,418.44	\$ 2,094,546.30
Total Award Amt	\$ 7,242,969.86	\$0.00	\$1,198,686.44	\$ 8,441,656.30
Sources of Funds				
Fed Share (Smartlink)	\$ 5,445,842.00	\$0.00	\$ 901,267.26	\$ 6,347,109.26
Local Match/State Share	\$ 1,797,127.86	\$0.00	\$ 297,418.20	\$ 2,094,546.06
Total sources of funds	\$ 7,242,969.86	\$0.00	\$1,198,685.46	\$ 8,441,655.32
Undrawn Federal Auth	\$0.00	\$0.00	\$0.74	\$0.00
Application of Funds (Expenditures)				
Federal Share	\$ 5,445,842.00	\$0.00	\$ 901,267.26	\$ 6,347,109.26
Local Match/State Share	\$ 1,797,127.86	0.00	\$ 285,453.09	\$ 2,082,580.95
Total App of Funds	\$ 7,242,969.86	\$0.00	\$1,186,720.35	\$ 8,429,690.21
Bal of Fed Funds on Hand	\$0.00	\$0.00	\$0.00	\$0.00
Program Status September 30, 2002	Closed	NA	Open	

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1205
Declared February 13, 1998

	<u>Public</u> <u>Assistance</u>	<u>Individual</u> <u>Family</u>	<u>Hazard</u> <u>Mitigation</u>	<u>Totals</u>
Award Amounts				
Federal Share	\$ 2,121,377.00	0.00	\$ 325,483.00	\$ 2,446,860.00
Local/state Share	\$ 700,054.41	0.00	\$ 107,409.39	\$ 807,463.80
Total Award Amt	\$ 2,821,431.41	0.00	\$ 432,892.39	\$ 3,254,323.80
<hr/>				
Sources of Funds				
Fed Share (Smartlink)	\$ 2,121,377.00	0.00	\$ 68,550.65	\$ 2,189,927.65
State Share	\$ 700,054.41	0.00	\$ 22,621.71	\$ 722,676.12
Total sources of funds	\$ 2,821,431.41	0.00	\$ 91,172.36	\$ 2,912,603.77
<hr/>				
Undrawn Federal Auth	\$0.00	\$0.00	\$ 256,932.35	\$256,932.35
<hr/>				
Application of Funds (Expenditures)				
Federal Share	\$ 2,121,377.00	\$0.00	\$ 102,866.78	\$ 2,224,243.78
State share	\$ 692,079.40	0.00	\$ 33,789.01	\$ 725,868.41
Total App of Funds	\$ 2,813,456.40	\$0.00	\$ 136,655.79	\$ 2,950,112.19
<hr/>				
Bal of Fed Funds on Hand	\$0.00	\$0.00	(\$34,316.13)	(\$34,316.13)
<hr/>				
Program Status September 30, 2002	Closed	NA	Open	

Note: Numbers in parenthesis indicate state expenditures at this date in excess of Federal drawdowns.

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1297
Declared September 21, 1999

	<u>Public Assistance</u>	<u>Individual Family</u>	<u>Hazard Mitigation</u>	<u>Totals</u>
Award Amounts (FEMA Approved)				
Federal Share	\$ 3,399,679.75	\$224,174.25	\$ 775,591.00	\$4,399,445.15
Local Match/State Share	<u>\$ 1,121,894.32</u>	<u>\$ 73,977.50</u>	<u>\$ 255,945.03</u>	<u>\$1,451,816.90</u>
Total Award Amt	\$ 4,521,574.07	\$298,151.75	\$1,031,536.03	\$5,851,262.05
<hr/>				
Sources of Funds				
Fed Share (Smartlink)	\$ 3,080,784.18	\$224,174.25	\$ 266,657.24	\$3,571,615.67
State Share	<u>\$ 1,016,658.78</u>	<u>\$ 73,977.50</u>	<u>\$ 87,996.89</u>	<u>\$1,178,633.17</u>
Total sources of funds	\$ 4,097,442.96	\$298,151.75	\$ 354,654.13	\$4,750,248.84
<hr/>				
Undrawn Federal Auth	\$ 318,895.57	0.00	\$ 508,933.76	\$ 827,829.48
<hr/>				
Application of Funds (Expenditures)				
Federal Share	\$ 3,373,097.27	\$224,174.25	\$ 295,185.15	\$3,892,456.67
State share	<u>\$ 1,059,603.36</u>	<u>\$ 74,724.75</u>	<u>\$ 98,237.11</u>	<u>\$1,232,565.22</u>
Total App of Funds	\$ 4,432,700.63	\$298,899.00	\$ 393,422.26	\$5,125,021.89
<hr/>				
Bal of Fed Funds on Hand	\$ (292,313.09)	0.00	\$ (28,527.91)	\$ (320,841.00)
<hr/>				
Program Status September 30, 2002	Open	Open	Open	

Note: Numbers in parenthesis indicate state expenditures at this date in excess of Federal drawdowns.



FEMA

APR 9 2004

Interoffice Memorandum

To: Gary J. Barard
Field Office Director, IG-AU-ED

From: *Patricia G. Arcury*
Patricia G. Arcury
Acting Regional Director

Date: April 8, 2004

Re: FEMA Response to Draft Audit Report, State of Delaware-Administration of Disaster Assistance Funds

This memorandum is in response to your request for regional comments regarding the subject draft audit report. The Delaware Emergency Management Agency (DEMA) provided comments to my office regarding the subject audit, and a copy of the letter dated March 2, 2004, is attached. Outlined below are the regional actions to be taken:

A. Financial Management

1. Documentation of financial functions

Region III agrees with the Office of Inspector General's (OIG) audit finding and will follow-up with DEMA to establish written procedures for the complete Grant Administration Process, to include fiscal and administrative processes for each disaster grant. The procedures will be reviewed by Region III staff to determine if they adequately meet the requirements of the OIG finding, and will monitor to ensure compliance. The March 2, 2004 letter to the Acting Regional Director referenced attached procedures; however, no written procedures were provided and attempts to locate them through DEMA have been unsuccessful. In addition, Region III Grants Management staff plan a site visit to follow-up on the progress of the corrective actions. The site visit is scheduled for April 20-22, 2004.

B. Program Management

1. Verification of Hazard Mitigation Grant Program State/Local Matches

Region III staff accepts the DEMA Director's response that, indeed, procedures are in place to verify and document matching requirements when they are derived from allowable costs incurred by the grantee, sub-grantee, a cost type contract, or by allowable costs born by non-federal grants or other non-federal sources. However, Region III also expresses concern that a failure to maintain adequate staffing will have an impact on the State Hazard Mitigation Officer's ability to provide comprehensive tracking. FEMA Region III staff will continue to monitor the State's actions and advise the State accordingly in order to resolve this finding.

2. Public Assistance and Hazard Mitigation Sub-grantee Monitoring

The draft audit report states, "The Delaware Emergency Management Agency has no policies or procedures requiring that periodic Public Assistance sub-grantee monitoring visits be made; specifying the circumstances calling for such visits; detailing what should be reviewed; or specifying what information should be documented. As a result, the timing of sub-grantee monitoring site visits as well as what is reviewed is left to the discretion of the visiting officer, and visits are normally not documented."

Also, as the draft audit report notes, because of the lack of defined and documented subgrantee monitoring activities, there is no assurance that sub-grantees are being appropriately monitored to ensure performance goals are being achieved. To effect timely closure of open sub-grants and to keep FEMA apprised of developing situations with various projects, the grantee should have systems in place that require routine contact with sub-grantees.

The OIG audit recommends that FEMA Region III require DEMA to develop policies and procedures to comply with the sub-grantee monitoring requirements stated in 44 Code of Federal Regulations (CFR), 13.40. FEMA Region III officials concur with this audit finding related to the Public Assistance Program and recommend that DEMA take a more "hands-on" approach with program management activities. DEMA will be advised to develop policies and procedures to comply with monitoring requirements outlined in 44 CFR, 13.40.

3. Staffing Levels

The draft audit report states, "In the past, DEMA dedicated separate staff members to serve as Hazard Mitigation and Public Assistance Officers, and administer the respective grant programs. Due to staff turnover and a state hiring freeze, there currently is one person filling both positions."

In recent disaster events, DEMA has hired different individuals under contract to serve as Public Assistance Officers. These individuals have done a good job, for the most part, and have benefited from on-the-job training to help speed up the acclimation process.

However, the Public Assistance Program is complex and the grantee has a very intricate role in program management, particularly in the post Disaster Field Office phase of operations. The Public Assistance Program provides a generous reimbursement to the grantee to help offset costs associated with administering the Public Assistance Program, including staff time.

The OIG audit recommends that FEMA Region III require DEMA to assess the staffing level needed to effectively perform Public Assistance grant program management functions, and make efforts to staff accordingly. DEMA should develop policies and procedures to guide staff performing the various grant functions and to facilitate effective management of the program.

Region III concurs with this audit finding and recommends that DEMA consider placing someone in the role of Public Assistance Officer on a fulltime, permanent basis. DEMA should develop standard operating procedures to help ensure that the State Public Assistance Officer is able to effectively management the program.

If you have any questions or comments, please contact Daniel Joyce of my staff at (215) 931-5516 or at daniel.joyce1@dhs.gov.

Attachment



DEMA

DELAWARE EMERGENCY
MANAGEMENT AGENCY
Partners for Protection and Response

RECEIVED
FEMA REGION III
04 MAR -5 PM 3:14

March 2, 2004

Ms. Patricia Arcuri,
Acting Director
FEMA Region III
615 Chestnut Street
Philadelphia, PA 19106

Dear Ms. Arcuri:

This letter responds to the Department of Homeland Security Office of Inspector General (OIG) draft audit report dated February 10, 2004 covering Delaware administration of disaster assistance funds. The audit was independently performed under contract to the OIG by Clifton Gunderson.

Three open Presidential declared disasters were reviewed. DR 1017, Severe Ice Storm & Flooding, was declared on 3/16/94; DR 1205, Winter Storm was declared on 2/13/98; and DR 1297, Hurricane Floyd, was declared on 9/21/99. Three major disaster programs were reviewed by the Audit team. These included Public Assistance (PA), Individual Assistance (IA), and Hazard Mitigation Grants Program (HMGP).

Audit results are identified and articulated in two specific sections. The sections are Financial and Program Management. These sections present findings and associated recommendations. A total of four findings, conclusions, and recommendations are presented in this report.

These findings identified four areas for improvement to include: Documentation of Financial Functions, Verification of HMPG State/Local Matches, Subgrantee Monitoring, and Staffing.

Before proceeding with the response to these areas, we concur that the findings and recommendations, as they pertain to documentation, identified in the report are valid. DEMA has already identified these areas as needing improvement. In specific instances, corrective actions, based on a verbal summary provided by the auditors were implemented immediately.

It should also be noted that during these particular disasters, there were at least three separate Public Assistance Officers, two State Hazard Mitigation Officers (SHMO), and three Agency Directors assigned to and/or managed the respective disaster programs.

Attachment

State of Delaware, Department of Safety and Homeland Security



168 Back Street, Landing Road, Smyrna, DE 19977
PH: (302) 659-3855 FAX: (302) 659-3855 DEMA (DE) 2004
E-MAIL: dema@state.de.us WWW: www.state.de.us/dema

For the purposes of this response, we are not going to reiterate the respective findings and conclusions. The recommendations will be summarized followed by the applicable response.

1. **Financial Policies and Procedures.** It is alleged that DEMA has not documented its financial policies and procedures used to approve, disburse, and account for FEMA disaster grant fund expenditures. DEMA recognizes this finding.

DEMA disagrees to the identification of the finding enumerated on page 8 of the draft report as a Financial Management issue. We do agree that this finding is valid and but believe it should be classified as a program management issue. There were no financial issues requiring corrective action and the specific finding alludes to documentation of procedure only.

DEMA Fiscal staff currently reviews and distributes funds based on FEMA regulations and other federal mandates as prescribed within the Code of Federal Regulations. Additionally, DEMA must subscribe to State fiscal policies and procedures that include, but are not limited to, the Delaware Department of Finance regulations, interim memos; Governor issued Executive Orders, Delaware Budget and Accounting Manual, and the Delaware Financial Management System (DFMS), an automated system that incorporates the policies and procedures promulgated by the Budget Office manual.

The DEMA Fiscal Manager, upon conclusion of the audit, had been directed to incorporate Delaware's fiscal policies and procedures into the Agency's procedure manual, as time permits. Any future Administrative Plans that are submitted to FEMA by DEMA will include specific financial procedures pertaining to approval, disbursement, and accounting for expenditures of FEMA disaster grant funding to include, but not be limited to PA, IA, and HMGP grants.

Attached is a copy of the Fiscal Procedure for processing Public Assistance payments. The IA portion of Delaware's program is administered by FEMA. DEMA fiscal and the SHMO are currently developing a procedure for IIMGF funding payments similar to the attached form.

2. **HMGP State/Local Match Verification.** The auditors reported that DEMA is not verifying or documenting the matching requirements when they are derived from allowable costs incurred by the grantee, subgrantee, a cost type contract, or by allowable costs born by non-federal grants or other non-federal sources.

DEMA, as grantee, recognizes and acknowledges that we are responsible for managing day-to-day operations of grant and subgrant activities with the necessary oversight and documentation. When an HMGP application is developed and submitted to the FEMA Regional office for approval, the scope of work and associated financial and budget documentation is submitted as part of the application package. In the event a project is modified, FEMA Regional Office must review the modification and either approves or disapproves the change of scope and associated revisions to the financial and budget documentation.

Currently the SHMO has been directed to document matching funding justifications in the respective project(s) file(s). In addition, documentation that includes, but not limited to, progress reports, photos, site visit reports, project meeting minutes, and summaries of telephone conversations concerning the specific project are placed in the project file.

3. **Subgrantee Monitoring.** The report indicates that DEMA has no policies and/or procedures for periodic site visits detailing the extent of the visit or what type of inspections should be accomplished during the visit. The report further stipulates that there should be documentation substantiating subgrantee monitoring.

First, DEMA continually submits all quarterly reports for PA and HMGP to FEMA as required in 44 CFR. Second, all projects are inspected during project performance periods. Due to the size and limited number of HMGP and large PA projects, proper documentation of these inspections and coordination activities specific has not been accomplished. Project status documentation will henceforth be included in the respective file with the use of Site Inspection Checklists and Coordination Sheets. Copies of both documents are attached.

The Site Inspection Checklist will record information that may include, but not be limited to, specific location visited, date, and points of contact, employee conducting the inspection, remarks, and photos, if applicable.

The Coordination sheet that is now being used to document project coordination activities or actions that may include, but not be limited to, date of the contact, telephone calls involving the project, email summaries, processing of fiscal documentation and disposition..

This documentation of the inspection and coordinating actions should satisfy all subgrantee monitoring and applicable administrative grant requirements based on the respective section of the federal regulations and procedures.

4. **Staffing Issues.** DEMA currently had one person serving in the capacity of both the Public Assistance (PA) Officer and the State Hazard Mitigation Officer (SHMO). We concur with the author's observations concerning the statewide hiring freeze. This is a policy issue with authorization to waive the freeze delegated to executive level staff. The criterion for seeking individual approval for and hiring personnel is that the position is totally from revenue sources other than appropriated state funds. The exception to the rule is that an Agency, with this type of available funding, may hire temporary or contractual employees.

In the last month, the hiring freeze has been relaxed. However, directives from the Executive Branch stipulate that personnel hiring process by agencies must be graduated over a specified period and approved by the State Personnel Office, Budget Director, and other policy-making officials.

The Governor's recommended budget also stipulates that additional personnel hiring must continue to be tightly controlled and it further authorizes a hiring review committee process should another hiring freeze need to be implemented in the future.

With current fiscal projections, Delaware's leadership continues to be frugal in recommending or allocating additional state funding for additional positions.

Upon conclusion of this audit process, Delaware was inundated with a flood from Tropical Storm Henri followed by the impact of Hurricane Isabel four days later. Both events received disaster declarations for both PA and IA. A contract employee was hired to implement the PA program. The contractor received training from personnel at the DFO in addition to extensive mentoring from a very experienced Public Assistance Officer obtained by use of the Emergency Management Assistance Compact (EMAC). The contractor continues to administer both declarations. If additional situations require a disaster declaration, the same process will occur.

When funding is available, DEMA intends to seek approval to fill approximately ten vacant positions. DEMA is currently in the process of filling a Training Administrator and a Principal Planner position. When authority is received to fill Planning Supervisor vacancies, two planner positions may become available. It is the leadership's intent to assign PA responsibility to one of these planners.

A comment offered following the conclusion of the draft report review concerned training.

Patricia Acuri
February 19, 2004
Page 5

The Emergency Management Institute (EMI) offers training to State Emergency Management Directors and State Coordinating Officers (SCO). In Delaware, the Director assumes the responsibility for coordinating activities with the Federal Coordinating Officer (FCO) as the Governor's Authorized Representative (GAR). The Deputy Director assumes the role of State Coordinating Officer (SCO).

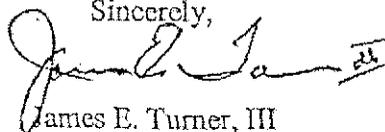
In a recent report, the National Emergency Management Agency (NEMA) indicated that fifteen new Emergency Management Directors had been hired in the last year. Over one-half of the State Directors have less than three years experience.

Within the last year, the Director and Deputy have attended both classes. A review of the curriculum indicates that both classes discuss PA, IA, Other Needs Assistance (ONA), and HMGP. The process includes an explanation of each program, how the programs specifically support our affected citizens, and the states cost share on a percentage value. There is no explanation of the Fiscal Management process of these programs.

DEMA respectfully recommends that an overview of this process be incorporated within the Director and State Coordinating Officer training.

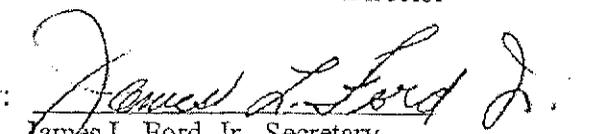
If you have any questions, please feel free to contact the Agency.

Sincerely,



James E. Turner, III
Director

Approved by:



James L. Ford, Jr., Secretary
Department of Safety and Homeland Security

Attachments