Office of Inspector General

U.S. Department of Homeland Security
Dallas Field Office, Office of Audits
3900 Karina Street, Room 224
Denton, Texas 76208

March 10, 2005

MEMORANDUM FOR: Richard Hainje,
Regional Director, FEMA Region VII

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *State of Nebraska Emergency Management Agency's Implementation of Prior Audit Recommendations*
Audit Report Number DD-04-05

The Office of Inspector General (OIG) completed a follow-up audit of the State of Nebraska Emergency Management Agency's (NEMA) implementation of recommendations contained in an audit report issued September 6, 2000. The September 2000 audit report, issued by the Federal Emergency Management Agency (FEMA) OIG, contained 12 recommendations (see Exhibit) for improving NEMA's administration of FEMA Disaster Assistance Grant programs and the accounting and use of FEMA program funds[1]. The objective of our follow-up audit was to determine whether NEMA had effectively implemented the 12 recommendations and, if so, whether the actions taken corrected the conditions that resulted in the recommendations.

We performed the follow-up audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit methodology included reviewing project files at FEMA Region VII and at NEMA; interviewing knowledgeable FEMA and NEMA officials; reviewing representative samples of NEMA's expenditures to determine if transactions were supported by appropriate documentation, evidence of monitoring, and timeliness of reporting; and performing other auditing procedures considered necessary to accomplish the audit objectives. Our audit scope included all declared disasters since the issuance of the September 2000 audit report (DR-1373, DR-1394, and DR-1480).

RESULTS OF AUDIT

NEMA implemented all of the 12 recommendations contained in the September 2000 audit report; and their actions corrected the conditions that resulted in those recommendations. Further, we determined that NEMA's implementation of Recommendations 8 through 12, related to financial

[1] FEMA OIG Audit Report Number W-41-00, entitled *Nebraska Emergency Management Agency's Management of Federal Emergency Management Agency Disaster Grants Awarded under the Stafford Act.*

management, was effective. However, NEMA's implementation of Recommendations 1 through 7, related to program management, was not fully effective because NEMA did not develop written procedures to ensure consistent implementation. The lack of written procedures increases the risk that the same conditions that resulted in the original recommendations will occur again.

NEMA employees rely on their years of experience, rather than written procedures, to carry out their day-to-day responsibilities for managing FEMA programs and some have developed informal management systems. For example, one employee maintains a list of all subgrantees that have reached the level of expenditures necessary to require an audit pursuant to Office of Management and Budget (OMB) Circular A-133. The employee verifies that these subgrantees have submitted A-133 audit reports and monitors the resolution of audit findings. Although this informal system corrects the condition related to Recommendation 3, it is not in writing and, therefore, does not ensure consistent application of these procedures. Formal written procedures are necessary to ensure the continuity of operations in the event of multiple disasters or the loss of key employees.

RECOMMENDATION

The Office of Inspector General recommended that the Regional Director, FEMA Region VII, require Nebraska Emergency Management Agency to develop formal written procedures related to program management. Although this is a new recommendation, it corresponds to Recommendations 1 through 7 contained in our September 2000 report. Specifically, the recommended written procedures should ensure the following:

1. Administrative Plans for FEMA programs refer to current legislation and meet all requirements of 44 CFR.

2. Administrative Plans for FEMA programs are prepared and submitted on a timely basis.

3. NEMA receives all required A-133 audit reports from subgrantees and tracks the resolution of all findings related to FEMA funds.

4. Project files contain all documentation and information necessary to evaluate subgrantee performance and compliance with applicable regulations.

5. Hazard mitigation administrative plans, program plans, and project applications are completed and approved on a more timely basis to better plan the mitigation program.

6. Applications for hazard mitigation projects contain all necessary information.

7. Subgrantees submit all information needed to properly update FEMA on the status of open hazard mitigation projects.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of the audit with FEMA Region VII officials on October 21, 2004, and with NEMA officials on October 28, 2004. These officials agreed with the audit findings and recommendations.

Please advise this office by June 8, 2005, of the actions taken or planned to implement the recommendations, including target completion dates for any planned actions. If you have questions concerning this report, please contact Paige Hamrick or me at (940) 891-8900. Major contributors to this report were Charles Riley, William Lough, and Donald Prem.

EXHIBIT

Recommendations Contained in
Audit Report Number W-41-00
Dated September 6, 2000

In the September 2000 report, we recommend the following:

No.	Recommendation	Page No.
1	NEMA include all pertinent procedures in its administrative plans. The plan should be kept current and complete and refer to legislation that will actually be used in performance of the grant. Finally, that correspondence to sub-grantees should also contain references to current legislation.	4
2.	The Regional Director re-emphasize the importance of completing the administrative plans, and develop procedures to ensure that they are completed.	5
3	NEMA establish a system designed to ensure that audit reports are received for all sub-grantees. The Public Assistance (PA) Director and State Hazard Mitigation Officer (SHMO) should be required to routinely report back to the Governor's Authorized Representative on whether sub-grantee audit reports contain findings related to FEMA funds. The PA Director and SHMO should establish a tracking system to monitor the resolution of each finding.	6
4.	NEMA establish a project file maintenance system to ensure that files include all pertinent information.	7
5.	NEMA evaluate its current staffing authorizations and identify permanent or temporary staff that can be redistributed to this program and request technical support from the Regional Director on ways to identify future projects and better plan the mitigation program.	7
6.	The Regional Director re-emphasize the information required to be included in each application and offer technical assistance to NEMA to ensure that it understands the requirements. Furthermore, we recommend that the Regional Director deny all project applications that do not contain the information required by 44 CFR 206.436.	8
7.	NEMA review its procedures for obtaining necessary information from sub-grantees so that NEMA can provide all necessary information to FEMA. Additionally, recommend that the Regional Director provide detailed information on the deficiencies of NEMA's progress reporting and possible alternatives or samples of adequate reporting.	9
8.	The Regional Director require NEMA to determine the total amount of federal funds improperly applied to sub-grantee payments and recover these funds from NEMA.	10
9.	NEMA evaluate its procedures for calculating the sub-grantee share of the administrative allowance and correct the overpayments made on these subgrantees.	11
10.	NEMA maintain all support for claimed management grant costs in accordance with 44 CFR 13.42, which states that records are to be maintained for 3 years after the date the grantee submits its final expenditure report.	12
11.	NEMA apply a credit to future claims for payment submitted by Lincoln Electrical System. These unallowable costs paid, however, exceed the remaining unpaid grant amount. Therefore, in addition to applying a credit for the remaining available grant, NEMA should also request that the sub-grantee return the excess amount received.	12
12.	NEMA evaluate its staffing requirements and assign enough staff to complete the required functions in its grant agreement for financial reporting. Additionally, recommend that NEMA reconcile discrepancies previously noted by the Regional Office.	12