



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Denton Field Office - Audit Division
3900 Karina Street, Room 224
Denton, Texas 76208

April 15, 2003

MEMORANDUM

TO: Richard G. Hainje, Regional Director
FEMA Region VII
Tonda L. Hadley

FROM: Tonda L. Hadley, Audit Manager

SUBJECT: Audit of the State of Missouri
Administration of Disaster Assistance Funds
Audit Report Number DD-02-03

Attached for your review and follow-up action are five copies of the subject audit report prepared by Cotton & Company LLP, an independent accounting firm under contract with the Office of Inspector General. In summary, Cotton & Company LLP determined that the State Emergency Management Agency (SEMA) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On February 10, 2003, you responded to the draft audit report, stating that you agreed with the majority of the recommendations. However, you did not agree with recommendations to disallow and recover costs questioned in findings B.6 and B.7. The attached report includes your response, in its entirety, as Attachment B. Your comments are also paraphrased and presented after each finding in the report, along with additional comments from the auditors (Cotton & Company and OIG).

We request you review the auditors' additional comments and reconsider your position on disallowing and recovering costs questioned in findings B.6 and B.7. Further, although you agreed with the two recommendations in finding A.3, your response was not adequate to resolve the recommendations.¹ For resolution, please develop an action plan with target completion dates to implement the recommendations. We consider all recommendations in findings other than A.3, B.6, and B.7 to be resolved and closed.

¹ In the draft report, finding A.3 contained three recommendations. The OIG dropped the third recommendation after considering the Region's response.

Pursuant to FEMA Instruction 1270.1, please advise this office by June 16, 2003, of the actions planned to implement our recommendations for findings A.3, B.6, and B.7.

We thank your staff and SEMA's staff for the courtesies extended the auditors during their fieldwork. If you have any questions concerning this report, please contact Jerry Prem or me at (940) 891-8900.

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I. EXECUTIVE SUMMARY

Cotton & Company LLP completed an audit of the administration of the disaster assistance grant programs by the State of Missouri, Department of Public Safety, Office of the Adjutant General, State Emergency Management Agency (SEMA). Audit objectives were to determine if SEMA 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 SEMA's systems and procedures for ensuring that grant funds are managed, controlled, and expended in accordance with applicable laws and regulations, including the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act) and Title 44 of the *Code of Federal Regulations* (CFR).

We audited four major disasters declared by the President of the United States between July 1993 and May 2000 (Disaster Nos. 995, 1054, 1253, and 1328). Each of these disasters involved Public Assistance (PA), Individual and Family (IFG), and Hazard Mitigation (HM) grants; we did not, however, audit IFG programs for Disaster Nos. 995 and 1054, because the programs had been closed out several years ago, and full records were not available. The federal share of total obligations for these four disasters was \$190,027,067, and expenditures through September 30, 2001, were \$188,090,911. We reviewed expenditures and financial reporting through September 30, 2001.

We did not perform a financial audit of these costs. Accordingly, we do not express an opinion on costs claimed by SEMA (Attachments A-1 through A-4 to this report). During our audit, we also identified questioned costs (Attachment B). We did not perform statistical sampling and therefore did not project questioned costs to the full population of claimed costs.

Our audit scope (and therefore this audit report) focused on systems and procedures used by SEMA to manage, control, and expend grant funds in accordance with applicable laws and regulations, including the Stafford Act and 44 CFR. We divide findings into two sections: Program Management and Financial Management. Our recommendations for each finding, if implemented by SEMA, would improve management, strengthen controls, or correct noncompliance.

Program Management

- SEMA's administrative plans and other correspondence referred to outdated legislation or incorrect information. The administrative plans for the HM program and correspondence provided by SEMA to PA and HM subgrantees referred to complying with the Single Audit Act of 1984 instead of the Single Audit Act Amendments of 1996 or referred to incorrect requirements regarding subgrantees needing audits. The amended Act revised audit-timing requirements for subgrantees and revised certain elements of how an audit is to be performed.
- SEMA did not retain copies of administrative plans and correspondence documenting submission of plans and regional office approval of plans. A grantee is required to submit administrative plans annually.

- SEMA could improve cash management procedures regarding advances to PA subgrantees. SEMA did not consistently collect interest on advances of federal grant funds and gave incorrect information to PA subgrantees regarding interest. SEMA only collected interest earned on grant funds for subgrantees audited by the State Auditor's Office when auditors identified and calculated interest earned on FEMA advances. Additionally, SEMA was instructing subgrantees to put advances in non-interest bearing accounts, instead of encouraging subgrantees to put advances into interest bearing accounts and remitting interest earned to the Federal Government.
- SEMA's subgrantee monitoring procedures for HM projects were inadequate. SEMA did not request audit reports from subgrantees, ensure that audits had been obtained, reconcile expenditures to grantee records, or follow-up on findings prior to project closure.
- SEMA's IFG files did not always contain adequate documentation of decisions made for those amounts awarded to recipients that require SEMA to determine eligible amounts or gather supporting documentation from the recipient.

Financial Management

- SEMA claimed unallowable costs under PA and HM management grants. SEMA claimed overtime labor under a PA management grant and employee travel expenses under HM management grants. Overtime and travel costs are already reimbursed to the state through the Administrative Allowance.
- SEMA's HM administrative allowance duplicated fees paid by the Community Development Block Grant (CDBG) program. The administrative allowance was calculated on the full cost of the project, rather than on just the FEMA portion. CDBG paid the non-FEMA portion, which included an administrative allowance from CDBG.
- SEMA allocated payroll expenses for HM management grants to disasters without supporting documentation or used allocation methods that did not reflect effort expended. SEMA could not support salaries claimed under management grants for HM projects and used an allocation method to assign costs. Labor costs must be supported by after-the-fact labor distribution (certified by the employee or a supervisor) or an approved alternative method.
- SEMA did not allocate IFG administrative costs to disasters based on effort expended.
- SEMA did not always promptly remit the federal share of program and interest income or determine to what extent some funds should be remitted to FEMA.

- SEMA did not reconcile program revenue recorded on the Federal Cash Transaction Report (FCTR) to its accounting system. SEMA's accounting records reflect a \$100,000 difference in program revenue between the FCTR and its accounting records.
- SEMA has not assessed and recorded potential liabilities for the nonfederal share of the cost for a mission assignment. SEMA had entered into an agreement for one mission assignment; the state cost share noted on the Request for Federal Assistance report was 25 percent. This state share had not been paid to FEMA or encumbered for eventual payment of the liability.

We have summarized comments from the FEMA regional office and SEMA management officials in the body of this report and included additional auditor reaction to those comments if necessary. Full FEMA comments are attached to this report (Attachment C).

II. INTRODUCTION

FEMA awards disaster grants in declared disaster areas. It typically awards a single grant to the state (grantee) in which a disaster occurs. Under the PA and HM grant programs, the state agency or division responsible for emergencies and mitigation awards subgrants to other state agencies, local government entities, and nonprofit organizations for repairing and replacing facilities, removing debris, and establishing emergency protective measures as a result of a disaster. HM grants are awarded to states to help reduce the potential for damages from future disasters. Under the IFG program, the state awards subgrants to individuals and families to cover disaster-related expenses they cannot meet or are not otherwise covered. The Stafford Act authorizes these three programs (PA, HM, and IFG). Each has separate objectives and regulations, as described in 44 CFR 206.

SEMA, the state agency (grantee) responsible for administering these programs, is part of the Department of Public Safety within the State of Missouri. State appropriations, FEMA Emergency Management Performance Grants, and FEMA disaster grants fund SEMA's daily operations. Most emergencies are funded through FEMA cost-shared disaster grants. The state pays its share through appropriations or, when it deems appropriate, subgrantees pay the cost share. SEMA does not use the services of other state agencies for performance of other FEMA programs. SEMA must, however, work closely with other departments and agencies, such as the Department of Transportation, to accomplish its goals.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

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

- Administrative Plan
- Subgrantee Award Process
- Project Completion

- Project Closeout
- Subgrantee Monitoring
- Administrative Costs
- Cost-Share Requirements

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

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

- The State of Missouri's financial management system
- Federal Cash Transaction Reports
- Financial Status Reports
- FEMA databases (ADAMS, NEMIS)
- FEMA's accounting system (IFMIS)

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

The audit cut-off date was September 30, 2001. The scope of our audit consisted of the following four disasters declared between July 1993 and May 2000; we did not audit the IFG program for Disaster Nos. 995 and 1054, because these programs had been closed out for several years, and full records were not available:

Disaster No.	Type of Disaster	Date Declared	Assistance Provided
995	Severe Storms, and Flooding	07/09/93	PA, HM, IFG
1054	Severe Storms, Hail, Flooding, and Tornadoes	06/02/95	PA, HM, IFG

1253	Severe Storms and Flooding	10/14/98	PA, HM, IFG
1328	Severe Storms and Flooding	05/12/00	PA, HM, IFG

SEMA made payments through the State of Missouri accounting system, and SEMA had policies and procedures for compliance with state accounting guidelines. SEMA used several accounting databases to track expenditures for each disaster and each program within the disasters, and it also segregated expenditures funded with federal or local dollars.

Our audit was conducted in accordance with the FEMA Consolidated Audit Guide for Grantee Audits of FEMA Disaster Programs provided by the Office of Inspector General (OIG) dated March 2001. Our audit work included a site visit to the FEMA Region VII office in Kansas City, Missouri, and audit fieldwork at SEMA's office in Jefferson City, Missouri. Our methodology included reviewing files at FEMA Region VII, discussing SEMA's administration and grant oversight with Region VII personnel, and reviewing region and SEMA contract files, accounting records, and correspondence, including administrative and program plans. We also interviewed knowledgeable FEMA and SEMA personnel. Our audit scope did not include interviews with SEMA subgrantees, a technical evaluation of the work performed, or assessment of repairs of disaster-caused damages.

The State Auditor's Office conducts an annual audit of the State of Missouri in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This audit may include SEMA programs if selected by the auditors as a major program. We reviewed prior audits conducted within the time frame of the disasters included in our scope. In 1997, the auditors selected FEMA programs as part of the audit and identified findings and recommendations related to the FEMA grants. We reviewed these reports and their supporting workpapers to assess whether these findings affected the scope of our audit or our specific audit tests. Additionally, the FEMA OIG has conducted several audits of PA subgrantees. We also reviewed these audit reports to determine if findings at the subgrantee level had an effect on our audit scope or procedures.

We conducted this 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 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 and does not extend to any financial statements of the State of Missouri, Department of Public Safety, Office of the Adjutant General, State Emergency Management Agency, or the State of Missouri.

IV. FINDINGS AND RECOMMENDATIONS

Audit results are summarized in two major sections: Program Management and Financial Management. These sections contain findings and related recommendations.

Based on the number and nature of findings, we concluded that management controls and financial management controls could be improved to protect assets and prevent errors and fraud. In view of the nature and significance of the findings, we concluded that SEMA did not comply, in all material respects, with applicable laws and regulations relative to the findings.

A. Program Management

1. SEMA's administrative plans and other correspondence referred to outdated legislation or incorrect information.

SEMA is required to comply with the Single Audit Act Amendments of 1996, which require the grantee and subgrantees to undergo an audit in accordance with Act terms. SEMA's administrative plans and correspondence to subgrantees refer to outdated legislation and also include incorrect information related to the Act and incorrect information related to record retention. Administrative plans and correspondence refer to outdated legislation because 44 CFR contains the same erroneous references.

Administrative plans are required under all three programs of the Stafford Act—PA, IFG, and HM—in accordance with 44 CFR 206.207, *Administrative and audit requirements*; 206.131, *Individual and family grant programs*; and 206.437, *State administrative plan*, respectively. FEMA requires these administrative plans to ensure that grantees are prepared for future disasters, and that stated policies and procedures will effectively accomplish grant goals. FEMA's Regional Director must approve all plans.

SEMA's PA program correspondence sent to subgrantees for Disaster Nos. 1253 and 1328 referred to the Single Audit Act of 1984, which, in turn, required compliance with Office of Management and Budget (OMB) Circular A-128. The Single Audit Act of 1984 was replaced by the Single Audit Act Amendments of 1996, and OMB Circular A-128 was superseded by OMB Circular A-133.

Additionally, we noted that SEMA's HM administrative plans for Disaster Nos. 1253 and 1328 and correspondence to HM and PA program subgrantees specifically cited information regarding subgrantees needing audits if they *receive* grants in excess of \$300,000. According to OMB Circular A-133, single audits are required whenever subgrantees *expend* \$300,000 or more in any given fiscal year. This allows for audits to be performed in years when expenditures were incurred, rather than when funds were obligated.

Conclusions and Recommendations: We recommend that SEMA implement internal controls to ensure that administrative plans and correspondence be kept current and refer to legislation current at the time of preparation.

Management Response: Management concurred and notes that current PA and HM administrative plans have been revised.

Auditors' Additional Comment: The actions taken by SEMA are adequate to resolve this finding. This recommendation is resolved and closed.

2. SEMA did not retain copies of annual PA administrative plans for 1996 and 1998 and did not retain annual plan approvals for 1995 through 1999 and for Disaster No. 995.

SEMA did not retain administrative plans or copies of correspondence to document the submission of required annual administrative plans for 1996 and 1998 and, therefore, could not show that plans had been prepared or submitted. According to 44 CFR 206.207(b)(3) the Grantee shall submit a revised plan to the Regional Director (RD) annually.

Additionally, SEMA did not have documentation of regional office approval for annual administrative plans submitted for 1995 through 1999, or for the administrative plan for Disaster No. 995. Administrative plans for the PA program must be submitted to and approved by the FEMA Regional Director before grants will be awarded for a future disaster [44 CFR 206.207(b)(3)].

FEMA requires administrative plans to ensure that grantees are prepared for future disasters and that stated policies and procedures will effectively accomplish grant goals.

Conclusions and Recommendations: We recommend that SEMA implement internal controls that ensure that annual administrative plans are prepared and submitted to the region and that SEMA maintains documentation to support timely submittal (and regional office approval) of the plans.

Management Response: Management concurred and has outlined revised internal control procedures.

Auditors' Additional Comment: The control procedures implemented by SEMA, if followed, will adequately resolve this finding.

OIG Additional Comment: This recommendation is resolved and closed.

3. SEMA could improve cash management procedures regarding advances to PA subgrantees.

SEMA did not ensure that subgrantees met minimum requirements to receive advances of Federal funds, did not consistently collect interest earned on those advances, and gave incorrect information to subgrantees regarding interest.

- SEMA provided advances to subgrantees on large projects. Additionally SEMA provided payment to subgrantees under small projects as soon as practicable, as recommended in the CFR. Subsequently, Single Audit reports of subgrantees that selected FEMA funds as a major program identified and calculated interest earned on those FEMA advances. SEMA did however collect interest earned as identified in those reports, and remitted that interest back to FEMA.
- SEMA had no procedures in place to ensure that advances to subgrantees are made in accordance with 44 CFR 13.21(c), *Payment*, which states that grantees should ensure that subgrantees demonstrate the willingness and ability to minimize the time between receipt of advances and disbursement. SEMA did not require any subgrantee to provide documentation as to how they would minimize the time between receiving advances and disbursing funds. The number of audit reports (described above) that include interest earned on advances indicates that 1) subgrantees were not minimizing time between receipt and disbursement, and 2) SEMA was not ensuring subgrantees liquidated advances timely.
- SEMA instructed PA subgrantees to put advances in non-interest bearing accounts. According to 44 CFR 13.21(i):

...grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

While the CFR does not specifically state that advances must be put in interest-bearing accounts, we believe the CFR intends for advances to be placed in interest-bearing accounts due to this CFR guidance regarding what to do with the interest earned. Additionally, proper controls over cash management would prompt grantees and subgrantees to deposit federal advances into interest-bearing accounts so that interest may accrue.

Conclusions and Recommendations: We recommend that:

- a. SEMA develop policies and procedures to ensure that advances are only provided after subgrantees demonstrate that they have the ability to minimize time between receipt and disbursement, such as a payment request log or other supporting documentation.
- b. SEMA develop policies and procedures to ensure that all interest earned by subgrantees is submitted to SEMA and remitted at least quarterly.

Management Response:

- a. Management concurs and notes that they have included information in their current PA Administrative Plan addressing the applicant's responsibilities when obtaining advances.
- b. Management concurs and has revised its administrative plan to show that all interest earned by subgrantees must be submitted to SEMA.

Auditors' Additional Comment:

- a. SEMA has revised its administrative plan by including the following comment in the Public Assistance Program Checklist, which is signed by the subgrantee:

“You may request an advance payment on Large Projects by completing the “Advance of Funds” letter provided by SEMA.”

The “Advance of Funds” letter was not provided in management's response and therefore was not reviewed by the auditors. Additionally, requiring subgrantees to submit a request letter does not address what procedures SEMA will perform to ensure that subgrantees will limit time between receipt and disbursement of Federal funds. Therefore this recommendation cannot yet be closed.

- b. SEMA has revised its administrative plan by including the following comment in the Public Assistance Program Checklist, which is signed by the subgrantee:

“The applicant shall promptly, but at least quarterly, remit interest earned on advances to SEMA For [stet] return to FEMA.”

Including the requirement in the Program Checklist will ensure that the subgrantee is aware of the requirement. However it does not ensure that the subgrantee will *comply* with the requirement. Additionally, SEMA did not identify any procedures to track if subgrantees submit interest and determine if the amount of interest returned is adequate. Therefore this recommendation cannot yet be closed.

OIG Additional Comment:

- a. To resolve this recommendation, SEMA should provide us copies of policies and procedures they develop “to ensure that advances are only provided after subgrantees demonstrate that they have the ability to minimize time between receipt and disbursement, such as a payment request log or other supporting documentation.”
- b. To resolve this recommendation, SEMA should provide us copies of policies and procedures they develop “to ensure that all interest earned by subgrantees is submitted to SEMA and remitted at least quarterly.”

4. SEMA’s subgrantee financial monitoring procedures for HM projects were inadequate.

SEMA staff did not request copies of subgrantee audit reports required under OMB Circular A-133 until after closure of subgrantee projects. Along with each reimbursement or advance, SEMA advised subgrantees of the Single Audit requirements. It did not, however, perform the functions required under the circular before project closure to ensure that requirements were met and determine if auditors reported significant findings relating to the HM program. In addition, SEMA was still awaiting copies of audit reports for projects that incurred expenses as far back as 1996. According to 44 CFR 13.26, *Non-Federal audit*, SEMA must:

- Ensure that subgrantees obtain audits in accordance with OMB Circular A-133 and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations*, if applicable.
- Determine that subgrantees expend federal assistance in accordance with applicable laws and regulations.
- Ensure that appropriate corrective action is taken within 6 months after receipt of audit reports when noncompliance with federal laws and regulations is noted.
- Reconcile subgrantee-reported expenditures to grantee records.

Without financial monitoring procedures, subgrantees may fail to obtain audits or not obtain them in a timely manner, not adequately report HM project amounts, or fail to address significant findings relating to the HM program that could go undetected by SEMA until project close-out. Some HM projects extend over multiple years, and deficiencies occurring early in a project could go unresolved for a significant period of time.

Conclusions and Recommendations: We recommend that SEMA establish a system to ensure that it receives and reviews audit reports promptly for all subgrantees. We also recommend that SEMA identify subgrantee audit reports with findings related to FEMA funds in a timely manner and establish a tracking system to monitor resolution of each finding.

Management Response: Management concurred and has identified revised policies and procedures that adequately address this recommendation.

Auditors' Additional Comment: The attached revised policies and procedures will adequately resolve this issue. This recommendation is resolved and closed.

5. SEMA's IFG files did not always contain adequate documentation of decisions made for state-determined amounts.

SEMA did not always have adequate documentation in IFG recipient files to support payment amounts. Within the IFG program, the state makes payment for personal property based on established amounts for items damaged or destroyed that are identified by the program inspectors. For real property and other items, however, the state reimburses the recipient for actual costs incurred to repair or replace an item. The state must then document its basis for paying an amount by receipt or other supporting documentation (such as Blue Book values for totaled vehicles). We sampled 102 recipient files and noted several files that did not contain adequate supporting documentation:

- One file did not document SEMA's reason for awarding \$4,000 for a totaled vehicle. The applicant supported the necessity for two cars. One car was covered by auto insurance, and was replaced by this insurance. The applicant requested that the second car be covered by the IFG program. The file does have adequate documentation to support the fact the car was totaled, but does not note the replacement cost. Further, the recipient's file did not note the status of the applicant's third car, which may have been undamaged, thereby making any award on the second car unwarranted.
- One file did not document SEMA's reason for awarding a recipient the minimum award (per the state's IFG administrative plan) for the damaged vehicle. Additionally, we noted that the recipient should have received the actual repair costs of the vehicle or the maximum award amount, because the vehicle was totaled. The recipient, therefore, did not receive the full amount entitled under the program.
- Three files did not contain the Blue Book value of the vehicles to support payment of maximum or minimum transportation awards. Additionally, we noted that the Blue Book value was not included in one file for which repair costs were awarded. Thus, repair costs could have exceeded the Blue Book value, which would have resulted in an excessive award.

44 CFR 13.22, *Allowable costs*, requires costs to be allowable in accordance with applicable cost principles. Further, OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that appropriate documentation be provided to support all grant costs.

We could not determine if payments were made in error or for excessive amounts. Additionally, the process of preparing an applicant's payment would be improved if the supervisor could review documentation supporting decisions made for each applicant.

Conclusions and Recommendations: We recommend that SEMA include supporting documentation in recipient files regarding decisions made for state-determined amounts.

Management Response: Management concurred with this finding and noted that an action plan is not necessary because FEMA will be administering this program in the future.

Auditors' Additional Comment: This recommendation is resolved and closed.

B. Financial Management

6. SEMA claimed unallowable costs under PA and HM management grants.

SEMA claimed \$53,942 of unallowable overtime and travel costs under management grants. Under the PA program, SEMA claimed \$25,769 in overtime labor costs for regular full-time employees under the management grant applicable to Disaster No. 995. Management grants cannot be used to reimburse costs also recovered under the Statutory Administrative Allowance, including overtime pay and per-diem and travel expenses [44 CFR 206.228(a)(3)(i), *Allowable costs*]. We questioned all claimed overtime labor of \$25,769 under the PA program.

SEMA also claimed \$14,620 and \$13,553 in HM travel expenses under the management grants for Disaster Nos. 995 and 1054, respectively. These expenses were improperly paid through management grants instead of through the state's administrative allowance for each disaster. From 1994 through June 1997, SEMA funded employee travel expenses from HM management grants. SEMA obtained management grants to cover allowable administrative costs from 1994 to date for Disaster No. 995 and to cover costs from 1995 through January 2000 for Disaster No. 1054. SEMA stopped funding employee travel from management grants effective July 1997. As with the PA program, the Statutory Administrative Allowance is provided to the state to cover costs incurred for per-diem and travel expenses incurred for disaster management purposes [44 CFR 206.439(b)(1)(i), *Allowable costs*]. Further, management grants cannot be used to fund costs already recovered within the Statutory Administrative Allowance [44 CFR 206.439(b)(2)(i)]. We questioned \$28,173 of ineligible travel costs.

Conclusions and Recommendations: We recommend that SEMA (a) strengthen policies and procedures for preparing management grant requests to ensure that all costs claimed are eligible, and (b) reimburse FEMA for \$25,769 of ineligible PA management grant costs and \$28,173 of ineligible HM grant management costs.

Management Response: Management concurs with the finding, but does not believe that they should reimburse FEMA for ineligible management grant costs for either the PA or HM programs because FEMA initially approved the management grants that contained the ineligible costs, and SEMA did not continue to claim these costs in subsequent management grants after they were notified that those types of costs were ineligible. The Region also believes that ineligible funds should not be returned to FEMA because:

- The claimed costs were approved by responsible and authoritative parties, and are perfectly reasonable and the purposes of the grant were accomplished.

- Legislation was enacted in October 2000 whereby states will no longer be liable for reimbursement of grant funds when specific reasonable costs are authorized and the grant is accomplished.
- Requiring reimbursement undermines the integrity of the agency and negates the binding nature of agreements.

Auditors' Additional Comment: SEMA has claimed costs under both the PA and HM management grants that FEMA has specifically identified as ineligible. We disagree with the three points raised by the Region as follows:

- The claimed costs were approved by responsible and authoritative parties, however the approval was erroneous. Additionally, the costs are clearly NOT perfectly reasonable if the CFR specifically disallows them. While the purposes of the grant were accomplished, the costs questioned here were not necessary to complete the objective.
- The Region noted that legislation was enacted in October 2000 that will revise the way grantees are compensated for grant administration. This legislation is outside the scope of this audit and is not relevant to claimed costs.
- Requiring reimbursement of costs specifically identified as ineligible by FEMA does not undermine the integrity of the agency, but in fact reinforces the integrity of the regulations put forth by FEMA, and strengthens the binding nature of such agreements.

OIG Additional Comment:

- a. To resolve the first part of this recommendation, SEMA should advise us of actions taken or planned to strengthen policies and procedures for preparing management grant requests to ensure that all costs claimed are eligible.
- b. The Federal Claims Collection Act, as amended, and opinions of the General Accounting Office (GAO) require that FEMA attempt to recoup funds expended by the grant recipient in contravention of Federal statutes or regulations. The GAO has also ruled that agency grant regulations, if properly promulgated and within the agency's statutory authority, have the force and effect of law and may not be waived on a retroactive or ad-hoc basis. Although the Office of Inspector General cannot compel the agency to recoup these funds, it is appropriate that we remind the agency of its statutory duty to do so through an audit recommendation. Accordingly, to resolve the second part of this recommendation, SEMA should reimburse FEMA for the ineligible management costs.

7. SEMA's HM administrative allowance duplicated fees paid by the Community Development Block Grant program.

SEMA over-recovered (and paid out) subgrantee administrative allowances under the HM program for Disaster No. 995. The administrative allowance passed on to subgrantees is based on the total project value (federal and local share). SEMA, however, funded the local share with funds provided by the Department of Housing and Urban Development (HUD) under their Community Development Block Grant (CDBG) program², which is awarded directly to local communities. This program also includes an administrative allowance, and therefore the subgrantee received administrative allowances from two agencies for the same purpose. In total under Disaster No. 995, HM subgrantees received \$271,428 in administrative allowance payments, which duplicated CDBG administrative reimbursements.

Conclusions and Recommendations: We recommend that SEMA (a) establish policies and procedures to ensure that administrative allowances do not duplicate other federal administrative reimbursements provided to subgrantees, and (b) reimburse FEMA for \$271,428 of duplicated administrative fees paid.

Management Response: Management did not concur with this finding. The Region notes that they have researched this issue extensively and concluded that no rule identifies the allowance as duplicative or ineligible.

Auditors' Additional Comments: We agree that no specific rule identifies costs as being ineligible, just as there is no rule identifying them as eligible. However, because HUD calculated their administrative allowance on the entire project value (not just the portion funded by HUD), we believe that it is clear the administrative allowance is duplicative.

OIG Additional Comment:

Section 312 of the Stafford Act, *Duplication of Benefits*, specifically prohibits any person, business concern or other entity from receiving assistance that duplicates benefits available for the same purpose from another source. SEMA received \$271,428 in administrative fees from FEMA that duplicated administrative fees paid by HUD for the same purpose. Therefore, the \$271,428 represents ineligible costs. This recommendation remains unresolved. To resolve the first part of this recommendation, SEMA should advise us of actions taken or planned to establish policies and procedures to ensure that administrative allowances do not duplicate other federal administrative reimbursements provided to subgrantees. To resolve the second part of this recommendation, SEMA should reimburse FEMA for \$271,428 of duplicated administrative fees paid.

8. SEMA allocated payroll expenses for HM management grants to disasters without supporting documentation or used allocation methods that did not reflect effort expended.

SEMA did not allocate salary costs of regular staff assigned to the HM program (and recovered under the management grants) to the grants using allocation methods in accordance with OMB Circular A-87. A portion of employee payroll costs was allocated to disaster assistance and further charged to each disaster. SEMA does not have personnel activity reports, equivalent documentation, or other substitute systems in

² Federal funding typically cannot be used by grantees to meet cost-sharing requirements on other federal programs. HUD has determined that CDBG funds can be used for this purpose.

place that allocate expenses to final cost objectives in accordance with relative benefits received. Additionally, SEMA did not have a management grant for Disaster No. 1328, and therefore no representative costs were allocated to this disaster.

We did not question claimed labor costs because they were all related to disaster assistance, and although not properly identified by disaster, FEMA paid for the correct amount of expenditures. However, OMB Circular A-87, Attachment B, Part 11(h)(4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system [see subsection (6)] or other substitute system has been approved by the cognizant Federal agency.

Further, defined in Part 11(h)(5), equivalent documentation must:

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

Other substitute methods are defined in Part 11(h)(6):

...Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Conclusions and Recommendations: We recommend that SEMA develop a method of allocating payroll expenses to final cost objectives that recognizes actual overall effort devoted to each project and is adequately supported by after-the-fact verification by employees whose time is being allocated or an approved substitute method in accordance with OMB Circular A-87.

Management Response: Management concurred and identified revised timekeeping procedures.

Auditors' Additional Comment: The revised procedures implemented by SEMA, if followed, and used as the basis for claiming management grant costs, will resolve this finding.

OIG Additional Comment: This recommendation is resolved and closed.

9. **SEMA did not allocate IFG administrative costs to disasters based on effort expended.**

SEMA arbitrarily allocated some of its administrative costs to Disaster Nos. 1253 and 1328 instead of charging actual costs or developing an allocation method for joint costs based on benefits received by each disaster. Labor and related costs for the grant coordinating officer were allocated to the disasters using estimates which are not in accordance with 44 CFR 13.22 and the referenced cost principle (OMB Circular A-87), which requires goods or services involved to be chargeable or assignable to a cost objective in accordance with relative benefits received.

Conclusions and Recommendations: We recommend that SEMA develop a method of allocating payroll expenses to final cost objectives that recognizes actual overall effort devoted to each activity and is adequately supported by after-the-fact verification by employees whose time is being allocated or an approved substitute method.

Management Response: Management concurred and identified revised timekeeping procedures.

Auditors' Additional Comment: The revised procedures, if implemented by SEMA, will resolve this finding. Additionally, as noted in Finding No. 5, this program will be administered by FEMA in the future.

OIG Additional Comment: This recommendation is resolved and closed.

10. SEMA did not always promptly remit the federal share of program income and interest earned or determine to what extent some funds should be remitted to FEMA.

SEMA had not promptly remitted to FEMA the federal share of program and interest income in four cases or determined to what extent some of the funds should be remitted to FEMA. Grantees and subgrantees are required to promptly, but at least quarterly, remit interest earned on advances to the federal agency [44 CFR 13.21]. Also, program income is to be deducted from outlays [44 CFR 13.25(g), *Program income*]. Finally, the CFR also states that there are no federal requirements governing the disposition of program income earned after the end of the award period, unless the terms of the agreement or federal agency regulations provide otherwise [44 CFR 13.25(h)].

SEMA recorded the following:

- A refund of \$8,301 in interest income from a HM subgrantee, St. Louis County (March 1998, Disaster No. 995).
- A refund of \$2,978 (federal share) generated from scrap metal sales from a PA subgrantee, St. Louis County (October 1998). The county, as part of the close-out of the PA project, remitted the funds to SEMA.
- Receipt of \$2,400 from a fine awarded by a federal district court against a person associated with a subgrantee in the PA program (April 1997). According to SEMA, the situation involved kickbacks the individual was receiving from contractors in the flood cleanup project; program costs were not affected.
- Cancellation of two checks totaling \$3,105 (federal share) issued to recipients in the IFG

program (Disaster No. 1253, March 2000). SEMA declared the two checks void, because the individuals had not cashed the checks within a 1-year period.

After we discussed these issues with SEMA representatives, they contacted the region for resolution and remitted to FEMA the \$8,301 in interest refunded by St. Louis County and the \$3,105 in cancelled checks. According to SEMA, FEMA has advised that it is not required to remit the \$2,400 received from the federal court award.

Conclusions and Recommendations: We recommend that SEMA establish policies and procedures to ensure that program income and interest earned are promptly remitted to FEMA in accordance with 44 CFR 13.25. We further recommend that SEMA remit program income of \$2,978 to FEMA or use funds in accordance with 44 CFR 13.21.

Management Response: Management concurred; management agreed to remit \$2,978 and identified revised procedures for remitting interest earned.

Auditors' Additional Comment: The revised procedures implemented by SEMA, if followed, will resolve this finding.

OIG Additional Comment: This recommendation is resolved and closed.

11. SEMA did not reconcile drawdowns recorded on the FCTR to its accounting system.

SEMA's accounting records for Disaster No. 995 reflected \$100,000 more in PA program revenue than the state can account for in revenue receipts either from federal drawdowns or subgrantee remittances. SEMA fiscal representatives were aware of the discrepancy, but did not know the specific reason for it. SEMA believes it is possible that the discrepancy is related to the use of administrative allowance fees for maintaining a fund for payroll costs.

Grantees and subgrantees are required to maintain records that adequately identify the source and application of funds provided for financially assisted activities [44 CFR 13.20(b)(2) *Accounting records*]. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Conclusions and Recommendations: We recommend that SEMA promptly resolve the discrepancy in its accounting system and reconcile its program revenue with FEMA financial reports. We further recommend that SEMA develop policies and procedures to ensure that the reconciliation process is performed effectively and in a timely manner.

Management Response: Management concurred, has resolved the discrepancy, and has identified procedures to ensure timely reconciliation of SMARTLINK and their accounting system.

Auditors' Additional Comment: The revised procedures implemented by SEMA, if followed, will resolve this finding.

OIG Additional Comment: This recommendation is resolved and closed.

12. SEMA has not assessed and recorded potential liabilities for the nonfederal share of the cost for a mission assignment.

Mission assignments are grantee-requested PA projects that are coordinated by FEMA during an emergency for a specific task to be performed. Normally these projects involve other federal agencies to provide support on the disaster. For Disaster No. 1328, SEMA entered into an agreement with FEMA for one mission assignment with estimated total costs of \$10,000. The state cost share as noted on the Request for Federal Assistance Report was estimated at 25 percent, or \$2,500.

According to 44 CFR 206.208(b)(1)(iii), *Direct Federal assistance*:

...the State will...provide reimbursement to FEMA for the nonfederal share of the cost of such work in accordance with the provisions of the FEMA-State Agreement...

SEMA noted that it has not been billed for the nonfederal share or been notified of actual costs incurred; this does not, however, relieve SEMA of the eventual payment of the liability. In accordance with generally accepted accounting principles, expenses should be recorded in the year they were incurred. Therefore, the liability for eventual payment of the state share of the mission assignment should have been recorded as an expense (and liability) in the year the work was done.

Conclusions and Recommendations: We recommend that SEMA develop procedures to ensure that the appropriate accounting staff is notified of all mission assignments, so that potential liabilities can be assessed and recorded, if necessary.

Management Response: Management concurred and identified procedures to ensure staff is notified.

Auditors' Additional Comment: The revised procedures implemented by SEMA, if followed, will resolve this finding.

OIG Additional Comment: This recommendation is resolved and closed.

Attachment A

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLICATION OF AGREED-UPON PROCEDURES
STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL
STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULES OF SOURCES AND APPLICATIONS OF FUNDS**

January 18, 2002

Federal Emergency Management Agency
Office of Inspector General
Washington, DC

Cotton & Company LLP performed agreed-upon procedures related to the Sources and Applications of Funds Schedules for Disaster Nos. 995, 1054, 1253, and 1328 as of September 30, 2001, prepared by the State of Missouri, Department of Public Safety, Office of the Adjutant General, State Emergency Management Agency (SEMA); refer to Attachments A-1 through A-4. These schedules were prepared on the cash basis of accounting. We have performed the procedures below, which were agreed to by the Federal Emergency Management Agency (FEMA), solely to assist FEMA with information needed to review those disasters. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of FEMA. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. Procedures performed on each schedule were as follows:

- Verified mathematical accuracy.
- Verified that the amount reported as Sources of Funds for each program ties to the amount reported in SMARTLINK (FCTRs) as the cumulative amount drawn down as of September 30, 2001.
- Verified that the total Applications of Funds for each program ties to the amount of cumulative expenditures reported in SEMA's quarterly Financial Status Reports (FSRs) for September 30, 2001.
- Verified that amounts reported as subgrantee and subrecipient expenses, administrative allowance, and management grant expenses tie to amounts reported in SEMA's financial management system.

- Verified that amounts reported as subgrantee and subrecipient expenses, administrative allowance, and management grant amounts do not exceed amounts awarded by FEMA in the grant award documents.
- Selected a sample of six quarterly FSRs and traced the cumulative expenditure amount to financial management system records for that period.

RESULTS

The results of our procedures are as follows:

- Attachments A-1 through A-4 are mathematically accurate.
- Amounts reported as of Sources of Funds, Federal Share, for each program tie to the amount reported in SMARTLINK as the amount drawn down as of September 30, 2001, except as noted in Finding B.11.
- Amounts reported as total Applications of Funds for each program tie to the amount of cumulative expenditures reported in SEMA's FSR for September 30, 2001.
- Amounts reported as subgrantee and subrecipient expenses, administrative allowance, and management grant expenses tie to amounts reported in SEMA's financial management system.
- Amounts reported as subgrantee and subrecipient expenses, administrative allowance, and management grant expenses do not exceed amounts awarded by FEMA in the grant award documents.
- Amounts reported as cumulative quarterly expenditures for sampled quarters tie to cumulative amounts reported in the financial management system for that period.

We were not engaged to, and did not perform an audit of the Sources and Applications of Funds Schedules. The objective of an audit would be expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of FEMA in evaluating the reasonableness of reported costs and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,

COTTON & COMPANY LLP

By: _____
Sam Hadley, CPA, CGFM

**STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL, STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER DISASTER NO. 995
AS OF SEPTEMBER 30, 2001
(See Accompanying Agreed-Upon Procedures Report)**

Description	Funds Awarded	Sources of Funds	Applications of Funds
Hazard Mitigation			
Federal Share	\$31,502,359	\$31,427,516	
State Share³	<u>218,256</u>	<u>218,256</u>	
Total	<u>\$31,720,615</u>	<u>\$31,645,772</u>	
Program Outlays, including Subgrantee			
Administrative Allowance			\$30,777,729
Grantee Administrative Allowance			192,473
Management Grants			465,633
State Share			<u>218,256</u>
Total Applications of Funds			<u>\$31,654,091</u>
Public Assistance			
Federal Share	\$124,814,241	\$124,669,617	
State Share¹	<u>5,111,095</u>	<u>5,111,095</u>	
Total	<u>\$129,925,336</u>	<u>\$129,780,712</u>	
Program Outlays, including Subgrantee			
Administrative Allowance			\$124,015,587
Grantee Administrative Allowance			654,030
State Share			<u>5,111,095</u>
Total Applications of Funds			<u>\$129,780,712</u>
Individual and Family Grant ⁴			
Federal Share			
State Share			
Total			
Program Outlays, including Subgrantee			
Administrative Allowance			
Grantee Administrative Allowance			
State Share			
Total Applications of Funds			

³ This amount does not include the local portion of the match, which is not reported in SEMA's accounting system or tracked by SEMA.

⁴ The IFG program under Disaster No. 995 has been closed for several years and is no longer reported on the FSR.

**STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL, STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER DISASTER NO. 1054
AS OF SEPTEMBER 30, 2001
(See Accompanying Agreed-Upon Procedures Report)**

Description	Funds Awarded	Sources of Funds	Applications of Funds
Hazard Mitigation			
Federal Share	\$2,299,017	\$2,292,272	
State Share¹	<u>1,026,010</u>	<u>1,026,010</u>	
Total	<u>\$3,325,027</u>	<u>\$3,318,282</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$2,181,076
Grantee Administrative Allowance			33,395
Management Grants			77,801
State Share			<u>1,026,010</u>
Total Applications of Funds			<u>\$3,318,282</u>
Public Assistance			
Federal Share	\$13,190,484	\$13,190,484	
State Share¹	<u>1,518,638</u>	<u>1,518,638</u>	
Total	<u>\$14,709,122</u>	<u>\$14,709,122</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$13,089,039
Grantee Administrative Allowance			101,445
State Share			<u>1,518,638</u>
Total Applications of Funds			<u>\$14,709,122</u>
Individual and Family Grant ²			
Federal Share			
State Share			
Total			
Program Outlays, including Subgrantee Administrative Allowance			
Grantee Administrative Allowance			
State Share			
Total Applications of Funds			

¹ This amount does not include the local portion of the match, which is not reported in SEMA's accounting system or tracked by SEMA.

² The IFG program under Disaster No. 1054 has been closed for several years and is no longer reported on the FSR.

**STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL, STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER DISASTER NO. 1253
AS OF SEPTEMBER 30, 2001
(See Accompanying Agreed-Upon Procedures Report)**

Description	Funds Awarded	Sources of Funds	Applications of Funds
Hazard Mitigation			
Federal Share	\$2,533,244	\$1,985,674	
State Share¹	<u>464,785</u>	<u>451,999</u>	
Total	<u>\$2,998,029</u>	<u>\$2,437,673</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$1,958,032
Grantee Administrative Allowance			27,642
State Share			<u>451,999</u>
Total Applications of Funds			<u>\$2,437,673</u>
Public Assistance			
Federal Share	\$10,391,349	\$ 9,617,336	
State Share¹	<u>1,039,134</u>	<u>1,015,192</u>	
Total	<u>\$11,430,483</u>	<u>\$10,632,528</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$ 9,541,316
Grantee Administrative Allowance			76,236
State Share			<u>1,015,192</u>
Total Applications of Funds			<u>\$10,632,744</u>
Individual and Family Grant			
Federal Share	\$ 990,611	\$ 990,611	
State Share	<u>313,445</u>	<u>313,445</u>	
Total	<u>\$1,304,056</u>	<u>\$1,304,056</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$ 943,439
Grantee Administrative Allowance			47,172
State Share			<u>313,445</u>
Total Applications of Funds			<u>\$1,304,056</u>

¹ This amount does not include the local portion of the match, which is not reported in SEMA's accounting system or tracked by SEMA.

**STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL, STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULE OF SOURCES AND APPLICATIONS OF FUNDS UNDER DISASTER NO. 1328
AS OF SEPTEMBER 30, 2001
(See Accompanying Agreed-Upon Procedures Report)**

Description	Funds Awarded	Sources of Funds	Applications of Funds
Hazard Mitigation			
Federal Share	\$ 881,454	\$ 842,916	
State Share¹	<u>284,894</u>	<u>272,108</u>	
Total	<u>\$1,166,348</u>	<u>\$1,115,024</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$ 834,076
Grantee Administrative Allowance			9,211
State Share			<u>272,108</u>
Total Applications of Funds			<u>\$1,115,395</u>
Public Assistance			
Federal Share	\$2,526,405	\$2,159,320	
State Share¹	<u>341,944</u>	<u>42,126</u>	
Total	<u>\$2,868,349</u>	<u>\$2,201,446</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$2,160,322
Grantee Administrative Allowance			32,354
State Share			<u>42,126</u>
Total Applications of Funds			<u>\$2,234,802</u>
Individual and Family Grant			
Federal Share	\$ 897,903	\$ 872,903	
State Share	<u>278,326</u>	<u>278,326</u>	
Total	<u>\$1,176,229</u>	<u>\$1,151,229</u>	
Program Outlays, including Subgrantee Administrative Allowance			\$ 834,977
Grantee Administrative Allowance			37,926
State Share			<u>278,326</u>
Total Applications of Funds			<u>\$1,151,229</u>

¹ This amount does not include the local portion of the match, which is not reported in SEMA's accounting system or tracked by SEMA.

Attachment B

STATE OF MISSOURI, DEPARTMENT OF PUBLIC SAFETY
OFFICE OF THE ADJUTANT GENERAL, STATE EMERGENCY MANAGEMENT AGENCY
SCHEDULE OF QUESTIONED COSTS UNDER
DISASTER NOS. 995, 1054, 1253, AND 1328

Disaster No.	Program	Reason for Questioned Costs	Questioned Costs
995	HM	SEMA claimed unallowable costs under HM management grants, page 10.	\$ 14,620
995	PA	SEMA claimed unallowable costs under PA management grants, page 10.	25,769
995	HM	SEMA's HM administrative allowance duplicated fees paid by Community Development Block Grant program, page 12.	271,428
995	Financial	SEMA needs to improve its handling of program income and interest earned, page 14.	2,978
1054	HM	SEMA claimed unallowable costs under HM management grants, page 10.	<u>13,553</u>
Total Questioned Costs			<u>\$328,348</u>

Attachment C

Comments from FEMA Regional Office

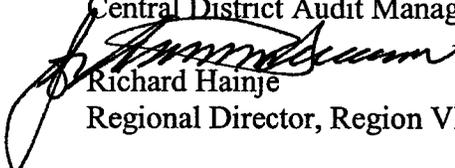


Federal Emergency Management Agency

Region VII
2323 Grand Blvd., Suite 900
Kansas City, MO 64108-2670

FEB 10 2003

MEMORANDUM FOR: Tonda L. Hadley
Central District Audit Manager

FROM: 
Richard Hainje
Regional Director, Region VII

SUBJECT: Audit of Disaster Assistance Grants
State of Missouri

Enclosed please find the regional response to the final audit report for the state of Missouri. The state and regional responses have been incorporated as one response under "Management Response"

Should you have any questions regarding our response to the auditors' recommendations please contact Tim Seidel at (816) 283-7087 or Debi Reed at (816) 283-7050.

Region VII Response

Audit of Disaster Assistance Grants

**State of Missouri
Department of Public Safety
Office of the Adjutant General
State Emergency Management Agency
January 2002
Contract #GS23F9808H**

The audit findings and recommendations for the above referenced audit were summarized in two major sections: Program Management and Financial Management. In our responses below we have addressed each of these findings. These responses have been coordinated with the State Emergency Management Agency (SEMA).

A. Program Management

1. SEMA's administrative plans and other correspondence referred to outdated legislation or incorrect information.

Conclusions and Recommendations: We recommend that SEMA implement internal controls to ensure that administrative plans and correspondence be kept current and refer to legislation current at the time of preparation.

Management Response:

"Concur"

- *Current H M Administrative Plan reflects corrected CFR information and includes the correspondence meeting the requirement of A-133. See attached page 13 of HM Administrative Plan.*
- *Current PA Administrative Plan reflects corrected CFR information and includes the correspondence meeting the requirement of A-133. See attached page 42 and page 46 of revised plan dated January 2003.*

2. SEMA did not retain copies of annual PA administrative plans for 1996 and 1998 and did not retain annual plan approvals for 1995 through 1999 and for Disaster No. 995.

Conclusions and Recommendations: We recommend that SEMA implement internal controls that ensure that annual administrative plans are prepared and submitted to the region and that grantees maintain documentation to support timely submittal (and regional office approval) of the plans.

Management Response

"Concur"

As per the SEMA's response they have outlined their internal controls procedures as follows. .

Internal Control Procedures:

- *In accordance with Code of Federal Regulations (CFR) 44 Part 206.207, The State of Missouri will submit the annual plan in writing to FEMA VII Regional Director. Correspondence of this action will be maintained for two years from submission.*

- *FEMA VII will reply in writing accepting the submitted plan for annual submission. Correspondence of this action will be maintained for two years from the date of the acceptance letter.*
- *For each disaster in accordance with CFR 44 Part 206.207 the State of Missouri will submit the accepted annual plan with any disaster-specific changes in writing to the designated Federal Coordinating Office (FCO) for the disaster. This correspondence will become a part of the official correspondence file for the disaster and retained as per CFR 44 for three years after the final closeout action for the Public Assistance Program.*
- *The FCO, or his designee, will reply in writing accepting the submitted plan for that disaster recovery operation. These records will be retained as per CFR 44 for three years after the final closeout action for the Public Assistance Program.*

3. SEMA could improve cash management procedures regarding advances to PA subgrantees.

Conclusions and Recommendations: We recommend that:

- SEMA develop policies and procedures to ensure that advances are only provided after subgrantees demonstrate that they have the ability to minimize time between receipt and disbursement, such as a payment request log or other supporting documentation.
- SEMA develop policies and procedures to ensure that all interest earned by subgrantees is submitted to SEMA and remitted at least quarterly.
- SEMA instruct subgrantees to put material advances in interest-bearing accounts and remit interest at least quarterly to SEMA.

Management Response:

We “Concur” with the first two bullets and “Non-Concur” with the last bullet:

We are addressing each sub-element of the conclusions and recommendations separately.

- *Current PA Administrative Plan, Public Assistance Program Checklist addresses the applicant’s responsibility to demonstrate per 44CFR 13.2 (c) their willingness and ability to minimize the time between receipt of advances and disbursement of funds. See attached page 53, of PA Administrative Plan.*
- *SEMA consistently collected interest from those applicants where audits identified the accrual of interest in excess of allowed amount. SEMA has revised its Administrative Plan to show that all interest earned by subgrantees is submitted to SEMA and remitted at least quarterly instead of annually. See attached page 53, #8 of PA Administrative Plan.*
- *There is no regulatory basis for requiring SEMA to instruct applicants to place advances into interest bearing accounts. Consequently, SEMA will not instruct applicants to put advances received into an interest bearing account nor will FEMA require them to do so.*

4. SEMA's subgrantee financial monitoring procedures for HM projects were inadequate.

Conclusions and Recommendations: We recommend that SEMA establish a system to ensure that it receives and reviews audit reports promptly for all subgrantees. We also recommend that SEMA identify subgrantee audit reports with findings related to FEMA funds in a timely manner and establish a tracking system to monitor resolution of each finding.

Management Response:

"Concur"

As per the SEMA's response they have outlined their internal controls procedures as follows.

SEMA PROCEDURES:

- *The Disaster and Mitigation Assistance (DMA) Branch within Missouri State Emergency Management Agency (SEMA) will use the following procedure for reviewing applicant submitted audit reports required as the result of receiving federal/state Public Assistance (PA) and/or Hazard Mitigation (HMGP) funds:*
- *DMA Branch personnel will advise all applicants of the audit requirement associated with receiving PA and or HMGP grants. This will be accomplished through the following means, as a minimum:*
 1. *Public Officials briefings at the time of the disaster*
 2. *Comments included in the cover letters for all program payments*
- *The DMA Branch will request each applicant that expends \$300,00 or more in federal funds in a fiscal year to obtain an audit in accordance with OMB Circular 133 and to submit a copy of that to SEMA.*
- *The following procedure will be used to track audits required by OMB Circular A-133:*
 1. *The DMA Branch will create a master audit log. This log will track audit requirement for the PA program and HMGP. See attached Disaster Audit Log.*
 2. *Annually, SEMA will provide a written reminder to all open applicants of the requirement for single audit if they expended \$300,000 or more of federal funds during their fiscal year.*
 3. *The applicants name will be entered into the audit log. This log will be reviewed to track the requirements for receipt of, review of, and disposition of all audit reports*
- *Upon receipt of the audit, the following procedures will be implemented:*
 1. *The audit will be reviewed to determine whether the audit report addresses any expenditure of PA or HMPG funds.*
 2. *If the audit report identifies any discrepancies in regards to these funds, a review of the required corrective action and the applicant's comments will be made.*

3. *If the review of the audit finding determines that funds must be returned, the applicant will be notified in writing of the amount and reason for the return of funds.*

5. SEMA's IFG files did not always contain adequate documentation of decisions made for state-determined amounts.

Conclusions and Recommendations: We recommend that SEMA include supporting documentation in recipient files regarding decisions made for state-determined amounts.

Management Response

"Concur"

We do not believe an action plan is required as a result of this finding as SEMA has elected to have FEMA administer the program for future disasters.

B. Financial Management

6. SEMA claimed unallowable costs under PA and HM management grants.

Conclusions and Recommendations: We recommend that SEMA strengthen policies and procedures for preparing management grant requests to ensure that all costs claimed are eligible. We also recommend that SEMA reimburse FEMA for \$25,769 of ineligible PA management grant costs and \$28,173 of ineligible HM grant management costs.

Management Response and Auditor's Reaction:

"Concur" with the findings, but "Non-Concur" with reimbursement to FEMA for both PA and HM management costs.

- *The FEMA regional office initially approved the management grants that contained overtime salaries, travel, and benefits but corrected that action after becoming aware that travel and overtime costs were not eligible. From the date of this oversight forward SEMA has not charged these costs to management grants and has strengthened policies and procedures to ensure that all costs claimed are eligible. A copy of management grants for HM and PA are enclosed.*
- *The Region does not agree with the auditor's recommendation that SEMA reimburse the Federal government for \$25,769 of ineligible PA management grant costs and \$28,173 of ineligible HM grants management costs. Seeking reimbursement for work approved by responsible and authoritative parties, especially when costs are perfectly reasonable and the purposes of the grant are ultimately accomplished, is impractical and unnecessary. This very practice forced Congress in October 2000 to enact specific legislation where states and local governments are no longer liable for the reimbursement of grants funds when specific, reasonable costs are officially authorized and for when the purpose of the grant is ultimately accomplished. [Disaster Mitigation Act 2000, Sec. 304 – copy attached]. Seeking reimbursement now ultimately undermines the integrity of this Agency and serves to negate the binding nature of agreements reached during disaster response and recover operation*

7. SEMA's HM administrative allowance duplicated fees paid by the Community Development Block Grant program.

Conclusions and Recommendations: We recommend that SEMA establish policies and procedures to ensure that administrative allowances do not duplicate other federal administrative

reimbursements provided to subgrantees. We also recommend that SEMA recover and reimburse FEMA for \$271,428 of duplicated administrative fees paid.

Management Response and Auditor's Reaction:

"Non-Concur"

The duplication of CDBG administrative allowances was reviewed by FEMA during the original application period. FEMA Region VII staff researched this issue extensively and concluded that no rule identified the allowance as duplicative or ineligible. Based upon this approval all funds were used for allowable expenses as authorized by 44CFR. The Region recommends that no funds be reimbursed.

- 8. SEMA allocated payroll expenses for HM management grants to disasters without supporting documentation or used allocation methods that did not reflect effort expended.**

Conclusions and Recommendations: We recommend that SEMA develop a method of allocating payroll expenses to final cost objectives that recognizes actual overall effort devoted to each project and is adequately supported by after-the-fact verification by employees whose time is being allocated or an approved substitute method in accordance with OMB Circular A-87.

Management Response:

"Concur"

SEMA currently, and for the past several years, has employees indicate on their time sheet the amount of time spent on each project or grant, is assigned to more than one program. As per the SEMA's response they have outlined their internal control procedures as follows:

- *SEMA's employee completes a time sheet for twice a month pay period (15th and last day of the month).*
- *The number of hours worked each day is entered on each working day along with leave taken, holiday leave, etc.*
- *On a supplemental sheet the number of hours worked on each project or grant for that pay period are recorded*
- *Employee signs time sheet and submits to supervisor*
- *Supervisor signs and submits to Fiscal Section. Fiscal Section records into SAM II accounting system all hours submitted along with the breakout of hours worked for each project or grant for proper allocation.*

- 9. SEMA did not allocate IFG administrative costs to disasters based on effort expended.**

Conclusions and Recommendations: We recommend that SEMA develop a method of allocating payroll expenses to final cost objectives that recognizes actual overall effort devoted to each activity and is adequately supported by after-the-fact verification by employees whose time is being allocated or an approved substitute method.

Management Response:

"Concur"

As per the SEMA's response they have outlined their internal control procedures as follows:

- *SEMA's employee completes a time sheet for twice a month pay period (15th and last day of the month).*
- *The number of hours worked each day is entered on each working day along with leave taken, holiday leave, etc.*
- *On a supplemental sheet the number of hours worked on each project or grant for that pay period are recorded*
- *Employee signs time sheet and submits to supervisor*
- *Supervisor signs and submits to Fiscal Section. Fiscal Section records into SAM II accounting system all hours submitted along with the breakout of hours worked for each project or grant for proper*

10. SEMA did not always promptly remit the federal share of program income and interest earned or determine to what extent some funds should be remitted to FEMA.

Conclusions and Recommendations: We recommend that SEMA establish policies and procedures to ensure that program income and interest earned are promptly remitted to FEMA in accordance with 44 CFR 13.25. We further recommend that SEMA remit program income of \$2,978 to FEMA or use funds in accordance with 44 CFR 13.21.

Management Response and Auditor's Reaction:

"Concur"

- *Current PA Administrative Plan reflects corrected correspondence meeting the requirement of 44 CFR 13.25 for prompt remittance of program income and interest earned to FEMA. See page 42 #5 of PA Administrative Plan.*
- *\$2978 will be remitted to FEMA by SEMA by deducting this amount from the total allowable costs of Disaster MO-DR-0995 PA. Upon final closeout the Region will submit the supporting documentation for this transaction. Estimated completion date – August 2003.*

11. SEMA did not reconcile drawdowns recorded on the FCTR to its accounting system.

Conclusions and Recommendations: We recommend that SEMA promptly resolve the discrepancy in its accounting system and reconcile its program revenue with FEMA financial reports. We further recommend that SEMA develop policies and procedures to ensure that the reconciliation process is performed effectively and in a timely manner.

Management Response and Auditor's Reaction:

"Concur"

SEMA has resolved the discrepancy. FEMA will periodically make inquiries regarding the continuation of SEMA's identified practice of reconciling. Per SEMA's response, they have outlined their procedures for continued timely reconciliation as follows:

- *SEMA reconciles drawdowns from SMARTLINK Payment Management System on a*

quarterly basis.

- *FEMA funding is drawn down only when required to make a payment or reimburse themselves.*

12. SEMA has not assessed and recorded potential liabilities for the nonfederal share of the cost for a mission assignment.

Conclusions and Recommendations: We recommend that SEMA develop procedures to ensure that the appropriate accounting staff is notified of all mission assignments, so that potential liabilities can be assessed and recorded, if necessary.

Management Response and Auditor's Reaction:

"Concur"

The state has outlined their procedures as follows

- *FEMA will coordinate a Mission Assignment with SEMA for a specific task to be performed.*
- *SEMA will notify all accounting and program staff of all Mission Assignments so potential liabilities can be assessed and recorded if necessary.*

Attachments:

HM Admin Plan – Page 13 (Finding A.1)

PA Admin Plan – Pages 42, 46 (Finding A.1 and A.3)

PA Program CheckList, Page 53 and 54 (Finding A.3 and B.10)

PA Master Audit Log (Finding A.4)

HM Grants Mgmt Costs (Finding B.6)

PA Grants Mgmt Costs (Finding B.6)

DMA2K (Finding B.6)