State Auditor's Office

John Keel, CPA
State Auditor

A Report on

State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Public Safety, the Texas A&M Forest Service, and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2013

February 2014

Report No. 14-025

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SAO Report No. 14-025
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Overall Conclusion

With the exception of certain non-compliance disclosed in this report, the State of Texas complied in all material respects with federal requirements for the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program in fiscal year 2013.

In addition, the State of Texas complied in all material respects with federal requirements for the Homeland Security Grant Program in fiscal year 2013.

As a condition of receiving federal funding, U.S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least $500,000 in federal awards in a fiscal year to obtain Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, reporting, and monitoring of non-state entities (subrecipients) to which the State passes federal funds. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than $73,222,469 in federal funds during fiscal year 2013 and (2) other selected federal programs.

The Homeland Security Grant Program

The Homeland Security Grant Program provides funding to assist state and local governments in enhancing the State's ability to prevent, deter, respond to, and recover from threats and incidents of terrorism and in enhancing regional preparedness. The Federal Emergency Management Agency provides those funds for planning, equipment, training, and exercises.

The Fire Management Assistance Grant Program

The Fire Management Assistance Grant program provides funding to assist state and local governments in the mitigation, management, and control of fires burning on publicly or privately owned forest or grassland that would constitute a major disaster. The Federal Emergency Management Agency provides those funds for fire suppression services, as well as assistance such as evacuations, shelters, police barricading, equipment, and supplies.

The Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program

The Disaster Grants – Public Assistance (Presidentially Declared Disasters) program provides funding to assist state and local governments in responding to and recovering from presidentially declared disasters. The Federal Emergency Management Agency provides those funds for debris removal, emergency protective measures, and permanent restoration of infrastructure.

This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133.

For more information regarding this report, please contact James Timberlake, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

From September 1, 2012, through August 31, 2013, the State of Texas expended $48.6 billion in federal funds. The State Auditor's Office audited compliance with requirements for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at the Department of Public Safety (Department), the Texas A&M Forest Service (Forest Service) and the University of Texas Medical Branch at Galveston (Medical Branch).

During fiscal year 2013:

- The Department spent $150.1 million in Homeland Security Grant Program funds, $55.1 million in Disaster Grants – Public Assistance (Presidentially Declared Disasters) program funds, and $12.6 million in Fire Management Assistance Grant program funds.
- The Forest Service spent $43.2 million in Disaster Grants – Public Assistance (Presidentially Declared Disasters) program funds and $42.8 million in Fire Management Assistance Grant program funds.
- The Medical Branch spent $33.1 million in Disaster Grants – Public Assistance (Presidentially Declared Disasters) program funds.

Auditors identified 18 findings, including 2 material weaknesses with material non-compliance and 16 significant deficiencies with non-compliance (see text box for definitions of finding classifications). Of those 18 findings, 14 were identified at the Department (including the 2 material weaknesses with material non-compliance), 3 were identified at the Forest Service, and 1 was identified at the Medical Branch.

Finding Classifications

Control weaknesses are classified as either significant deficiencies or material weaknesses:

- A **significant deficiency** indicates control weaknesses, but those weaknesses would not likely result in material non-compliance.
- A **material weakness** indicates significant control weaknesses that could potentially result in material non-compliance with the compliance area.

Similarly, compliance findings are classified as either non-compliance or material non-compliance, where material non-compliance indicates a more serious reportable issue.

Fiscal year 2013 audit results for the Department represented an improvement compared with fiscal year 2012, when auditors identified 19 findings at the Department, 9 of which were classified as material weakness and/or material non-compliance.

Key Points

Auditors identified control weaknesses and non-compliance related to the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at the Department.

For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, auditors identified control weaknesses and non-compliance related to the period of availability and allowability of costs and activities the Department charged to federal grants. Specifically:

- For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department based its initial payroll charges on estimates, but it did not always perform payroll activity report reconciliations in a timely manner to determine whether adjustments to federal charges were necessary. Additionally, for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always correctly charge employee benefits to that program.

- For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not retain sufficient support for its indirect cost rate plan. The Department also did not always correctly record indirect cost revenue. Additionally, for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always correctly apply its indirect cost rate.

- For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department charged direct costs it incurred after the performance period for its federal awards.

- For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always correctly allocate direct costs or retain the underlying supporting documentation for direct costs.

For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, auditors identified control weaknesses and non-compliance related to the Department's drawdowns of funds from the federal government and its monitoring of subrecipient drawdowns.

- For both the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always obtain sufficient documentation to ensure that subrecipients minimized the time between their receipt of funds and the disbursement of those funds.

- For the Fire Management Assistance Grant program, the Department did not always minimize the time between its drawdown and disbursement of federal funds.

- For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always comply with the time requirements for disbursing federal funds.

Auditors identified other control weaknesses and non-compliance related to the Department's verification of subrecipient eligibility, its subrecipient monitoring, and its reporting for the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. Specifically:

- For the Fire Management Assistance Grant program, one of the subrecipients auditors tested was not eligible to receive a Fire Management Assistance Grant program award.

- For the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always include all required elements in its subaward agreements and did not obtain subrecipient Data Universal Numbering System numbers from subrecipients prior to issuing subawards. Additionally, the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. For the Fire Management Assistance Grant program, the issues related to subrecipient monitoring were considered a material weakness and material non-compliance.

- For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not have controls to ensure that subrecipients notify the Department in a timely manner that a project is complete, which delays final audits and project close-outs.

- For the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department did not always ensure that its financial reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Additionally, the Department did not always submit Federal Funding Accountability and Transparency Act (Transparency Act) reports accurately and/or within the required time frame. For the Disaster Grants - Public Assistance (Presidentially Declared Disaster) program, the issues related to reporting were considered a material weakness and material non-compliance.

While the Department complied in all material respects with federal requirements for the Homeland Security Grant Program, auditors identified control weaknesses and non-compliance in that program. Specifically:

The Department based its initial payroll charges on estimates, but it did not always perform payroll activity report reconciliations accurately or in a timely manner to determine whether adjustments to federal charges were necessary.

The Department did not always correctly allocate management and administrative costs.

The Department did not always monitor subrecipients' compliance with requirements related to procurement.

The Department did not always submit Transparency Act reports accurately or within the required time frame.

The Forest Service had weaknesses in its control structure and instances of non-compliance for the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

For the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Forest Service did not always minimize the time between its drawdowns of federal funds and disbursement of those funds.

For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Forest Service included unallowable costs on a project worksheet.

The Medical Branch did not always comply with federal requirements related to equipment management and disposition for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

The Medical Branch improperly transferred an asset valued at more than $5,000 that it purchased with Disaster Grants – Public Assistance (Presidentially Declared Disaster) program funds to an outside entity.

Auditors followed up on 22 findings from prior fiscal years regarding the Homeland Security Grant Program, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Hazard Mitigation Grant program, and the Public Safety Interoperable Communications Grant Program at the Department. Auditors also followed up on one finding from a prior fiscal year regarding the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at the Medical Branch.

For the Homeland Security Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Department implemented corrective action to resolve five findings from prior fiscal years. One finding for the Homeland Security Grant Program was no longer valid because the underlying federal requirement is no longer applicable. The State Auditor's Office reissued eight findings from prior fiscal years as fiscal year 2013 findings in this report.

For the Public Safety Interoperable Communications Grant Program, the Department fully implemented recommendations for one finding from the prior fiscal year. One finding for that program was no longer valid because it related to federal awards that have ended.

The Department also partially implemented recommendations for six findings from the prior fiscal year related to the Hazard Mitigation Grant program.

The Medical Branch fully implemented recommendations for one finding from a prior fiscal year regarding the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Summary of Management's Response

Management generally concurred with the audit findings. Specific management responses and corrective action plans are presented immediately following each finding in this report.

Summary of Information Technology Review

The audit work included a review of general and application controls for key information technology systems related to the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. Auditors identified weaknesses in access to the State's Uniform Statewide Accounting System (USAS) at the Department.

Summary of Objectives, Scope, and Methodology

With respect to the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess the control risk of noncompliance, and perform tests of those controls unless controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the

Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

The audit scope covered federal funds that the State spent for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at the Department, the Forest Service, and the Medical Branch from September 1, 2012, through August 31, 2013. The audit work included control and compliance tests at the Department, the Forest Service, and the Medical Branch.

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. Auditors' sampling methodology was based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data the Department, the Forest Service, and the Medical Branch provided and determined that the data was sufficiently reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the programs identified above.

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Independent Auditor's Report

State of Texas Compliance with Federal Requirements for

Selected Major Programs at the Department of Public Safety, the Texas A&M Forest Service, and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2013

State Auditor's Office
John Keel, CPA
State Auditor

Report on Compliance for the Homeland Security Grant Program, the Fire Management Assistance Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on Compliance for the Homeland Security Grant Program, the Fire Management Assistance Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program for the year ended August 31, 2013. The State's major federal programs at the Department of Public Safety, the Texas A&M Forest Service, and the University of Texas Medical Branch at Galveston are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the State's compliance for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program based on our audit of the types of compliance requirements referred to above. Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2013. As such, the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2013. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion on the Fire Management Assistance Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Department of Public Safety	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Reporting	2013-111
	CFDA 97.046 – Fire Management Assistance Grant	Procurement and Suspension and Debarment Subrecipient Monitoring	2013-116

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the Fire Management Assistance Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Qualified Opinion on the Fire Management Assistance Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Fire Management Grant program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program for the year ended August 31, 2013.

Unmodified Opinion on the Homeland Security Grant Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Department of Public Safety	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-107
		Cash Management	2013-108
		Period of Availability of Federal Funds	2013-109
		Procurement and Suspension and Debarment Subrecipient Monitoring Special Tests and Provisions – Project Accounting	2013-110
	CFDA 97.046 – Fire Management Assistance Grant	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-112
		Cash Management	2013-113
		Eligibility	2013-114
		Period of Availability of Federal Funds	2013-115
		Reporting	2013-117
	CFDA 97.067 – Homeland Security Grant Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-118
		Reporting	2013-119
		Subrecipient Monitoring	2013-120
Texas A&M Forest Service	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed	2013-130
		Cash Management	2013-131
	CFDA 97.046 – Fire Management Assistance Grant	Cash Management	2013-132
University of Texas Medical Branch at Galveston	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Equipment and Real Property Management	2013-187

Our opinion on the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, to be material weaknesses:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Department of Public Safety	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Reporting	2013-111
	CFDA 97.046 – Fire Management Assistance Grant	Procurement and Suspension and Debarment Subrecipient Monitoring	2013-116

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Department of Public Safety	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-107
		Cash Management	2013-108
		Period of Availability of Federal Funds	2013-109
		Procurement and Suspension and Debarment Subrecipient Monitoring Special Tests and Provisions – Project Accounting	2013-110
	CFDA 97.046 – Fire Management Assistance Grant	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-112
		Cash Management	2013-113
		Eligibility	2013-114
		Period of Availability of Federal Funds	2013-115
		Reporting	2013-117
	CFDA 97.067 – Homeland Security Grant Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-118
		Reporting	2013-119
		Subrecipient Monitoring	2013-120
Texas A&M Forest Service	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed	2013-130
		Cash Management	2013-131
	CFDA 97.046 – Fire Management Assistance Grant	Cash Management	2013-132
University of Texas Medical Branch at Galveston	CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Equipment and Real Property Management	2013-187

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program of the State for the year ended August 31, 2013, is presented for purposes of additional analysis. This information is the responsibility of the State's management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*.

John Keel, CPA
State Auditor

February 21, 2014

Schedule of Federal Program Expenditures for The Homeland Security Grant Program, The Fire Management Assistance Grant Program, and The Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program For the State of Texas for the Year Ended August 31, 2013

Schedule of Federal Program Expenditures
CFDA 97.067 - Homeland Security Grant Program

Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	$142,124,386	$7,973,728	$150,098,114
Totals for Homeland Security Grant Program	$142,124,386	$7,973,728	$150,098,114

Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*.

Note 2: Federal expenditures for the Homeland Security Grant Program at state entities not included in the scope of this audit totaled $396,994 for the year ended August 31, 2013.

Schedule of Federal Program Expenditures
CFDA 97.046 Fire Management Assistance Grant Program

Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	$9,040,109	$ 3,566,603	$12,606,712
Texas A&M Forest Service	0	42,811,819	42,811,819
Totals for Fire Management Assistance Grant program	$9,040,109	$46,378,422	$55,418,531

Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*.

Note 2: Federal expenditures for the Fire Management Assistance Grant program at state entities not included in the scope of this audit totaled $4,162,467 for the year ended August 31, 2013.

Schedule of Federal Program Expenditures
CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program

Agency or Higher Education Institution	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	$42,192,731	$12,878,113	$55,070,844
Texas A&M Forest Service	0	43,167,864	43,167,864
University of Texas Medical Branch at Galveston	0	33,065,786	33,065,786
Totals for Disaster Grants – Public Assistance (Presidentially Declared Disasters) program	$42,192,731	$89,111,763	$131,304,494

Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013*.

Note 2: Federal expenditures for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at state entities not included in the scope of this audit totaled $8,954,031 for the year ended August 31, 2013.

Schedule of Findings and Questioned Costs

State of Texas Compliance with Federal Requirements for

Selected Major Programs at the Department of Public Safety, the Texas A&M Forest Service, and the University of Texas Medical Branch at Galveston for the Fiscal Year Ended August 31, 2013

Section 1:

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? Yes

Major programs with Significant Deficiencies:

CFDA Number	Name of Federal Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.046	Fire Management Assistance Grant
97.067	Homeland Security Grant Program

Major programs with Material Weaknesses:

CFDA Number	Name of Federal Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.046	Fire Management Assistance Grant

Type of auditor's report issued on compliance for major programs: See below.

Unmodified:

CFDA Number	Name of Federal Program
97.067	Homeland Security Grant Program

Qualified:

CFDA Number	Name of Federal Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.046	Fire Management Assistance Grant

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

CFDA Number	Name of Federal Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.046	Fire Management Assistance Grant
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs:	$73,222,469
Auditee qualified as low-risk auditee?	No

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013*.

Section 3:

Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by Office of Management and Budget Circular A-133, Section 510(a).

Department of Public Safety

Reference No. 2013-107

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

(Prior Audit Issue 13-117)

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles - Payroll

Questioned Cost: $ 21,266

U.S. Department of Homeland Security – Federal Emergency Management Agency

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

The Department of Public Safety (Department) uses estimates to determine its payroll charges on a monthly basis and then performs reconciliations between the estimated time and actual time employees worked on each federal award so that it can process necessary adjustments. **However, during fiscal year 2013, the Department did not perform quarterly activity report reconciliations in a timely manner.** The Department did not begin its reconciliation process for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program until April 2013 and did not perform reconciliations for the July 2013 and August 2013 pay periods until December 2013. Not performing reconciliations in a timely manner could delay the identification of required adjustments and result in questioned costs.

In addition, for 1 (2 percent) of 63 payroll charges, the Department charged employee benefits to the grant when the employee did not perform work on the grant during the pay period. That occurred because the Department does not perform a reconciliation of benefits based on actual hours worked if the employee charges time to only one disaster grant during the month. That error resulted in questioned costs of $29.

Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll

The Office of Management and Budget requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

One (1 percent) of 69 non-payroll expenditures tested at the Department was unallowable. The Department charged a $10 unallowable prompt payment interest expenditure to an award. The Department later reallocated that expenditure to a non-federal account; therefore, there were no related questioned costs.

For 4 (6 percent) of 69 non-payroll expenditures tested, the Department charged the expenditures to awards to which the expenditures were not allocable. Specifically:

- One of those expenditures was for consulting work related to the implementation of a grants management application. The Department was unable to provide documentation to support whether the work performed solely benefitted the program to which it was charged. That error resulted in $20,800 in questioned costs.
- The Department charged two of those expenditures to the wrong award because of a coding error in its payment processing. The Department later corrected those errors, which totaled $193; therefore, there are no related questioned costs.
- One of those expenditures was a recurring cellular data charge that was not allocable to the program. That error resulted in $38 in questioned cost; however, because the expenditure was recurring, the Department may have charged additional related unallowable costs.

For 1 (1 percent) of 69 non-payroll expenditures tested, the Department could not provide the underlying supporting documentation for the expenditure. Therefore, auditors could not determine whether the Department appropriately allocated that expenditure. That error resulted in $91 in questioned costs.

Indirect Costs

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Section 225, Appendix E, (D)(1)).

An indirect cost rate proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect cost by calculating a ratio of indirect costs to a direct cost base. Those rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E (B)).

In 2009, the Department hired a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Federal Emergency Management Agency (FEMA) approved the IDCRP in May 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods after fiscal year 2009. **However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate.** As a result, auditors could not determine whether the indirect cost rate approved in May 2012 was accurate. **The Department's next IDCRP was due in February 2013. However, the Department was still in the process of completing that proposal at the close of fiscal year 2013.** During fiscal year 2013, the Department drew down federal Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds for indirect costs using the provisional rate of 55.59 percent on the previous indirect cost rate agreement.

The Department did not always apply its provisional indirect cost rate correctly. Specifically, for 1 (8 percent) of 12 indirect cost revenue transactions tested, the Department applied an incorrect rate due to a formula error in the spreadsheet the Department used to calculate indirect costs. As a result, the Department drew down $308 for unsupported indirect costs, which is considered a questioned cost.

Additionally, for 2 (17 percent) of 12 indirect cost revenue transactions tested, the Department inaccurately recorded the indirect cost revenue. One of those transactions had an error in the indirect cost calculation. For the other transaction, the Department recorded the indirect cost revenue to the incorrect federal program. Specifically, the Department drew down $70,745 in indirect costs against the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, but it recorded the indirect cost revenue to the Hazard Mitigation Grant program. The Department does not record indirect cost expenditures in its accounting system; instead, it processes adjusting journal entries at the close of the fiscal year to record indirect cost expenditures on its Schedule of Expenditures of Federal Awards. As a result, errors in the recording of deposits could affect the accuracy of the adjusting journal entries and the agency's financial reporting.

The issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date	Questioned Costs
1257	99612576	October 21, 1998	$ 0
1379	TX01PA1379	June 9, 2001	0
1425	TX02PA1425	July 4, 2002	0
1479	TX03PA1479	July 17, 2003	0
1606	1606DRTXP00000001	September 24, 2005	0
1624	1624DRTXP00000001	January 11, 2006	0
1658	1658DRTXP00000001	August 15, 2006	0
1709	1709DRTXP00000001	June 29, 2007	0
1780	1780DRTXP00000001	July 24, 2008	91
1791	1791DRTXP00000001	September 13, 2008	20,867
1931	1931DRTXP00000001	August 3, 2010	0
1999	1999DRTXP00000001	July 1, 2011	308
3216	3216EMTXP00000001	September 2, 2005	0
3261	3261EMTXP00000001	September 21, 2005	0
3363	3363EMTXP00000001	April 17, 2013	0
4029	4029DRTXP00000001	September 9, 2011	0
		Total	$21,266

Recommendations:

The Department should:

- Not charge unallowable costs to federal awards.

- Properly allocate charges to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program.
- Retain support for all expenditures.
- Perform quarterly comparisons of actual payroll activity with estimated activity and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.
- Perform a reconciliation of benefits based on actual hours worked for all employees.
- Submit an updated IDCRP to its federal cognizant agency and retain adequate documentation of its proposed indirect cost rate.
- Calculate and record indirect cost revenues accurately in its accounting system.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Payroll—As noted, the agency implemented a process to determine payroll charges on a monthly basis in March 2013, and will continue to refine the process.

Non-payroll-DPS will strengthen processes to assure disaster payments to vendors are supported with adequate documentation.

Indirect-- DPS discontinued use of indirect rates midway through the fiscal year. DPS has submitted an updated indirect cost rate that is currently being negotiated with FEMA.

Implementation Date: May 2014

Responsible Person: Maureen Coulehan

Reference No. 2013-108

Cash Management

(Prior Audit Issues 13-118, 12-112 and 11-112)

CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding –Significant Deficiency and Non-Compliance

> Questioned Cost: $ 0
>
> U.S. Department of Homeland Security – Federal Emergency Management Agency

According to the Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State of Texas (Treasury-State Agreement) applicable to fiscal year 2013, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program is subject to the pre-issuance and reimbursement funding techniques. Under the pre-issuance funding method, the State is required to request that funds be deposited into the state account no more than three days prior to the day the State makes a disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, Code of Federal Regulations, Section 13.20(b)(7)).

For 9 (14 percent) of 65 drawdowns tested, the Department of Public Safety (Department) did not comply with the time requirements for disbursing federal funds. The Department disbursed funds from those 9 drawdowns between 4 and 18 days after it received the funds, instead of within 3 days as required by the Treasury-

State Agreement. Those errors occurred because the Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure that the Department disburses funds in a timely manner. In February 2013, the Department adjusted its process for drawing down funds for payroll costs to better ensure compliance with timing requirements outlined in the Treasury-State Agreement.

Additionally, for 10 (28 percent) of 36 subrecipients tested, the Department did not obtain sufficient documentation to ensure that subrecipients minimized the time between their receipt of funds and the disbursement of those funds. The Department's procedures do not require subrecipients to provide documentation to support that they are minimizing the time between receipt and disbursement of funds. As a result, auditors could not verify whether subrecipients minimized that time or whether they earned interest on advanced funds. Insufficient monitoring of subrecipients during the award period increases the risk that the Department would not detect subrecipients' non-compliance with cash management requirements.

The timing issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
1709	1709DRTXP00000001	June 29, 2007
1780	1780DRTXP00000001	July 24, 2008
1791	1791DRTXP00000001	September 13, 2008
1931	1931DRTXP00000001	August 3, 2010
1999	1999DRTXP00000001	July 1, 2011
4029	4029DRTXP00000001	September 9, 2011

Recommendations:

The Department should:

- Ensure that the time between its receipt and disbursement of funds is within the time frame required by the Treasury-State Agreement.
- Strengthen controls over subrecipient monitoring to help ensure that its subrecipients minimize the time between receipt and disbursement of federal funds.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Cash Management—DPS implemented a Cash management policy August 1st, 2013. Although the policy has decreased the amount of time between deposit and disbursement, the sample for this audit included transactions that were processed prior to the implementation of the new policy.

Subrecipient Monitoring Controls — will be updated to include a notice to subrecipients on cash management rules for advances and for monitoring of their compliance.

Implementation Date: May 2014

Responsible Persons: Maureen Coulehan and Paula Logan

Reference No. 2013-109

Period of Availability of Federal Funds

(Prior Audit Issue 13-119)

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding –Significant Deficiency and Non-Compliance

Questioned Cost: $ 18,276

U.S. Department of Homeland Security – Federal Emergency Management Agency

For major disaster declarations, a grantee of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program may expend management cost funds for allowable costs for a maximum of 8 years from the date of the major disaster declaration or 180 days after the latest performance period date of a non-management cost project worksheet, whichever is sooner (Title 44, Code of Federal Regulations (CFR), Section 207.8(b) and Title 44, CFR, Sections 207.9(a) and (d)). Additionally, a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the performance period (Title 44, CFR, Section 13.23).

The Department of Public Safety (Department) charged to awards costs that it incurred after the period of performance for those awards. Specifically:

- For all five payroll transfers tested, the Department incurred the original cost supporting the transfers outside of the period of performance for the awards. All five transfers were for pay periods between September 2011 and April 2012; however, during fiscal year 2013 the Department transferred those charges to awards whose periods of performance ended prior to September 2011. That resulted in questioned costs of $918.
- For 2 (3 percent) of 69 non-payroll direct cost expenditures tested, the Department incurred and liquidated the expenditures outside of the period of performance for one award. The Department incurred those costs in May 2012 and June 2012 and charged those costs to the award during fiscal year 2013; however, the award's period of performance ended in August 2010. That resulted in questioned costs of $5,306. An analysis of the expenditure population identified 18 additional unallowable charges to that award totaling $12,052 in additional questioned cost.

The errors discussed above occurred because the Department has not established adequate controls to ensure that it does not incur direct costs for disasters after the period of performance has ended.

The issues noted above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date	Questioned Costs
1257	99612576	October 21, 1998	$ 7
1379	TX01PA1379	June 9, 2001	515
1425	TX02PA1425	July 4, 2002	272
1479	TX03PA1479	July 17, 2003	42
3261	3261EMTXP00000001	September 21, 2005	82
3290	3290EMTXP00000001	August 29, 2008	17,358
		Total	$18,276

Recommendation:

The Department should implement a process to ensure that it charges expenditures to disasters only within the period of performance.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Processes are in place but reviews will be tightened. Please note these grants were affected by a rule change at FEMA that required TDEM to begin charging management costs to state indexes even though grant administration was ongoing and FEMA has not closed these grants.

Implementation Date: February 2014

Responsible Persons: Maureen Coulehon and Paula Logan

Reference No. 2013-110

Procurement and Suspension and Debarment
Subrecipient Monitoring
Special Test and Provisions – Project Accounting
(Prior Audit Issues 13-120, 12-113, 11-115, 10-42, and 09-48)

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients' use of federal awards to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In fiscal year 2013, the Department passed through $104,489,125 in Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds to its subrecipients.

Pre-award Monitoring

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the federal award name and number, the name of the federal awarding agency, and whether the award is research and development (OMB Circular A-133, Section .400(d)).

Additionally, federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from federal contracts. That verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Covered transactions include all nonprocurement transactions irrespective of award amount (Title 2, Code of Federal Regulations (CFR), Section 3000).

Beginning October 1, 2010, an agency may not make an award to an entity until it has obtained a valid Data Universal Numbering System (DUNS) number for that entity (Title 2, CFR, Sections 25.105 and 25.205).

The Department communicates federal award information to subrecipients on an application for federal assistance and requires that subrecipients sign various assurances to ensure that they are aware of award information and applicable federal compliance requirements. The assurances also serve as the subrecipients' certification that they are not suspended or debarred from participating in federal contracts.

The Department did not always include all required elements in its subaward agreements and did not obtain subrecipient DUNS numbers. Specifically:

- For 2 (6 percent) of 36 subrecipients tested, the Department did not identify all required federal award information to the subrecipient. For one of those subrecipients, the Department did not include the CFDA number on the subrecipient application for federal assistance. For the other subrecipient, the Department could not provide evidence that it identified the CFDA title to the subrecipient.
- For 31 (86 percent) of 36 subrecipients tested, the Department did not ensure that the subrecipients' principals were not suspended or debarred. Those errors occurred because for 30 of those subrecipients the Department used an older version of the required assurances for those subrecipients that did not cover the subrecipients' principals. For one of those subrecipients, the Department did not retain the subrecipient's assurance form.
- For all three subrecipients tested for which a DUNS number was required, the Department did not obtain a DUNS number for the subrecipients prior to issuing the subaward. Those errors occurred because the Department used an older version of the federal application documents that did not have a designated space for the DUNS number.

Inadequate identification of federal award information to subrecipients could lead to inaccurate reporting of federal funding on a subrecipient's schedule of expenditures of federal awards. Not verifying that subrecipients' principals are not suspended or debarred from participation in federal awards increases the risk that the Department could enter into awards with ineligible parties. Not obtaining DUNS numbers prior to making a subaward could lead to inaccurate federal reporting.

<u>During-the-award Monitoring</u>

Recipients of Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40). The Department monitors subrecipient projects through review and approval of payment vouchers, quarterly performance reporting, and audits and inspections of subrecipient projects.

The Department did not consistently enforce and monitor subrecipient compliance with federal requirements related to period of availability, equipment, and procurement during the performance period of its subawards. Specifically:

- For 14 (39 percent) of 36 subrecipients tested, the Department could not provide evidence that it monitored the subrecipients' compliance with period of availability requirements. For those subrecipients, the performance period of the subgrant had expired, and the Department could not provide evidence that it had approved an extension of that period. The Department has not established a formal monitoring process prior to its project close-out to identify subrecipients that did not complete projects within the established period of performance.
- The Department could not provide evidence that it monitored subrecipients' compliance with requirements related to equipment for 1 (7 percent) of 14 subrecipient projects for which it should have monitored compliance.
- The Department could not provide evidence that it monitored subrecipients' compliance with requirements related to procurement and suspension and debarment for 9 (27 percent) of 33 subrecipient projects for which it should have monitored compliance.

At the conclusion of a project, the Department conducts final audits on projects that the Federal Emergency Management Agency (FEMA) designates as "large" projects according to the Department's State Administrative Plan for each disaster. The Department uses those audits to monitor its subrecipients' compliance with requirements related to allowable costs and activities, equipment, and procurement. However, final audits may not always be an effective monitoring tool to identify potential subrecipient non-compliance during the performance period of a subgrant.

Project Accounting

According to Department policy, subrecipients must submit a *Project Completion and Certification Report* within 60 days of completing all approved work for a project. That report certifies that all work has been completed in accordance with funding approvals and that all claims have been paid in full for each specific project.

For 19 (59 percent) of 32 subrecipients tested that were required to submit a *Project Completion and Certification Report*, the Department did not ensure that the subrecipients submitted the reports in a timely manner. The subrecipients submitted those reports between 109 and 2,218 days after project completion. Those errors occurred because the Department does not have a process to ensure that subrecipients notify the Department in a timely manner that a project is complete. Not notifying the Department of project completion in a timely manner delays final audits and project close-outs. Additionally, the deficiencies in monitoring project completion status delay the submission of required time extensions. For 14 (44 percent) of 32 subrecipients tested (which includes 7 of the 19 subrecipients discussed above), the Department did not identify deficiencies in subrecipient compliance related to required subrecipient time extensions.

The issues discussed above affect the following awards:

Disaster Number	Award Number	Disaster Declaration Date
1379	TX01PA1379	June 9, 2001
1709	1709DRTXP00000001	June 29, 2007
1780	1780DRTXP00000001	July 24, 2008
1791	1791DRTXP00000001	September 13, 2008
1931	1931DRTXP00000001	August 3, 2010
1999	1999DRTXP00000001	July 1, 2011
4029	4029DRTXP00000001	September 9, 2011

Recommendations:

The Department should:

- Communicate all required federal award information and applicable compliance requirements to subrecipients and maintain award documentation for its records.
- Retain documentation of its verification that subrecipients and their principals are not suspended or debarred.
- Obtain valid DUNS numbers from its subrecipients prior to issuing subawards.
- Establish and implement a formal process to track and monitor all during-the-award monitoring activities for large and small subrecipient projects. That should include a process to ensure that subgrantees notify the Department in a timely manner that a project is complete.
- Identify and communicate deficiencies in subrecipient compliance and follow up on those deficiencies to ensure that subrecipients take corrective action.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Pre-Award: Subrecipient Monitoring — Please be aware that these conditions have been corrected and the exceptions noted were for awards from before corrective actions were taken.

During Award: Subrecipient Monitoring — New rules have been implemented and all files are being brought current.

Communicating Deficiencies — We will create a process to notify subrecipients of deficiencies and ensure they take corrective action.

Implementation Date: *May 2014*

Responsible Person: *Paula Logan*

Reference No. 2013-111

Reporting

(Prior Audit Issues 13-121, 12-114, 11-114, 10-41, 09-47, 08-91, and 07-26)

CFDA 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 to report financial activity on a quarterly basis. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions of key reporting elements (Title 44, Code of Federal Regulations (CFR), Section 13.41).

Questioned Cost: $ 0

U.S. Department of Homeland Security - Federal Emergency Management Agency

For all 14 SF-425 reports tested, the Department of Public Safety (Department) did not ensure that its reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Those errors occurred because (1) reports were not based on information in the Department's financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information to report recipient share of expenditures. The Department's methodology to report the recipient's share of expenditures does not consider the different matching requirements across projects and disasters. As a result, auditors identified errors in all 14 reports tested. Department management reviewed and approved those financial reports; however, that review was not sufficient to detect those errors.

Unsupported or inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that equal or exceed $25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, CFR, Chapter 170).

Recipients of awards that are subject to the Transparency Act must report all required elements, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number. Additionally, the amount of the subaward is the net dollar amount of federal funds awarded to the subawardee, including modifications (U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting*, August 27, 2010, Appendix C).

For 5 (83 percent) of 6 Transparency Act reports tested, the Department did not accurately report all key data elements. For those reports, the Department underreported the total subaward amount because it did not include amounts for donated resources projects or deobligations as required. Those errors occurred because the Federal Emergency Management Agency's Electronic Data Warehouse, which the Department uses to prepare its Transparency Act reports, excludes amounts for donated resources projects and deobligations due to technical issues. During the prior-year audit, auditors communicated to the Department information regarding its noncompliance with Transparency Act requirements. The Department implemented a formal process for Transparency Act reporting in April 2013. That process decreased, but did not eliminate, instances of noncompliance with federal requirements.

Not submitting accurate Transparency Act reports decreases the reliability and availability of information to the awarding agency and the public.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section .300 (b)).

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, four former contractors and employees of the Department still had active accounts in USAS. The Department's periodic review of user access was not effective in identifying and removing that inappropriate access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

The financial reporting issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
1379	TX01PA1379	June 9, 2001
1425	TX02PA1425	July 4, 2002
1479	TX03PA1479	July 17, 2003
1606	1606DRTXP00000001	September 24, 2005
1658	1658DRTXP00000001	August 15, 2006
1709	1709DRTXP00000001	June 29, 2007
1780	1780DRTXP00000001	July 24, 2008
1931	1931DRTXP00000001	August 3, 2010
3216	3216EMTXP00000001	September 2, 2005
3294	3294EMTXP00000001	September 10, 2008

Disaster Number	Award Number	Disaster Declaration Date
4029	4029DRTXP00000001	September 9, 2011

The Transparency Act reporting issues discussed above affected the following award:

Disaster Number	Award Number	Disaster Declaration Date
4029	4029DRTXP00000001	September 9, 2011

Recommendations:

The Department should:

- Develop and implement a process to report required financial information based on its supporting documentation, including information from its financial systems.
- Correct its methodology for reporting the recipient's share of expenditures in its SF-425 reports by incorporating the different matching requirements across projects and disasters.
- Submit all required Transparency Act reports accurately.
- Restrict access to its USAS accounts to current staff whose responsibilities require that access.
- Ensure that its periodic review process is effective and identifies all users whose access needs to be removed.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

SF 425 Reporting — DPS Finance has taken responsibility for SF-425 reporting effective January of 2012 and TDEM is working diligently with Finance to reconcile all open disasters. Finance and TDEM will also correct state match reporting.

Transparency Act Reporting — Processes have been updated to implement change.

USAS - Finance will implement controls to ensure we identify and remove all users whose access needs to be removed.

Implementation Date: *May 2014*

Responsible Persons: *Paula Logan and Sharon Page*

Reference No. 2013-112

Activities Allowed or Unallowed
Allowable Costs/Cost Principles

CFDA 97.046 - Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

Allowable Costs/Cost Principles - Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

The Department of Public Safety (Department) uses estimates to determine its payroll charges on a monthly basis and then performs reconciliations between the estimated time and actual time employees worked on each federal award so that it can process necessary adjustments. **However, during fiscal year 2013, the Department did not perform quarterly activity report reconciliations in a timely manner.** The Department did not begin its reconciliation process for the Fire Management Assistance Grant program until June 2013 and did not perform reconciliations for the July 2013 and August 2013 pay periods until December 2013. Not performing reconciliations in a timely manner could delay the identification of required adjustments and result in questioned costs.

<u>Indirect Costs</u>

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Section 225, Appendix E, (D)(1)).

An Indirect Cost Rate Proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect cost by calculating a ratio of indirect costs to a direct cost base. Those rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E (B)).

In 2009, the Department hired a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Federal Emergency Management Agency (FEMA) approved the IDCRP in May 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods after fiscal year 2009. **However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate.** As a result, auditors could not determine whether the indirect cost rate approved in May 2012 was accurate. **The Department's next IDCRP was due in February 2013. However, the Department was still in the process of completing this proposal at the close of fiscal year 2013.** During fiscal year 2013, the Department drew federal Fire Management Assistance Grant program funds for indirect costs using the provisional rate of 55.59 percent on the previous indirect cost rate agreement.

For 12 (80 percent) of 15 indirect cost revenue transactions tested, the Department inaccurately recorded the revenue. For those transactions, the Department drew down funds for indirect costs but did not record the receipt of those funds as indirect cost revenue. Auditors identified $557 in indirect costs that the Department drew down but recorded as direct cost revenue. That error occurred because the Department had not established appropriate index funds within its accounting system at the time of the drawdown. Those transactions did not result in questioned costs.

The Department processed all 12 transactions on the same drawdown request and deposit document. The Department does not record indirect cost expenditures in its accounting system during the course of a fiscal year; instead, it processes adjusting journal entries at the close of the fiscal year to record indirect cost expenditures on its Schedule of Expenditures of Federal Awards. As a result, errors in recording deposits could affect the accuracy of the adjusting journal entries and the Department's financial reporting.

The payroll issues identified discussed affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
2785	2785FMTXP00000001	August 7, 2008
2794	2794FMTXP00000001	February 25, 2009
2795	2795FMTXP00000001	February 27, 2009
2796	2796FMTXP00000001	February 28, 2009
2797	2797FMTXP00000001	March 3, 2009
2798	2798FMTXP00000001	March 5, 2009
2800	2800FMTXP00000001	March 20, 2009
2801	2801FMTXP00000001	April 3, 2009
2802	2802FMTXP00000001	April 4, 2009
2803	2803FMTXP00000001	April 5, 2009
2804	2804FMTXP00000001	April 7, 2009
2805	2805FMTXP00000001	April 10, 2009
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2810	2810FMTXP00000001	April 10, 2009
2814	2814FMTXP00000001	April 10, 2009
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2881	2881FMTXP00000001	April 3, 2011
2882	2882FMTXP00000001	April 5, 2011
2884	2884FMTXP00000001	April 9, 2011
2885	2885FMTXP00000001	April 9, 2011
2886	2886FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2889	2889FMTXP00000001	April 15, 2011
2891	2891FMTXP00000001	April 15, 2011
2892	2892FMTXP00000001	April 15, 2011

Disaster Number	Award Number	Disaster Declaration Date
2893	2893FMTXP00000001	April 16, 2011
2894	2894FMTXP00000001	April 16, 2011
2895	2895FMTXP00000001	April 16, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2899	2899FMTXP00000001	April 21, 2011
2901	2901FMTXP00000001	April 27, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2905	2905FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2908	2908FMTXP00000001	May 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2911	2911FMTXP00000001	May 29, 2011
2912	2912FMTXP00000001	May 29, 2011
2913	2913FMTXP00000001	May 29, 2011
2914	2914FMTXP00000001	June 2, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2924	2924FMTXP00000001	June 17, 2011
2925	2925FMTXP00000001	June 18, 2011
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2928	2928FMTXP00000001	June 20, 2011
2929	2929FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2937	2937FMTXP00000001	July 11, 2011
2949	2949FMTXP00000001	August 15, 2011
2952	2952FMTXP00000001	August 30, 2011
2957	2957FMTXP00000001	September 4, 2011

Disaster Number	Award Number	Disaster Declaration Date
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2960	2960FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2963	2963FMTXP00000001	September 6, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011
2967	2967FMTXP00000001	September 8, 2011
2968	2968FMTXP00000001	September 9, 2011
2976	2976FMTXP00000001	April 30, 2012

The indirect cost issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
2794	2794FMTXP00000001	February 25, 2009
2795	2795FMTXP00000001	February 27, 2009
2796	2796FMTXP00000001	February 28, 2009
2797	2797FMTXP00000001	March 3, 2009
2798	2798FMTXP00000001	March 5, 2009
2800	2800FMTXP00000001	March 20, 2009
2801	2801FMTXP00000001	April 3, 2009
2802	2802FMTXP00000001	April 4, 2009
2803	2803FMTXP00000001	April 5, 2009
2804	2804FMTXP00000001	April 7, 2009
2805	2805FMTXP00000001	April 10, 2009
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2810	2810FMTXP00000001	April 10, 2009
2814	2814FMTXP00000001	April 10, 2009

Recommendations:

The Department should:

- Perform quarterly comparisons of actual payroll activity with estimated activity and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.
- Submit an updated IDCRP to its federal cognizant agency and retain adequate documentation of its proposed indirect cost rate.
- Record indirect cost revenues accurately in its accounting system.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Payroll—As noted, the agency implemented a process to determine payroll charges midway through Fiscal Year 2013, and will continue to refine the process.

Indirect-- DPS discontinued use of indirect rates midway through the fiscal year. DPS has submitted an updated indirect cost rate that is currently being negotiated with FEMA.

Implementation Date: *May 2014*

Responsible Person: *Maureen Coulehan*

Reference No. 2013-113

Cash Management

CFDA 97.046 – Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $0

U.S. Department of Homeland Security – Federal Emergency Management Agency

A state must minimize the time between the drawdown of federal funds from the federal government and its disbursement of funds for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay (Title 31, Code of Federal Regulations (CFR), Section 205.33). When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, CFR, Section 13.20(b)(7)).

For 4 (6 percent) of 63 drawdowns tested, the Department of Public Safety (Department) did not minimize the time between its drawdown and disbursement of federal funds. The Department disbursed funds from those 4 drawdowns between 17 and 31 days after it received those funds. Those errors occurred because the Department does not have a sufficient process to minimize the time between its drawdowns of federal funds and the disbursement of those funds for the Fire Management Assistance Grant program.

Additionally, for 2 (17 percent) of 12 subrecipients tested, the Department did not obtain sufficient documentation to ensure that subrecipients minimized the time between their receipt of funds and the disbursement of those funds. The Department's procedures do not require subrecipients to provide documentation to support that they are minimizing the time between receipt and disbursement of federal funds. As a result, auditors could not verify whether those subrecipients minimized that time or whether they earned interest on advanced funds. Insufficient monitoring of subrecipients increases the risk that the Department would not detect subrecipients' non-compliance with cash management requirements.

The cash management issues discussed above affected the following awards:

Disaster Number	**Award Number**	**Disaster Declaration Date**
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2884	2884FMTXP00000001	April 9, 2011
2885	2885FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2892	2892FMTXP00000001	April 5, 2011
2913	2913FMTXP00000001	May 29, 2011
2926	2926FMTXP00000001	June 18, 2011
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2963	2963FMTXP00000001	September 6, 2011
2968	2968FMTXP00000001	September 9, 2011

Recommendations:

The Department should:

- Minimize the time between its drawdowns of federal funds and its disbursement of those funds.
- Strengthen controls over subrecipient monitoring to help ensure that its subrecipients minimize the time between receipt and disbursement of federal funds.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Cash Management—DPS implemented a Cash management policy August 1st, 2013. Although the policy has decreased the amount of time between deposit and disbursement, the sample for this audit included transactions that were processed prior to the implementation of the new policy.

Subrecipient Monitoring — Controls will be updated to include a notice to subrecipients on cash management rules for advances and for monitoring of their compliance.

Implementation Date: *May 2014*

Responsible Persons: *Maureen Coulehan and Paula Logan*

Reference No. 2013-114
Eligibility

CFDA 97.046 – Fire Management Assistance Grant
Award year – September 6, 2011
Award number – 2962FMTXP00000001
Type of finding –Significant Deficiency and Non-Compliance

Questioned Cost: $ 6,534
U.S. Department of Homeland Security – Federal Emergency Management Agency

Federal rules specify that the State is responsible for assisting the Federal Emergency Management Agency (FEMA) in determining applicant eligibility for Fire Management Assistance Grant awards. The following entities are eligible to apply for a subaward: state agencies, local governments, and Indian tribal governments. Entities that are not eligible to apply for a subaward, such as privately owned entities and volunteer firefighting organizations, may be reimbursed through a contract or compact with an eligible applicant for eligible costs associated with the fire or fire complex. The activities performed must be the legal responsibility of the applying entity, required as the result of the declared fire, and located within the designated area (Title 44, Code of Federal Regulations, Sections 204.41 and 204.51).

For 1 (8 percent) of 12 subrecipients tested, the subrecipient was not eligible to receive a Fire Management Assistance Grant program award because it was a fire department that was not associated with a state or local government and used volunteer labor. The Department of Public Safety (Department) did not maintain documentation that it reviewed that subrecipient's eligibility for an award. However, both the Department and FEMA approved that subrecipient's project worksheet. Because of the large number of fires declared during the 2011 fire season, the Department played a decreased role in the application and award process. The Department made $6,534 in payments to that subrecipient in fiscal year 2013, and that amount was considered a questioned cost. Not verifying the eligibility of all applying entities increases the risk that the Department could award federal funds to ineligible subrecipients.

Recommendation:

The Department should ensure that subrecipients meet all eligibility requirements before granting subawards and retain documentation of its eligibility determinations.

Management Response and Corrective Action Plan:

The Department agrees with the finding and will assure current processes are followed on all future FMAGs.

Implementation Date: *February 2014*

Responsible Person: *Paula Logan*

Reference No. 2013-115

Period of Availability of Federal Funds

CFDA 97.046 - Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 9,687
U.S. Department of Homeland Security – Federal Emergency Management Agency

For the Fire Management Assistance Grant program, all eligible work and related costs must be associated with the incident period of a declared fire (Title 44, Code of Federal Regulations (CFR) Section 204.42). Administrative costs should be incurred within the performance period, which is the period of time during which the grantee and all subgrantees are expected to submit all eligible costs and have those costs processed, obligated, and closed out by the Federal Emergency Management Agency (FEMA) (Title 44, CFR, Section 204.3). Additionally, a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the performance period. (Title 44, CFR, Section 13.23).

Because of the large number of declared fires during the 2011 fire season, the Department of Public Safety (Department) required additional time to write project worksheets and submit project costs to FEMA for obligation. The Department formally requested extensions for all 2011 Fire Management Assistance Grant program declarations in August 2012, extending the latest performance period for any declaration to January 2013.

The Department charged direct costs after the performance period for its 2011 awards. Specifically:

- For all 11 monthly payroll transactions tested, the underlying obligations included payroll charges for pay periods that were after the award performance period. For nine of those transactions, the Department also did not liquidate the underlying obligations within the required time period. The pay periods for those transactions ranged from September 2012 to August 2013, while the performance period end dates for the associated awards ranged from January 2010 to January 2013. Those errors resulted in $9,687 in questioned costs.
- For 1 (2 percent) of 60 non-payroll direct expenditures tested, the Department did not liquidate the underlying obligation within the required time period. The performance period for that expenditure ended in January 2013, but the Department did not pay that expenditure until July 2013. Because the Department incurred the obligation within the performance period, that expenditure was not considered a questioned cost.

The Department's review and approval of project expenditures was not effective in ensuring compliance with period of availability requirements for its awards. The Department asserted that it received an informal approval from FEMA to extend the performance period for all 2011 Fire Management Assistance Grant program declarations to November 30, 2013. However, the Department could not provide documentation that FEMA approved or communicated that date to the Department. Additionally, Department staff responsible for processing and approving program expenditures do not retain a complete list of approved performance periods for Fire Management Assistance Grant program awards.

The period of availability issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date	Questioned Costs
2785	2785FMTXP00000001	August 7, 2008	$ 0
2794	2794FMTXP00000001	February 25, 2009	0
2795	2795FMTXP00000001	February 27, 2009	0
2796	2796FMTXP00000001	February 28, 2009	0
2797	2797FMTXP00000001	March 3, 2009	0
2798	2798FMTXP00000001	March 5, 2009	0

Disaster Number	Award Number	Disaster Declaration Date	Questioned Costs
2800	2800FMTXP00000001	March 20, 2009	0
2801	2801FMTXP00000001	April 3, 2009	0
2802	2802FMTXP00000001	April 4, 2009	0
2803	2803FMTXP00000001	April 5, 2009	0
2804	2804FMTXP00000001	April 7, 2009	0
2805	2805FMTXP00000001	April 10, 2009	0
2806	2806FMTXP00000001	April 10, 2009	0
2807	2807FMTXP00000001	April 10, 2009	0
2810	2810FMTXP00000001	April 10, 2009	0
2814	2814FMTXP00000001	April 10, 2009	0
2867	2867FMTXP00000001	March 11, 2011	141
2870	2870FMTXP00000001	March 12, 2011	198
2881	2881FMTXP00000001	April 3, 2011	153
2882	2882FMTXP00000001	April 5, 2011	141
2884	2884FMTXP00000001	April 9, 2011	190
2885	2885FMTXP00000001	April 9, 2011	568
2886	2886FMTXP00000001	April 9, 2011	142
2888	2888FMTXP00000001	April 15, 2011	713
2889	2889FMTXP00000001	April 15, 2011	192
2891	2891FMTXP00000001	April 15, 2011	120
2892	2892FMTXP00000001	April 15, 2011	437
2893	2893FMTXP00000001	April 16, 2011	142
2894	2894FMTXP00000001	April 16, 2011	165
2895	2895FMTXP00000001	April 16, 2011	117
2896	2896FMTXP00000001	April 17, 2011	141
2898	2898FMTXP00000001	April 17, 2011	165
2899	2899FMTXP00000001	April 21, 2011	141
2901	2901FMTXP00000001	April 27, 2011	88
2903	2903FMTXP00000001	April 29, 2011	239
2904	2904FMTXP00000001	April 30, 2011	88
2905	2905FMTXP00000001	April 30, 2011	88
2906	2906FMTXP00000001	May 8, 2011	281
2908	2908FMTXP00000001	May 9, 2011	141

Disaster Number	Award Number	Disaster Declaration Date	Questioned Costs
2910	2910FMTXP00000001	May 24, 2011	188
2911	2911FMTXP00000001	May 29, 2011	130
2912	2912FMTXP00000001	May 29, 2011	248
2913	2913FMTXP00000001	May 29, 2011	194
2914	2914FMTXP00000001	June 2, 2011	218
2916	2916FMTXP00000001	June 3, 2011	241
2922	2922FMTXP00000001	June 16, 2011	255
2924	2924FMTXP00000001	June 17, 2011	150
2925	2925FMTXP00000001	June 18, 2011	174
2926	2926FMTXP00000001	June 18, 2011	197
2927	2927FMTXP00000001	June 20, 2011	197
2928	2928FMTXP00000001	June 20, 2011	197
2929	2929FMTXP00000001	June 20, 2011	174
2930	2930FMTXP00000001	June 21, 2011	150
2931	2931FMTXP00000001	June 21, 2011	173
2937	2937FMTXP00000001	July 11, 2011	174
2949	2949FMTXP00000001	August 15, 2011	113
2952	2952FMTXP00000001	August 30, 2011	286
2957	2957FMTXP00000001	September 4, 2011	23
2958	2958FMTXP00000001	September 4, 2011	320
2959	2959FMTXP00000001	September 5, 2011	141
2960	2960FMTXP00000001	September 5, 2011	141
2962	2962FMTXP00000001	September 6, 2011	141
2963	2963FMTXP00000001	September 6, 2011	0
2964	2964FMTXP00000001	September 6, 2011	72
2965	2965FMTXP00000001	September 6, 2011	317
2967	2967FMTXP00000001	September 8, 2011	141
2968	2968FMTXP00000001	September 9, 2011	141
2976	2976FMTXP00000001	April 30, 2012	0
		Total	$9,687

Recommendations:

The Department should:

- Charge expenditures only within the performance period and liquidate obligations within the required time frames.
- Develop and retain a complete list of approved performance periods for its Fire Management Assistance Grant program awards.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

Period of performance will be monitored for expenditures and liquidation of obligations will be done timely on all future FMAGs.

Implementation Date: *February 2014*

Responsible Persons: *Maureen Coulehan and Paula Logan*

Reference No. 2013-116

Procurement and Suspension and Debarment
Subrecipient Monitoring

CFDA 97.046 – Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Questioned Cost: $0

U.S. Department of Homeland Security – Federal Emergency Management Agency

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients' use of federal awards to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In fiscal year 2013, the Department passed through $59,621,025 in Fire Management Assistance Grant program funds to its subrecipients.

Pre-award Monitoring

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the federal award name and number, the name of the federal awarding agency, and whether the award is research and development (OMB Circular A-133, Section .400(d)).

Additionally, federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity and its principals are not suspended or debarred or otherwise excluded from federal contracts. That verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Covered transactions include all nonprocurement transactions irrespective of award amount (Title 2, CFR, Section 3000).

Beginning October 1, 2010, an agency may not make an award to an entity until it has obtained a valid Data Universal Numbering System (DUNS) number for that entity (Title 2, CFR, Sections 25.105 and 25.205).

The Department communicates federal award information to subrecipients on an application for federal assistance and requires that subrecipients sign various assurances to ensure that they are aware of award information and applicable federal compliance requirements. The assurances also serve as the subrecipients' certification that they are not suspended or debarred from participating in federal contracts.

For all 12 of the subrecipients tested, the Department did not include all required elements in its subaward agreements and did not obtain subrecipient DUNS numbers. Specifically:

- For 6 (50 percent) of 12 subrecipients tested, the Department could not provide evidence that the subrecipients received and signed all award documents prior to the subawards. As a result, the Department (1) did not communicate applicable compliance requirements and federal award information to the subrecipients, (2) did not ensure that the subrecipients and their principals were not suspended or debarred from participation in federal awards, and (3) did not obtain valid DUNS numbers for the subrecipients prior to issuing the subawards.
- For the other 6 subrecipients tested, the Department did not identify the CFDA number on the subrecipients' application documents and did not obtain a DUNS number for the subrecipients prior to making the subawards. Additionally, the Department did not ensure that the subrecipients' principals were not suspended or debarred from participation in federal awards.

Inadequate identification of federal awards to subrecipients could lead to inaccurate reporting of federal funding on a subrecipient's schedule of expenditures of federal awards. Not verifying that subrecipients or their principals are not suspended or debarred from participation in federal awards increases the risk that the Department could enter into awards with ineligible parties. Not obtaining DUNS numbers prior to making a subaward could lead to inaccurate federal reporting.

<u>During-the-award Monitoring</u>

Recipients of Fire Management Assistance Grant program funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40). The Department monitors subrecipient activities through review and approval of project worksheets and reimbursement requests and collection of project completion reports.

The Department's procedures for monitoring subrecipients were not adequate to ensure compliance with federal requirements. Specifically:

- For 3 (25 percent) of 12 subrecipients tested, the Department did not effectively monitor to ensure that the subrecipients spent funds on allowable costs and activities. For those subrecipients, the Department could not provide evidence that it reviewed and approved the subrecipients' project worksheets.
- For 3 (25 percent) of 12 subrecipients tested, the Department did not receive the project worksheets until after the subawards' performance periods. That occurred because the Department does not have established procedures for subrecipients to request extensions for project worksheets.
- For 11 (92 percent) of 12 subrecipients tested, the Department did not obtain the subrecipients' signed project completion reports upon completion of all approved work. The Department could not confirm whether the subrecipients had ever submitted those reports.
- For all 7 subrecipients tested that were not required to obtain an OMB Circular A-133 Single Audit, the Department could not provide evidence that it applied alternate monitoring techniques, such as project audits. That occurred because the Department does not have established procedures for monitoring subrecipients that are not required to obtain a Single Audit.

Insufficient during-the-award period monitoring increases the risk that the Department may not detect subrecipients' non-compliance with federal requirements.

The issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
2870	2870FMTXP00000001	March 12, 2011
2885	2885FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2913	2913FMTXP00000001	May 29, 2011
2926	2926FMTXP00000001	June 18, 2011
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2963	2963FMTXP00000001	September 6, 2011
2968	2968FMTXP00000001	September 9, 2011

Recommendations:

The Department should:

- Communicate all relevant federal award information and applicable compliance requirements to subrecipients and maintain subaward documentation for its monitoring records.
- Retain documentation of its verification that subrecipients and subrecipients' principals are not suspended or debarred from participation in federal awards.
- Obtain valid DUNS numbers from its subrecipients prior to issuing subawards.
- Perform effective review of project worksheets to ensure that subrecipient expenditures are for allowable costs incurred within the subaward performance period.
- Develop and implement procedures for subrecipients to request extensions for submitting project worksheets.
- Obtain signed project completion reports from all subrecipients upon completion of approved work.
- Develop and implement procedures to monitor subrecipients that are not required to obtain a Single Audit.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

New rules have been drafted to address these recommendations and will be implemented on all future FMAGs.

Implementation Date: May 2014

Responsible Person: Paula Logan

Reference No. 2013-117
Reporting

CFDA 97.046 – Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 to report financial activity on a quarterly basis. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions of key reporting elements (Title 44, Code of Federal Regulations (CFR), Section 13.41).

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

The Department of Public Safety (Department) did not always ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Specifically, for 28 (47 percent) of 60 financial reports tested, the Department inaccurately reported the total recipient share required and the remaining recipient share to be provided. Those errors occurred because the Department used an incorrect methodology to report those amounts. The Department's methodology for determining the total recipient share required used current expenditures in its calculation instead of the total award amount. That methodology does not produce an accurate amount if all federal obligations for an award have not been liquidated. As a result of those errors, for those 28 reports the Department underreported the total recipient share required and remaining recipient share to be provided by $4,767,762. Department management reviewed and approved those financial reports; however, that review was not sufficient to detect those errors. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that equal or exceed $25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, CFR, Chapter 170).

Recipients of awards that are subject to the Transparency Act must report all required elements, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number. Additionally, the amount of the subaward is the net dollar amount of federal funds awarded to the subawardee, including modifications (U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting, August 27, 2010,* Appendix C).

The Department did not always accurately report key data elements or submit reports within the required time frame. Specifically:

- For 4 (25 percent) of 16 Transparency Act reports tested, the Department underreported the total subaward amount because it did not include amounts for donated resources projects as required. Those errors occurred because the Federal Emergency Management Agency's Electronic Data Warehouse, which the Department uses to prepare its Transparency Act reports, excludes amounts for donated resources projects.

- For 6 (38 percent) of 16 Transparency Act reports tested, the Department did not submit reports within the required time frame. The Department submitted those 6 reports between 16 and 132 days late. During the prior-year audit, auditors communicated to the Department information regarding its noncompliance with Transparency Act requirements. The Department implemented a formal process for Transparency Act reporting in April 2013. For four of those subawards, the Department did not submit the reports in a timely manner because the reports were due prior to the Department's implementation of a formal process for Transparency Act reporting. For the other two subawards, the Department was not aware that the applicable prime awards were available in the Transparency Act reporting system.

Not submitting accurate Transparency Act reports in a timely manner decreases the reliability and availability of information to the awarding agency and the public.

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section .300 (b)).

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, four former contractors and employees of the Department still had active accounts in USAS. The Department's periodic review of user access was not effective in identifying and removing that inappropriate access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

The financial reporting issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2885	2885FMTXP00000001	April 9, 2011
2889	2889FMTXP00000001	April 15, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2912	2912FMTXP00000001	May 29, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2925	2925FMTXP00000001	June 18, 2011
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2958	2958FMTXP00000001	September 4, 2011

Disaster Number	Award Number	Disaster Declaration Date
2960	2960FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011

The Transparency Act issues discussed above affected the following awards:

Disaster Number	Award Number	Disaster Declaration Date
2886	2886FMTXP00000001	April 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2913	2913FMTXP00000001	May 29, 2011
2929	2929FMTXP00000001	June 20, 2011
2958	2958FMTXP00000001	September 4, 2011
2960	2960FMTXP00000001	September 5, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011

Recommendations:

The Department should:

- Correct its methodology for reporting the total recipient share required in its SF-425 reports by using the total award amount in its calculation instead of current expenditures.
- Submit all required Transparency Act reports accurately and in a timely manner.
- Restrict access to its USAS accounts to current staff whose responsibilities require that access.
- Ensure that its periodic review process is effective and identifies all users whose access needs to be removed.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

SF 425 Reporting — DPS Finance has taken responsibility for SF-425 reporting effective January of 2012 and TDEM is working diligently with Finance to reconcile all open disasters. Finance and TDEM will also correct state match reporting.

Transparency Act Reporting — Processes have been updated to implement change.

USAS — Finance will implement controls to ensure we identify and remove all users whose access needs to be removed.

Implementation Date: *May 2014*

Responsible Persons: *Paula Logan and Sharon Page*

Reference No. 2013-118

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

(Prior Audit Issues 13-103, 12-106, 11-107, 10-35, and 09-38)

CFDA 97.067 – Homeland Security Grant Program
Award year – 2010
Award number – 2010-SS-T0-0008
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 77,732

U.S. Department of Homeland Security – Federal Emergency Management Agency

Allowable Costs/Cost Principles - Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

The Department of Public Safety (Department) uses estimates to determine its payroll charges on a monthly basis and then performs reconciliations between the estimated time and actual time employees worked on each federal award so that it can process necessary adjustments**.**

The Department did not always perform quarterly activity report reconciliations accurately or in a timely manner. Specifically:

- For 2 (3 percent) of 65 payroll charges tested, the Department based the charges on budget estimates and did not reconcile the charge amounts to reflect actual time. Therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee, resulting in questioned costs of $5,059. Those errors occurred because the employees were not included in the report the Department uses in its reconciliation between estimated and actual time.
- For 2 (3 percent) of 65 payroll transactions tested, the Department incorrectly calculated the necessary payroll adjustment based on its activity report reconciliation. Those errors occurred because the Department used the incorrect time periods when performing its reconciliation, which resulted in a net questioned cost of $401.
- The Department did not begin its fiscal year 2013 reconciliation process for the Homeland Security Grant Program until April 2013. Not performing reconciliations in a timely manner could delay the identification of required adjustments and result in questioned costs.

Allowable Costs/Cost Principles – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

Twenty (31 percent) of 65 non-payroll expenditures tested that the Department charged to the 2010 Homeland Security Grant Program were not solely allocable to that program. Specifically:

- Two of those expenditures were for temporary staffing charges; however, the supporting documentation from the vendor did not identify the grant programs that benefited from the work performed. The Department did not have a policy requiring the vendor to submit adequate documentation specifying the grant programs that benefited, which is necessary to appropriately allocate costs. Those errors resulted in $630 in questioned costs.
- Eighteen of those expenditures were management and administrative (M&A) costs that benefited the State Administrative Agency (SAA), which manages and administers multiple federal grant programs. Those costs could have benefited other grant programs, but the Department charged them solely to the Homeland Security Grant Program. Those errors resulted in $71,642 in questioned costs. The Department asserted that it implemented a process to allocate M&A charges among the programs SAA administers in August 2013; however, all of the transactions tested were processed before the Department implemented that process. Approximately 16 percent of funds the SAA manages relate to non-Homeland Security Grant Program federal awards.

In addition to the Homeland Security Grant Program, the SAA also manages funds for the following federal programs:

- Border Interoperability Demonstration Project (CFDA 97.120).
- Buffer Zone Protection Program (CFDA 97.078).
- Emergency Operation Center Program (CFDA 97.052).
- Interoperable Emergency Communications Program (CFDA 97.055).
- Nonprofit Security Program (CFDA 97.008).
- Rail and Transit Security Grant Program (CFDA 97.075).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).

Recommendations:

The Department should:

- Perform quarterly comparisons of actual payroll activity to budgeted distributions and ensure that payroll charges reflect an after-the-fact distribution of the actual activity of each employee.
- Require vendors to submit adequate documentation specifying the grant programs that benefit from temporary staffing services.
- Develop and implement a process to allocate M&A costs that benefit multiple federal grant programs.

Management Response and Corrective Action Plan:

The Department concurs with the findings.

The THSSAA and Finance will evaluate existing "true up" processes to determine changes necessary to ensure payroll charges reflect an after-the-fact distribution of the actual activity of each employee. Appropriate adjustments for the expenditures identified during the audit are in the process of being made.

As a result of a similar finding last year, the Department established a work group to develop a standard form for the tracking and charging of temporary staffing time. The charges included in the audit sample predated implementation of this form. The THSSAA now reviews this form when approving temporary staffing charges to the homeland security grants.

The division implemented an allocation system on August 1, 2013 to charge management and administrative costs proportionally to all grants when the costs could not be specifically identified to a specific grant. The Homeland Security Grant Cluster accounts for a minimum of 95% of the M & A activity.

Implementation Date: *April 2014*

Responsible Persons: *Machelle Pharr and Maureen Coulehan*

Reference No. 2013-119

Reporting

(Prior Audit Issue 13-107)

CFDA 97.067 - Homeland Security Grant Program
Award years – 2011 and 2012
Award numbers – EMW-2011-SS-00019 and EMW-2012-SS-00018
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that equal or exceed $25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, Code of Federal Regulations, Chapter 170).

Recipients of awards that are subject to the Transparency Act must report all required elements, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number. The subaward obligation date is defined as the date the subaward agreement is signed. Additionally, the amount of the subaward is the net dollar amount of federal funds awarded to the subawardee, including modifications (U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting*, August 27, 2010, Appendix C).

The Department of Public Safety (Department) did not always accurately report key data elements or submit Transparency Act reports within the required time frame. Specifically:

- For 25 (50 percent) of 50 Transparency Act reports tested, the Department did not accurately report the subaward obligation date. Those errors occurred because the Department did not have a consistent process for determining the obligation date to report.
- For 25 (76 percent) of 33 Transparency Act reports tested that were due in fiscal year 2013, the Department did not report the subaward within the required time frame. Additionally, the Department submitted other Transparency Act reports in fiscal year 2013 that were due in a previous fiscal year. During the prior-year

audit, auditors communicated to the Department information regarding its noncompliance with Transparency Act requirements. The Department implemented a formal process for Transparency Act reporting in April 2013. That process decreased, but did not eliminate, instances of noncompliance with federal requirements.

Not submitting accurate Transparency Act reports in a timely manner decreases the reliability and availability of information to the awarding agency and the public.

<u>General Controls</u>

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section .300 (b)).

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, four former contractors and employees of the Department still had active accounts in USAS. The Department's periodic review of user access was not effective in identifying and removing that inappropriate access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

<u>Recommendations:</u>

The Department should:

- Develop and implement a consistent process for determining the subaward obligation date it reports in its Transparency Act reports.
- Submit all required Transparency Act reports within the required time frames.
- Restrict access to its USAS accounts to current staff whose responsibilities require that access.
- Ensure that its periodic review process is effective and identifies all users whose access needs to be removed.

<u>Management Response and Corrective Action Plan:</u>

The Department concurs with the finding.

The award date included on the report reflected the date of the most recent change to the award rather than the original award date. We have terminated that process effective December 15, 2013. The SOP has also been updated to reflect this change.

As noted, the FFATA reporting process was finalized in April 2013. A report is now run the middle of each month to obtain changes for the previous month and the FFA TA report is submitted prior to the end of the month. The SOP has been updated to reflect the new process.

USAS — Finance will implement controls to ensure we identify and remove all users whose access needs to be removed.

Implementation Date: December 2013

Responsible Persons: Machelle Pharr and Sharon Page

Reference No. 2013-120

Subrecipient Monitoring

(Prior Audit Issues 13-108, 12-109, 11-111, 10-37 and 09-43)

CFDA 97.067 – Homeland Security Grant Program
Award years – 2009, 2010, 2011, and 2012
Award numbers – 2009-SS-T9-0064, 2010-SS-T0-0008, EMW-2011-SS-00019, and EMW-2012-SS-00018
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0 U.S. Department of Homeland Security – Federal Emergency Management Agency

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In fiscal year 2013, the Department passed through $137,224,217 in Homeland Security Grant Program funds to its subrecipients.

<u>During-the-award Monitoring</u>

Recipients of Homeland Security Grant Program funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations (CFR), Section 13.40). Specifically, grantees and subgrantees are required to enter into procurement contracts and covered transactions in accordance with program requirements and must not make any award or permit any award at any tier to any party that is debarred or suspended or otherwise excluded from participation in federal assistance programs (Title 44, CFR, Sections 13.35 and 13.36).

For 57 (88 percent) of 65 subrecipients tested, the Department did not monitor the subrecipients' compliance with requirements related to procurement. The Department did not monitor those subrecipients' compliance with procurement requirements because it did not conduct a desk review or site visit for the subrecipients during fiscal year 2013. The Department monitors subrecipient activities related to procurement through desk reviews and site visits. However, the Department asserted that the limited number of monitoring personnel it has reduces the number of site visits and desk reviews it can conduct. During fiscal year 2013, the Department developed a process to monitor subrecipient procurement practices through procedures other than the site visits or desk reviews it performs; however, that process was not in place until August 26, 2013.

Additionally, for 6 of those subrecipients, the Department did not include the subrecipients in the fiscal year 2013 risk assessment it used to select subrecipients for desk reviews and site visits. Those subrecipients were not included because the Department prepared the risk assessment based on a report of subrecipients that received funds in prior grant years, instead of based on all active subrecipients.

Insufficient monitoring of subrecipients' procurement practices during the award period increases the risk that the Department will not detect subrecipients' non-compliance with federal procurement requirements.

<u>Recommendations:</u>

The Department should:

- Monitor subrecipient compliance with federal procurement regulations for all active subrecipients.
- Include all active subrecipients in its risk assessment for site visits or desk reviews.

<u>*Management Response and Corrective Action Plan:*</u>

The Department agrees with the finding. The THSSAA revised and issued Information Bulletin (IB) 11-005 on August 2, 2013. Beginning with reimbursement/hardship advance requests submitted after August 23, 2013, the *revised IB requires the subrecipient to submit a copy of the search from the Excluded Parties List System (EPLS) as proof that the vendor or contractor was not listed on the EPLS prior to making the purchase or entering into a contract. IB 12-003 was also revised effective August 2, 2013 to include the same requirement.*

The THSSAA has updated SOP #10-1 — Risk Assessment and Documentation of Rationale for Monitoring Site Selection to include a quarterly review for new subrecipients not included in the initial risk assessment. Any new subrecipients will be assessed for risk using the standard risk assessment methodology described in the Monitoring and Compliance Policy and Procedures document and may include additional criteria (e.g., subrecipient's A-133 Single Audit Report) deemed applicable. A determination will then be made if the planned monitoring visits needs revision.

Implementation Date: *January 2014*

Responsible Person: *Machelle Pharr*

Texas A&M Forest Service

Reference No. 2013-130

Activities Allowed or Unallowed

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award year – July 1, 2011
Award number – 1999DRTXP00000001
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 1,600,740

U.S. Department of Homeland Security – Federal Emergency Management Agency

In accordance with Title 44, Code of Federal Regulations (CFR), Part 206, the FEMA-State Agreement describes the incident and the incident period for which assistance will be made available, and the type and extent of the federal assistance to be made available.

The FEMA-State Agreement for the major disaster designated as FEMA-1999-DR was based on damage resulting from wildfires that occurred from April 6, 2011, to May 3, 2011. That agreement states that no federal assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act shall be approved unless the damage or hardship to be alleviated resulted from the major disaster that took place from April 6, 2011, to May 3, 2011. The *Federal Register* Notice Amendment No. 6 of the major disaster declaration designated as FEMA-1999-DR amended the incident period for that disaster to be April 6, 2011, through and including August 29, 2011.

The Texas A&M Forest Service (Forest Service) submits one project worksheet for each major disaster declaration. To determine the eligible costs to include in the project worksheet, the Forest Service worked with the Federal Emergency Management Agency to develop an average rate to apply to the number of acres affected by eligible fire incidents for the disaster.

However, the Forest Service included unallowable costs on the project worksheet for FEMA-1999-DR. When it calculated the cost of the disaster, the Forest Service erroneously included 50,868 acres of land that was affected by fire incidents that occurred outside of the incident period of the disaster. That resulted in $1,600,740 in questioned costs associated with award FEMA-1999-DR.

That error occurred because the Forest Service inadvertently included four fire incidents that occurred before April 6, 2011, when it compiled the data it used in the calculation. The Forest Service also included 23 fire incidents that occurred after August 29, 2011, in the data because it considered August 31, 2011, to be the end date for the FEMA-1999-DR incident period. In addition, the Forest Service has not established a process to review project worksheets prior to submitting them to the federal government to verify that the amount requested on the project worksheets is supported by eligible costs.

A portion of the ineligible costs the Forest Service included on the project worksheet for FEMA-1999-DR may be considered eligible for other Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards.

Recommendations:

The Forest Service should:

- Review the provisions of grant agreements pertaining to the awards for which it submits project worksheets.
- Develop and implement a process to review project worksheets to verify the accuracy of costs it includes on those worksheets.

Management Response and Corrective Action Plan:

We agree with the recommendations and have implemented procedures to require a second review of the worksheets to verify cost eligibility and accuracy.

Implementation Date: *October 2013*

Responsible Person: *Gary Lacox*

Reference No. 2013-131

Cash Management

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay. (Title 31, Code of Federal Regulations (CFR), Section 205.33).

Additionally, the state's financial management systems must include written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient (Title 2, CFR, Section 215.21(b)(5)).

For both of the two cash receipts tested, the Texas A&M Forest Service (Forest Service) did not minimize the time between its drawdowns of federal funds and disbursement of those funds. The Forest Service disbursed funds between 8 and 10 business days after it had received the funds. That occurred because the Forest Service does not have controls to minimize the time between its drawdown of federal funds and the disbursement of those funds. For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the Forest Service earned an estimated $1,327 in interest on advances of federal funds during fiscal year 2013, and it remitted that amount to U.S. Treasury on September 11, 2013.

Additionally, the Forest Service has not established a process to review project worksheets prior to submission to the federal government. Each project worksheet includes a list of actual costs the Forest Service incurred and supporting invoices, and it serves as a request to the Federal Emergency Management Agency for federal funds. A lack of review increases the risk that errors in requests for funds could go undetected.

The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) program awards:

Disaster Number	Award Number	Disaster Declaration Date
1999	1999DRTXP00000001	July 1, 2011
4029	4029DRTXP00000001	September 9, 2011

Recommendations:

The Agency should:

- Develop and implement a process to minimize the time between its receipt of federal funds and the disbursement of those funds.
- Review project worksheets prior to submitting them to the federal government to help ensure the accuracy of costs included on those worksheets.

Management Response and Corrective Action Plan:

We agree with the recommendations and have implemented procedures to (1) ensure prompt disbursement of federal funds and (2) require a second review of the worksheets to verify cost eligibility and accuracy.

Implementation Date: *October 2013*

Responsible Persons: *Travis Zamzow and Gary Lacox*

Reference No. 2013-132

Cash Management

CFDA 97.046 - Fire Management Assistance Grant
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $0

U.S. Department of Homeland Security – Federal Emergency Management Agency

A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay (Title 31, Code of Federal Regulations (CFR), Section 205.33).

Additionally, the state's financial management systems must include written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient (Title 2, CFR, Section 215.21(b)(5)).

For 26 (81 percent) of 32 transactions tested, the Texas A&M Forest Service (Forest Service) did not minimize the time between its drawdowns of federal funds and disbursement of those funds. The Forest Service disbursed funds between 29 and 151 days after it received funds. That occurred because the Forest Service does not have controls to minimize the time between its drawdowns of federal funds and disbursement of those funds. The Forest Service used those funds to pay five federal agencies for fire-related services. The Forest Service's practice is to pay those agencies after it receives sufficient federal funds to pay the invoices in full, which results in a delay between drawdown and disbursement. For the Fire Management Assistance Grant program, the Forest Service earned an estimated $17,802 in interest on advances of federal funds during fiscal year 2013, and it remitted that amount to U.S. Treasury in September 2013.

Additionally, the Forest Service does not have a process to review the invoicing package that it uses to support its requests for federal funds. Program staff prepare that package, but no other Forest Service staff review that package prior to submission to ensure that requests for federal funds are adequately supported. Although auditors did not identify compliance errors associated with the invoicing packages, a lack of review increases the risk that errors in the request for funds could go undetected.

The issues noted above affected the following Fire Management Assistance Grant program awards:

Disaster Number	Award Number	Disaster Declaration Date
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2881	2881FMTXP00000001	April 3, 2011
2882	2882FMTXP00000001	April 5, 2011
2884	2884FMTXP00000001	April 9, 2011
2885	2885FMTXP00000001	April 9, 2011
2886	2886FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2889	2889FMTXP00000001	April 15, 2011
2891	2891FMTXP00000001	April 15, 2011
2892	2892FMTXP00000001	April 15, 2011
2894	2894FMTXP00000001	April 16, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2901	2901FMTXP00000001	April 27, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2905	2905FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2908	2908FMTXP00000001	May 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2911	2911FMTXP00000001	May 29, 2011
2912	2912FMTXP00000001	May 29, 2011
2913	2913FMTXP00000001	May 29, 2011
2914	2914FMTXP00000001	June 2, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2924	2924FMTXP00000001	June 17, 2011
2925	2925FMTXP00000001	June 18, 2011

Disaster Number	Award Number	Disaster Declaration Date
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2928	2928FMTXP00000001	June 20, 2011
2929	2929FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2937	2937FMTXP00000001	July 11, 2011
2949	2949FMTXP00000001	August 15, 2011
2952	2952FMTXP00000001	August 30, 2011
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2960	2960FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011
2967	2967FMTXP00000001	September 8, 2011
2968	2968FMTXP00000001	September 9, 2011

Recommendations:

The Forest Service should:

- Develop and implement a process to minimize the time between its drawdowns of federal funds and the disbursement of those funds.
- Review invoice packages before submitting them to a federal agency to ensure that requests for federal funds are adequately supported.

Management Response and Corrective Action Plan:

We agree with the recommendations and have implemented procedures to (1) ensure prompt disbursement of federal funds and (2) require a second review of the invoice packages to verify cost eligibility and accuracy.

Implementation Date: *October 2013*

Responsible Persons: *Travis Zamzow and Gary Lacox*

University of Texas Medical Branch at Galveston

Reference No. 2013-187

Equipment and Real Property Management

CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award year – September 13, 2008
Award number – 1791DRTXP00000001
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security – Federal Emergency Management Agency

When a recipient of a federal award acquires equipment using federal funds and the recipient no longer needs the equipment, the equipment may be used for other activities. For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original federal awarding agency or its successor. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request (Title 2, Code of Federal Regulations, Section 215.34(g)).

The University of Texas Medical Branch at Galveston (Medical Branch) improperly transferred an asset valued at more than $5,000 that it purchased with Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds to an outside entity. The Medical Branch did not notify the awarding agency of the disposition or compensate the awarding agency for its share of the value of the asset. The Medical Branch originally acquired the asset to replace research equipment damaged during Hurricane Ike. It transferred the asset to another institution when the principal investigator responsible for that asset left the Medical Branch for that other institution, but it did not seek reimbursement for the value of the asset. The fair market value of the asset could not be determined; however, the Medical Branch purchased the asset in June 2011 for $10,757 and transferred the asset in August 2013.

The Medical Branch transferred the asset discussed above to the other institution along with several other assets it purchased with federal Research and Development Cluster awards. The disposition form the Medical Branch used included the required internal approvals for the assets purchased with federal Research and Development Cluster awards, but it did not include approval for assets purchased with other awards, such as Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds.

Recommendation:

The Medical Branch should review the disposition of assets acquired with federal funds for compliance with federal requirements, and it should appropriately notify the awarding agency or reimburse the awarding agency for its share of the value of the asset.

Management Response and Corrective Action Plan:

UTMB Management agrees with the auditor's recommendation as it relates to federal, non-exempt assets. When disposing of federal, non-exempt assets with a fair market value at or more than $5,000 we will request disposition instructions from the federal awarding agency.

Implementation Date: *March 31, 2014*

Responsible Persons: *Craig Ott, Kelly Dean, and Glenita Segura*

Summary Schedule of Prior Year Audit Findings

Federal regulations (OMB Circular A-133) state, "the auditee is responsible for follow-up and corrective action on all audit findings." As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2012 Schedule of Findings and Questioned Costs.
- Each finding in the 2012 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

The Summary Schedule of Prior Audit Findings (year ended August 31, 2013) has been prepared to address these responsibilities.

Department of Public Safety

Reference No. 13-103
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
(Prior Audit Issues 12-106, 11-107, 10-35, and 09-38)

CFDA 97.067 - Homeland Security Grant Program
Award year – See below
Award number – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

Payroll Charges

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, CFR, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety's (Department) State Administrative Agency (SAA) conducts most daily management of the Homeland Security Grant Program (HSGP), and the Department's Grants Finance unit participates in some management functions, such as those related to accounting in the Department's financial system and remitting interest to the federal government.

The Department based 5 (28 percent) of 18 HSGP payroll charges tested on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee. The SAA requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. However, prior to November 2011, the Department did not base its payroll charges on those time sheets; instead, the Department based payroll charges on the budgets established for each employee. As a result, two payroll charges tested that the Department made prior to November 2011 were not supported. In November 2011, the Department began estimating payroll charges based on actual time charged in the previous period. However, the Department's Grants Finance unit did not reconcile the estimated effort with the actual effort for each employee; as a result, three payroll charges were not supported by actual effort. Those errors resulted in questioned costs of $3,960 associated with award 2010-SS-T0-0008. An additional 12 (67 percent) of 18 payroll charges tested were affected by the control weaknesses described above; however, for those payroll charges, this did not result in questioned costs because the estimated and actual charges were the same.

Non-payroll Charges

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

Nine (16 percent) of 55 non-payroll expenditures tested that the Department charged to the HSGP were not solely allocable to the HSGP. Specifically:

- The Department erroneously charged one expenditure to its 2010 HSGP award when it should have charged that expenditure to another non-federal budget code. That error occurred because the Department miscoded the expenditure, and the Grants Finance unit's review and SAA's review did not identify the error. This resulted in $90 in questioned costs associated with award 2010-SS-T0-0008.

- Three expenditures were for temporary staffing charges to the 2010 HSGP award; however, the supporting documentation from the vendor did not identify the grant programs that benefited from the work performed. The Department does not have a policy requiring the vendor to submit adequate documentation specifying the grant programs that benefited, which is necessary to appropriately allocate costs. This resulted in $823 in questioned costs associated with award 2010-SS-T0-008.

- Three expenditures charged to the 2009 and 2010 HSGP awards were for management and administrative (M&A) costs that could have benefited multiple programs the SAA administers, including the HSGP. The Department does not have a process to allocate M&A costs that benefit multiple federal grant programs.

- The Department erroneously charged two expenditures related to general purpose equipment to the HSGP. The Department should have charged 50 percent of each expenditure to the HSGP, but it incorrectly charged 100 percent of each expenditure to the HSGP. The Grants Finance unit's review and the SAA's review did not identify those errors. This resulted in $412 in questioned costs associated with award 2009-SS-T9-0064.

In addition to the HSGP, the SAA also manages grant funds for the following federal grant programs:

- Border Interoperability Demonstration Project (CFDA 97.120).

- Buffer Zone Protection Program (CFDA 97.078).

- Emergency Operation Center Program (CFDA 97.052).
- Interoperable Emergency Communications Program (CFDA 97.055).
- Nonprofit Security Program (CFDA 97.008).
- Operation Stonegarden (CFDA 97.067).
- Public Safety Interoperable Communications Grant Program (CFDA 11.555).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Rail and Transit Security Grant Program (CFDA 97.075).

These issues discussed above affected the following HSGP awards from the U.S. Department of Homeland Security:

Award Number	Award Period	Questioned Cost
2008-GE-T8-0034	September 1, 2008 to February 29, 2012	$0
2009-SS-T9-0064	August 1, 2009 to July 31, 2012	412
2010-SS-T0-0008	August 1, 2010 to July 31, 2013	4,873
	Total Questioned Costs	$5,285

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees. Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Corrective Action:

This finding was reissued as current year reference number: 2013-118.

Reference No. 13-104

Cash Management

(Prior Audit Issues 12-107 and 11-108)

CFDA 97.067 - Homeland Security Grant Program
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Homeland Security

Beginning in fiscal year 2005, Homeland Security Grant Program awards to states were exempted from the provisions of the Cash Management Improvement Act. States are permitted to draw down funds up to 120 days prior to expenditure/disbursement, provided they maintain procedures to minimize the time elapsing between the receipt and disbursement of funds (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 4, Section 97.067). Additionally, states must place those funds in an interest-bearing account, and the interest earned must be remitted to the U.S. Treasury at least quarterly. Interest amounts up to $100 per year may be retained by a state for administrative expenses (Title 44, Code of Federal Regulations (CFR), Section 13.21).

Interest on Advances

The Department of Public Safety (Department) has an agreement with the Texas Office of the Comptroller of Public Accounts (Comptroller's Office) to isolate the interest earned solely on Homeland Security Grant Program funds. Under that agreement, the Comptroller's Office sends the Department reports that detail the amount of interest earned each month on Homeland Security Grant Program funds. The Department then tracks that interest on a spreadsheet. The Department's Grants Finance unit coordinates with the Comptroller's Office and oversees the process to remit interest to the U.S. Treasury.

The Department did not remit all interest earned on Homeland Security Grant Program funds to the U.S. Treasury during fiscal year 2012. While the Department remitted some interest, it did not remit $11,393 in interest that it should have remitted because of weaknesses in its processes for tracking and remitting interest. Specifically:

- The spreadsheet the Department used to track interest did not include all components in the Homeland Security Grant Program. As a result, the Department excluded interest earned on its Urban Areas Security Initiative program, and it did not track interest it earned on its 2011 State Homeland Security Program prior to August 2012.

- The Department did not obtain from the Comptroller's Office a monthly report of the interest earned in October 2011. As a result, it did not consider the interest earned that month when it determined the amount that it should remit.

- The Department's procedures for tracking interest allow it to retain up to $100 in interest per component program for each grant year. However, those procedures conflict with Title 44, CFR, Section 13.21, which allows the Department to retain up to $100 in interest at the Department level as a whole. As a result of its interpretation of those requirements, if individual components earned less than $100 in interest during the fiscal year, the Department did not include that interest when it determined the amount it should remit.

- The Department began the year using one spreadsheet to track interest, but during the year it began using a different spreadsheet to track interest. However, when it transitioned to the second spreadsheet, it did not carry forward to that spreadsheet the interest it had already retained. As a result, the Department's calculations using the second spreadsheet overstated the amount of interest it was allowed to retain.

- As of December 2012, the Department had not yet remitted interest it earned from June 2012 through August 2012 to the U.S. Treasury because it has not established a process to ensure that it remitted interest at least quarterly as required.

Additionally, the Department did not begin remitting the interest it earned on federal funds until March 2012, when it began remitting interest for September 2011 and November 2011 through February 2012. Therefore, it did not remit interest on a quarterly basis as required by Title 44, CFR, Section 13.21.

The Department does not have a review process to help ensure that its spreadsheet is complete and accurate or that it performs calculations and remits interest in a timely manner.

This issue affected the following Homeland Security Grant Program awards from the U.S. Department of Homeland Security:

Award Number	Award Period	Questioned Cost
2008-GE-T8-0034	September 1, 2008 to February 29, 2012	$ 269
2009-SS-T9-0064	August 1, 2009 to July 31, 2012	6,932
2010-SS-T0-0008	August 1, 2010 to July 31, 2013	4,047
EMW-2011-SS-00019-S01	September 1, 2011 to August 31, 2014	245
Allowance for Interest That the Department Can Retain		(100)
	Total Questioned Costs	$11,393

Cash Draws

Cash advances should be limited to the minimum amounts needed and timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, CFR, Section 215.22).

The Department's procedures require that both its Grants Finance unit and its State Administrative Agency (SAA) review and approve each cash draw request. However, **for 5 (8 percent) of 61 cash draws tested, either (1) there was no documented evidence that SAA conducted its review or (2) SAA's and the Grants Finance unit's review was not sufficient to identify errors.** The Department asserted that it had established procedures to hold cash draws until SAA approved them but that it had inadvertently overlooked the missing SAA approvals for four of those five cash draws. For the remaining cash draw, review by the SAA and the Grants Finance unit was not sufficient to detect that the amount of that cash draw was not supported by the Department's actual costs for the Homeland Security Grant Program. That cash draw was associated with the Emergency Operations Center Grant Program. That error resulted in $7 in questioned costs associated with award 2010-SS-T0-0008.

Not performing sufficient review of cash draw requests increases the risk of improper cash draws.

Corrective Action:

Corrective action was taken.

Reference No. 13-105

Matching, Level of Effort, Earmarking

CFDA 97.067 - Homeland Security Grant Program
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Implemented

U.S. Department of Homeland Security

According to U.S. Department of Homeland Security grant guidance, the Department of Public Safety (Department) is required to limit management and administrative (M&A) expenditures to a percentage of the award amount. The percentage limits were 3 percent for award years 2008 and 2009 (Title 6, United States Code, Section 609(a)(11)) and 5 percent for award years 2010 and 2011 (FY 2010 Department of Homeland Security Appropriations Act, Pub. L. No. 111-83, Title III (13)(C) and FY 2011 Department of Defense and Full-Year Continuing Appropriations Act, Pub. L. No. 112-10).

In fiscal year 2012, the Department charged more to M&A than the maximum allowable amount for its 2008 Homeland Security award. The Department has M&A budget codes in its accounting system that it could use to track M&A expenditures. However, the Department monitors M&A charges using federal cash draw request information, instead of using actual M&A expenditure data from its accounting system. It does not reconcile the amounts from its monitoring of M&A with the actual M&A expenditures recorded in its accounting system to ensure that its M&A charges do not exceed earmarking limits. Therefore, the Department's monitoring of its M&A expenditures does not capture expenditures resulting from transfers or adjustments in its accounting system, which can increase the amount charged to M&A budget codes. As a result of this control weakness, the Department exceeded its M&A limit for award 2008-GE-T8-0034 by a total of $693.

Although auditors identified questioned costs for only one award, the issue discussed above also represented a control weakness for all of the following Homeland Security awards:

Award Number	Beginning Date	End Date
2008-GE-T8-0034	September 1, 2008	February 29, 2012
2009-SS-T9-0064	August 1, 2009	July 31, 2012
2010-SS-T0-0008	August 1, 2010	July 31, 2013

Corrective Action:

Corrective action was taken.

Reference No. 13-106

Procurement and Suspension and Debarment

(Prior Audit Issues 12-108 and 11-109)

CFDA 97.067 - Homeland Security Grant Program
Award year –2010
Award number – 2010-SS-TO-0008
Type of finding – Significant Deficiency and Non-Compliance

In accordance with Title 44, Code of Federal Regulations (CFR), Section 13.36, grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in that CFR section. All procurement transactions must be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals.

Initial Year Written: 2010
Status: Implemented

U.S. Department of Homeland Security

Competitive Bidding Procurements

For 1 (33 percent) of 3 procurements tested for the Homeland Security Grant Program that required competitive bidding, the Department of Public Safety's (Department) State Administrative Agency inappropriately used an existing Texas Department of Information Resources contract to obtain non-information technology (IT) services and circumvent the Department's established process to procure non-IT consultant services. That contract ended August 31, 2010, however, the Department paid $901 in fiscal year 2012 for services the consultant performed in 2010.

Overriding established management controls increases the risk that unauthorized purchases could be made with federal funds, or that procurements might not provide the best value for the State and might not comply with state and federal requirements.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

One (8 percent) of 13 purchase files tested did not contain evidence that the Department ensured the vendor was not suspended or debarred by checking EPLS. The Department made that purchase through a statewide TxSmartBuy contract; however, Department procedures required it to include printouts from EPLS indicating that the Department verified that the vendor was not an excluded party. The Department could not provide evidence that it had performed that verification for one vendor. Auditors determined that the vendor was not suspended or debarred by checking EPLS.

When the Department does not verify that vendors are not suspended or debarred, this increases the risk that it could enter into an agreement with an entity that is not eligible to receive federal funds.

Corrective Action:

Corrective action was taken.

Reference No. 13-107

Reporting

CFDA 97.067 - Homeland Security Grant Program
Award year – 2011
Award number – EMW-2011-SS-00019-S01
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012 Status: Partially Implemented U.S. Department of Homeland Security

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed $25,000 no later than the end of the month following the month in which the obligation was made. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations, Chapter 170).

Additionally, recipients are required to report the net dollar amount of federal funds awarded to subgrantees, including modifications, as the amount of the award. Recipients must report all required elements including the subaward date, subawardee Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, and subaward number (Office of Management and Budget's *Open Government Directive-Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010), Appendix C).

The Department of Public Safety (Department) did not always report subaward data completely and accurately. Specifically:

- The Department did not report 2 (7 percent) of 27 subawards tested to the FFATA Subaward Reporting System (FSRS). Those two subawards were associated with the same subrecipient. Although the Department identified those subawards as being subject to FFATA reporting requirements, it inadvertently did not report those subawards to FSRS because of a manual error.
- The Department did not accurately report the amount of the subaward for 3 (12 percent) of 25 subawards tested that it submitted because it made data entry errors in FSRS.
- The Department did not accurately report the obligation date (the date the subaward agreement was signed) for all 25 subawards tested that it submitted. Instead, it erroneously reported the date that it sent the agreements to the subrecipients.

The Department did not identify the errors discussed above because it has not established adequate policies and procedures or a process to review its FFATA reports prior to submission to help ensure that it reports all subawards accurately and completely.

In addition, for all 25 subawards tested that the Department reported to FSRS, the Department did not report subaward data in timely manner. Each subaward tested was obligated between December 2011 and February 2012. The Department's communications with the U.S. Department of Homeland Security indicate that FSRS was available for the Department to report those subawards by March 2012. However, the Department did not begin reporting subaward data to FSRS for the Homeland Security Grant Program until July 2012, more than 90 days after FSRS was available for reporting subawards. The Department indicated that the delay was the result of implementation challenges associated with its reporting process.

Not reporting subaward data to FSRS in a complete, accurate, and timely manner decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Corrective Action:

This finding was reissued as current year reference number: 2013-119.

Reference No. 13-108

Subrecipient Monitoring

(Prior Audit Issues 12-109, 11-111, 10-37, and 09-43)

CFDA 97.067 - Homeland Security Grant Program
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

In fiscal year 2012, the Department passed through $136,222,052 in Homeland Security Grant Program funds to its subrecipients.

<u>During-the-award Monitoring</u>

Recipients of Homeland Security Grant Program funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations (CFR), Section 13.40). Specifically, grantees and subgrantees are required to:

- Maintain proper records for equipment and adequately safeguard and maintain equipment (Title 44, CFR, Section 13.32).
- Enter into procurement contracts and covered transactions in accordance with program requirements (Title 44, CFR, Section 13.36).
- Only withhold the percentage of their sub-award for management and administrative purposes as permitted by federal requirements (Grant Programs Directorate Information Bulletin No. 339).

For 53 (78 percent) of 68 subrecipients tested, the Department did not monitor the subrecipients' compliance with requirements related to equipment and procurement. Specifically:

- For 49 subrecipients, the Department did not monitor the subrecipients' compliance with equipment or procurement requirements because it did not conduct a desk review or site visit for the subrecipients during fiscal year 2012. The Department monitors subrecipient activities related to equipment and procurement through desk reviews and site visits, in which it reviews each subrecipient's procurement and equipment maintenance practices to ensure compliance with federal requirements and the terms and conditions of the grant. According to the Department, the limited number of monitoring personnel it has reduces the number of site visits and desk reviews that can be conducted. Additionally, the Department has not established a process to monitor subrecipient procurement practices or equipment maintenance through procedures other than the site visits or desk reviews it performs.
- For 4 subrecipients, the Department did not include the subrecipients in the fiscal year 2012 risk assessment it used to select subrecipients for desk reviews and onsite monitoring. As a result, the Department could not ensure that it monitored those subrecipients' compliance with procurement and equipment maintenance during fiscal year 2012. These subrecipients were not included because the Department prepared the risk assessment based on a report of subrecipients that received funds in prior grant years, instead of based on all active subrecipients.

In addition, for 2 (3 percent) of 68 subrecipient reimbursement requests tested, the Department could not provide evidence that it reviewed the requests before it paid them as required by its policies. The Department asserted that those errors most likely occurred when the manager who performs the review was absent. The

Department has designated individuals to serve as backups; however, it processed the reimbursement requests without proper review.

For its 2010 State Homeland Security grant, the Department did not ensure that the councils of government (COGs) to which it made subawards withheld no more than 5 percent of the sub-award for management and administrative purposes. The automated control in the Department's grants management system did not limit COGs to 5 percent of their 2010 sub-award. The Department asserted that it relied on the COGs to ensure that they did not exceed the limit.

Insufficient monitoring and lack of management review of reimbursements during the award period increases the risk that the Department will not detect subrecipients' non-compliance with federal requirements and the risk of improper payments to subrecipients.

<u>Subrecipient Audits</u>

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of $500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Section, 225).

The Department's Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 8 (12 percent) of 67 subrecipients tested, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned the subrecipients that did not comply. Specifically:

- The Department did not include two subrecipients on its tracking spreadsheet. As a result, the Department did not verify whether those subrecipients complied with the requirement to obtain a Single Audit or review those subrecipients' Single Audit reports. Based on a review of the Federal Audit Clearinghouse, those subrecipients did not submit Single Audit reports for fiscal year 2011.
- The Department did not review the Single Audit reports that three subrecipients submitted. The Department incorrectly determined that it did not need to review two of those reports because it did not pass through funds to the subrecipients during fiscal year 2011; however, each of these subrecipients received funds during fiscal year 2012. The Department had not yet reviewed the third Single Audit report at the time of the audit, which was more than six months after it had received that report.
- The Department did not obtain Single Audit reports from three subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.

Three of the subrecipients discussed above had findings related to federal compliance in their Single Audit reports.

The Department's review of subrecipients' Single Audit reports also was not always sufficient and timely. **For all 9 subrecipient Single Audit reports the Department reviewed that contained audit findings, the Department did not issue a management decision regarding those findings within the required time period.** For each of those subrecipients, the Department reviewed the Single Audit reports, but it did not issue a management decision on findings identified in those reports within six months of receiving those reports.

Finally, for 11 (16 percent) of 67 subrecipients tested, the Department's Single Audit tracking spreadsheet was incomplete or contained inaccurate information. This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient non-compliance. Not ensuring that subrecipients obtain Single Audits and not following up on findings in Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues discussed above affect the following Homeland Security awards:

Award Number	Beginning Date	End Date
2008-GE-T8-0034	September 1, 2008	February 29, 2012
2009-SS-T9-0064	August 1, 2009	July 31, 2012
2010-SS-T0-0008	August 1, 2010	July 31, 2013
EMW-2011-SS-00019-S01	September 1, 2011	August 31, 2014

Corrective Action:

This finding was reissued as current year reference number: 2013-120.

Reference No. 13-109

Special Tests and Provisions – Subgrant Awards

CFDA 97.067 - Homeland Security Grant Program
Award year – 2011
Award number – EMW-2011-SS-00019-S01
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: No Longer Valid

U.S. Department of Homeland Security

Under the fiscal year 2011 award for the Homeland Security Grant Program (which includes the State Homeland Security Program (SHSP), Urban Areas Security Initiative (UASI), and Operation Stonegarden (OPSG) component programs), states must obligate funds for subgrants within 45 days after the date of the grant award. States must obligate at least 80 percent of funds under SHSP and UASI and 100 percent of funds under OPSG (U.S. Department of Homeland Security Fiscal Year 2011 Homeland Security Grant Program Guidance and Application Kit).

The Department of Public Safety (Department) did not obligate all funds associated with the OPSG component of the Homeland Security Grant Program within 45 days after the grant award. The Department received $14,103,286 in OPSG funds, but it did not obligate $1,967,453 of that amount associated with 6 subgrants within 45 days after the date of the grant award. Specifically,

- The Department obligated 1 subaward 5 days late. The Department’s discussions with the subgrantee regarding the preferred terms of the subgrant caused that delay.
- The Department obligated 5 subawards between 15 and 62 days late. Those delays occurred because the Department did not complete certain required eligibility determinations, including verification of the subgrantees’ suspension and debarment status and Data Universal Numbering System (DUNS) numbers, in a timely manner.

Corrective Action:

The requirement to obligate OPSG funds within 45 days after the grant award is no longer applicable starting with award year 2012 grants; therefore, this finding is no longer valid.

Reference No. 13-110

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Eligibility
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
Reporting
Subrecipient Monitoring

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – Multiple
Award numbers – Multiple

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Eligibility
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
Reporting
Subrecipient Monitoring
Special Tests and Provisions- Project Accounting

CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – Multiple
Award numbers – Multiple
Type of finding – Material Weakness

Initial Year Written: 2012
Status: Implemented

U.S. Department of Homeland Security

Office of Management and Budget (OMB) Circular A-133 requires agencies to maintain internal control over federal programs that provides reasonable assurance that agencies are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)). In addition, OMB Circular A-133 requires auditors to consider the control environment over federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the federal programs (OMB Circular A-133, Subpart E, Section 525(b)).

The OMB Circular A-133 Compliance Supplement cites the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control-Integrated Framework* as a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of federal laws, regulations, and program compliance requirements (OMB Circular A-133 Compliance Supplement, Part 6, page 6-2). The COSO framework identifies five components, including control environment, risk assessment, control activities, information and communication, and monitoring. The control environment establishes the tone of an organization, influencing the control consciousness of its people and provides discipline, process, and structure for the organization. The control environment encompasses five principles:

- The organization holds individuals accountable for their internal control responsibility in the pursuit of objectives.
- The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

- The organization demonstrates a commitment to integrity and ethical values.
- The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control.

COSO principles suggest that the control environment is the foundation for all other components of internal controls because it provides discipline, process, and structure. The COSO framework incorporates an organization's objectives: operations, reporting, and compliance. The compliance objective relates to the organization's adherence to laws and regulations.

The Department of Public Safety's (Department) control environment contributed to the control and compliance issues auditors identified in findings 13-111 through 13-121 for the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Both the Hazard Mitigation Grant Program and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program are administered by the Department's Grants Finance unit and the Department's Division of Emergency Management. Specifically, the Division of Emergency Management is responsible for the state emergency management program, and it oversees state and local emergency response, recovery, and mitigation efforts in response to federally declared disasters. As part of that responsibility, the Department manages daily interactions with and monitoring of its subrecipients. The Grants Finance unit is responsible for accounting related to those disasters. It also performs other financial activities related to program management.

The Department has not established an adequate control environment to facilitate compliance with federal requirements, and in some cases that has resulted in repeated non-compliance with federal requirements over multiple years. Categorized by COSO principle, examples of the weaknesses in the Department's control environment include the following:

- **Holding individuals accountable for internal control responsibilities.** As detailed in findings 13-111, 13-114, 13-117, and 13-119, Department staff have not successfully implemented the control improvements necessary to ensure that payroll, indirect costs, and other types of expenditures charged to federal awards consistently comply with federal requirements. The Department has not established adequate monitoring processes for the activities designed to facilitate compliance with those requirements, which hinders the ability to achieve accountability at the individual level. Additional errors in the Department's review of its drawdowns of federal funds detailed in findings 13-112 and 13-118, also demonstrate that staff have not successfully implemented effective internal controls to ensure consistent compliance with federal requirements.
- **Commitment to attracting, developing, and retaining competent individuals**. As detailed in findings 13-116 and 13-121, the Department has submitted unreliable financial reports to the federal government. Because auditors have identified similar findings in this same area since fiscal year 2006, this demonstrates that the Department has not maintained competency levels that would enable it to consistently achieve compliance with federal requirements.
- **Establishing structures, reporting lines, and appropriate authorities and responsibilities.** As detailed in findings 13-115 and 13-120, the Department's subrecipient monitoring, oversight, and reporting processes were not adequate to facilitate compliance with federal requirements. The Department also reported inaccurate information regarding potential subrecipients of federal funds to the Federal Emergency Management Agency (see finding 13-113). Finally, the Department has not established an effective structure to account for its grant funds with sufficient detail to facilitate informed grant administration decision making, as detailed in findings 13-111, 13-112, 13-114, 13-117, 13-118, and 13-119.

Corrective Action:

Corrective action was taken.

Reference No. 13-111

Activities Allowed or Unallowed
Allowable Costs/Cost Principles

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Non-Compliance

Initial Year Written: 2012 Status: Partially Implemented U.S. Department of Homeland Security	

Allowable Costs/Cost Principles – Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

The Department of Public Safety (Department) based 16 (76 percent) of 21 Hazard Mitigation payroll charges tested on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee. The Department requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. The Department then estimates its payroll charges based on actual time charged in a previous period. However, the Department has not established controls to ensure that it reconciles the estimated effort with the actual effort for each employee. This resulted in questioned costs of $3,162 associated with awards FEMA-1606-DR and FEMA-1999-DR.

Additionally, for 5 (24 percent) of 21 payroll charges tested, the Department did not perform its reconciliation of estimated effort with actual effort; however, for those payroll charges, this did not result in non-compliance because the estimated and actual charges were the same.

Recommendation:

The Department should compare actual effort charged to federal awards with budgeted amounts and ensure that any adjustments are reflected in the amounts it charges to federal programs.

Management Response and Corrective Action Plan 2012:

The Department agrees with the recommendations and will implement processes and procedures to compare actual effort charged to federal awards with budgeted amounts and ensure that any adjustments are reflected in the amounts it charges to federal programs.

Management Response and Corrective Action Plan 2013:

Payroll "true ups" were completed for all Fiscal Year 2012 salaries by May 2013 to be sure grants are properly charged based on time sheets submitted through the ETA time keeping system.

Implementation Date: *March 15, 2013*

Responsible Person: *Maureen Coulehan*

Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

Capital expenditures for general purpose equipment are unallowable as direct charges unless those charges are approved in advance by the awarding agency. In addition, special purpose equipment with a unit cost of $5,000 or more must have prior approval of the awarding agency in order to be allowable as a direct cost (Title 2, CFR, Chapter 225, Appendix B).

For 2 (4 percent) of 51 direct cost expenditures tested, the Department could not provide evidence that it obtained approval from Federal Emergency Management Agency (FEMA) prior to purchasing equipment. The Department asserted that it has an informal process to obtain approval from FEMA for the purchase of equipment exceeding $5,000; however, that process is not documented. This resulted in a questioned cost of $51,040 associated with award FEMA-1780-DR and $6,657 in questioned costs associated with award FEMA-1791-DR.

Additionally, the Department's policy requires its Grant Finance unit to review direct expenditures by approving a payment voucher. **For 2 (4 percent) of 51 direct cost expenditures tested, however, the Department could not provide evidence that its Grant Finance unit reviewed and approved vouchers prior to payment as required by its policy.** For one of those expenditures, the Grants Finance unit did not approve the voucher. For the other expenditure, the Department was unable to provide the voucher; therefore, auditors could not determine whether the Grants Finance unit had approved that voucher. Not reviewing and approving vouchers prior to payment increases the risk that the Department will charge unallowable costs to federal grants.

The Department also is required to allocate costs among federal awards in accordance with the benefits that the costs provided. However, **the Department has no control to allocate direct costs to each disaster's federal award based on the benefits received. For example, the Department charged 1 (1 percent) of 72 transactions tested to a general budget code for the Hazard Mitigation Grant program that could have been associated with multiple awards.** The Department asserted that it had not yet drawn federal funds to reimburse those costs and that it would allocate those costs at the time that it drew those funds; however, as of January 14, 2013, it had not allocated those costs to a specific federal award. This increases the risk that the Department will improperly allocate costs to federal grants.

Recommendation:

The Department should maintain sufficient documentation to support that it obtained required approvals from FEMA for equipment purchases that it charged to the Hazard Mitigation Grant Program.

Management Response and Corrective Action Plan 2012:

The Department agrees with the recommendations and will implement processes and procedures to ensure sufficient documentation is maintained to support approvals were obtained from FEMA for equipment purchases.

Management Response and Corrective Action Plan 2013:

Policies have been updated to ensure FEMA approvals will be obtained for equipment purchases over $5000. The update to the Hazard Mitigation Admin Plan has been drafted. Approval expected by April 2014.

Implementation Date: *April 2014*

Responsible Person: *Paula Logan*

Indirect Costs

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Chapter 225, Appendix E, (D)(1)).

An Indirect Cost Rate Proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect cost by calculating a ratio of indirect costs to a direct cost base. Those rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E, (B)).

The Department began charging indirect costs to the Hazard Mitigation Grant Program during fiscal year 2012. During 2009, the Department utilized a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Department asserted that the submission delay occurred because it had originally submitted the IDCRP to the incorrect federal cognizant agency. FEMA approved the IDCRP on May 7, 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods from fiscal year 2009 forward. The Department's next IDCRP is due in February 2013.

However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate. As a result, **auditors could not determine whether the indirect cost rate approved in May 2012 was accurate.**

Prior to the approval of its IDCRP, the Department used a previous indirect cost rate agreement to charge indirect costs to federal awards; however, that agreement expired on August 31, 2007. As a result, the Department had been charging indirect costs without a valid rate agreement. Additionally, the Department did not record indirect cost transactions in its financial system at the time it made each charge. As a result, auditors could not identify all indirect cost charges the Department made during the year. Instead, the Department processed an adjusting entry to its schedule of expenditures of federal awards to recognize $291,187 in indirect cost charges for the Hazard Mitigation Grant program during fiscal year 2012.

As a result of the Department's process for recording indirect cost transactions, auditors also were unable to determine the amount of unallowable charges the Department made under the expired indirect cost rate agreement. However, for 2 (5 percent) of 43 cash draws tested, the Department charged a total of $974 in indirect costs associated with award FEMA-1624-DR and $3,128 in indirect cost charges associated with award FEMA-1606-DR under the expired indirect cost rate agreement. Those amounts are considered questioned costs.

The issues noted above affected the following Hazard Mitigation Grant Program awards:

Award Number	Start Date	Questioned Cost
FEMA-1356-DR	January 8, 2001	$ 0
FEMA-1379-DR	June 9, 2001	0
FEMA-1425-DR	July 4, 2002	0
FEMA-1439-DR	November 5, 2002	0
FEMA-1479-DR	July 17, 2003	0
FEMA-1606-DR	September 24, 2005	4,598
FEMA-1624-DR	January 11, 2006	974
FEMA-1658-DR	August 15, 2006	0
FEMA-1697-DR	May 1, 2007	0
FEMA-1709-DR	June 29, 2007	0
FEMA-1730-DR	October 2, 2007	0
FEMA-1780-DR	July 24, 2008	51,040
FEMA-1791-DR	September 13, 2008	6,657
FEMA-1931-DR	August 3, 2010	0
FEMA-1999-DR	July 1, 2011	1,692
FEMA-4029-DR	September 9, 2011	0
	Total Questioned Costs	$64,961

Recommendations:

The Department should:

- Calculate indirect cost charges using a federally approved indirect cost rate that is in effect at the time the Department charges those costs.
- Retain support for its Indirect Cost Rate Proposal, including support for its indirect cost pool.

Management Response and Corrective Action Plan 2012:

The Department agrees with the recommendations and will implement processes and procedures to:

- *Calculate indirect cost charges using a federally approved indirect cost rate that is in effect at the time the Department charges those costs.*
- *Retain support for its Indirect Cost Rate Proposal, including support for its indirect cost pool.*

Management Response and Corrective Action Plan 2013:

Updated indirect cost proposal has been submitted and is currently under review by FEMA for final negotiation.

Records for the above mentioned updated Indirect Cost plan have been maintained.

Implementation Date: *March 15, 2013*

Responsible Person: *Maureen Coulehan*

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees. Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Corrective Action:

Corrective action was taken.

Reference No. 13-112

Cash Management

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Funding Technique

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay (Title 31, Code of Federal Regulations (CFR), Section 205.33).

Additionally, the state's financial management systems must include written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the Department (Title 2, CFR, Section 215.21(5).

The Department of Public Safety (Department) has not established controls to ensure that it minimizes the time elapsing between the drawdown of federal funds and the disbursement of those funds. Results of audit testing indicated that the Department disbursed funds between 1 and 56 business days after it had drawn those funds. The Department did not disburse funds within 5 business days for 17 (40 percent) of 43 drawdowns tested**.**

The Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure the timely disbursement of funds. Additionally, the Department's process for drawing funds for payroll costs is not adequately designed to minimize the time between the drawdown of funds and the disbursement of payroll.

The Department drew funds for payroll at the same time that it ran its monthly trial balance; on average, that occurred 9.4 days before the Department needed to disburse payroll.

The issues noted above affect the following Hazard Mitigation Grant Program awards:

Disaster	Grant Number	Start Date	Questioned Costs
1379	FEMA-1379-DR	June 9, 2001	$0
1425	FEMA-1425-DR	July 4, 2002	$0
1439	FEMA-1439-DR	November 5, 2002	$0
1479	FEMA-1479-DR	July 17, 2003	$0
1606	FEMA-1606-DR	September 24, 2005	$0
1624	FEMA-1624-DR	January 11, 2006	$0
1658	FEMA-1658-DR	August 15, 2006	$0
1697	FEMA-1697-DR	May 1, 2007	$0
1709	FEMA-1709-DR	June 29, 2007	$0
1730	FEMA-1730-DR	October 2, 2007	$0
1780	FEMA-1780-DR	July 24, 2008	$0
1791	FEMA-1791-DR	September 13, 2008	$521
1931	FEMA-1931-DR	August 3, 2010	$0
1999	FEMA-1999-DR	July 1, 2011	$0
4029	FEMA-4029-DR	September 9, 2011	$0

Recommendation:

The Department should develop and implement a process to minimize the time elapsing between the drawdown of federal funds and the disbursement of those funds.

Management Response and Corrective Action Plan 2012:

The Department agrees recommendations and will implement procedures to minimize the time elapsing between the drawdown of federal funds and the disbursement of those funds.

Management Response and Corrective Action Plan 2013:

Grants Accounting has implemented a procedure in coordination with Accounts Payable to process expenditure transactions within three days of cash draw. Effective Date was February 2013.

Implementation Date: *February 2013*

Responsible Person: *Maureen Coulehan*

Draw Support

Cash advances to a state shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, CFR, Section 215.22(b)(2)).

For 5 (12 percent) of 43 draws tested, the Department could not provide sufficient support for the amount of the draw. Specifically:

- For four of those draws, the Department drew funds for the Hazard Mitigation Grant Program when the supporting documentation indicated that it should have drawn funds from the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program. These four draws totaled $15,997,347. The Department identified errors associated with three of those draws in September 2012 and returned the funds. For the remaining draw, the Department did not identify that it incorrectly drew $10,899,635 associated with award FEMA-1791-DR until after auditors brought that error to its attention in October 2012. After auditors communicated that error, the Department provided evidence that it corrected the error in the federal system that it uses to draw funds.
- For one draw that the Department made to support a payment to a subrecipient, the Department did not draw the correct amount based on the supporting documentation. Based on the invoice the subrecipient submitted, the Department should have drawn $22,869; however, it erroneously drew $23,390, which resulted in questioned costs of $521 associated with award FEMA-1791-DR.

Those errors occurred because the Department's Grants Finance unit has not established an adequate review process for drawdowns. For each of the errors noted above, although Department management reviewed the draw requests prior to the draw, the Department's review did not identify that the draws were unsupported. For two additional draws, the Department could not provide evidence that the draws had been reviewed by all required individuals. Although auditors did not identify compliance errors associated with those two draws, a lack of review increases the risk that errors in those draws could go undetected.

Corrective Action:

Corrective action was taken.

Reference No. 13-113

Eligibility

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

Federal rules state that it is the State's responsibility to identify and select eligible hazard mitigation projects (Title 44, Code of Federal Regulations (CFR), Section 206.435). Entities eligible to apply for the Hazard Mitigation Grant Program include: (1) state and local governments; (2) private nonprofit organizations that own or operate a private nonprofit facility as defined in Title 44, CFR, Section 206.221(e); and (3) Indian tribes or authorized tribal organizations and Alaska Native villages or organizations. In addition, entities eligible for project subgrants must have an approved local or tribal mitigation plan before they can receive Hazard Mitigation Grant Program funds (Title 44, CFR, Section 206.434).

In accordance with the Local Multi-hazard Mitigation Planning Guidance established by Federal Emergency Management Agency (FEMA), private non-profit entities are eligible subrecipients for the Hazard Mitigation Grant Program if the jurisdiction in which the project is located has a FEMA-approved mitigation plan. Those entities are not required to approve or adopt a plan if they have participated in the development and review of the local or tribal mitigation plan.

The Department of Public Safety (Department) has not established controls to ensure that its subrecipients are eligible for Hazard Mitigation Grant Program funds prior to making subawards. As a result, for 9 (15 percent) of 62 subrecipients tested, the subrecipient was ineligible for Hazard Mitigation Grant Program funds at the time that the Department made the subawards. Specifically:

- Seven subrecipients were private non-profit entities, however, the Department could not provide evidence that those subrecipients approved or adopted a hazard mitigation plan or that the subrecipients were involved in the development of a hazard mitigation plan, as required by program guidance.
- Two subrecipients did not have approved hazard mitigation plans in effect at the time the Department granted the subawards. Auditors determined that both of those subrecipients are currently eligible to receive Hazard Mitigation Grant Program funds because they subsequently developed approved hazard mitigation plans.

Because FEMA is closely involved in the award process, auditors concluded that the errors described above did not result in questioned costs.

Although the Department has information that would enable it to identify whether proposed subrecipients have FEMA-approved hazard mitigation plans prior to making subawards, it does not communicate that information to FEMA when it submits an application on behalf of a potential subrecipient. As a result, FEMA does not always have accurate and complete information regarding the eligibility status of potential subrecipients, which increases the risk that FEMA and the Department could award federal funds to subrecipients who are not eligible for that assistance. The issues discussed above affected the following Hazard Mitigation Grant Program awards:

Disaster	Grant Number	Start Date
1606	FEMA-1606-DR	September 24, 2005
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007
1730	FEMA-1730-DR	October 2, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
1999	FEMA-1999-DR	July 1, 2011
4029	FEMA-4029-DR	September 9, 2011

Recommendations:

The Department should:

- Ensure that subrecipients meet all eligibility requirements before granting subawards.
- Communicate potential subrecipients' eligibility status to FEMA when it submits project applications to FEMA.

Management Response and Corrective Action Plan 2012:

We agree with the recommendations and will:

- *Ensure that subrecipients meet all eligibility requirements before granting subawards, and*
- *Communicate potential subrecipients' eligibility status to FEMA when we submit project applications.*

Management Response and Corrective Action Plan 2013:

Procedures are in place to ensure applicants meet all eligibility requirements before granting awards. A new transmittal letter has been developed to incorporate the enumeration of any potential concerns when sending project applications to FEMA. This procedure has been in place since May 2013.

Implementation Date: *May 2013*

Responsible Person: *Paula Logan*

Reference No. 13-114

Period of Availability of Federal Funds

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

For major disaster declarations, the grantee may expend management cost funds for allowable costs for a maximum of 8 years from the date of the major disaster declaration or 180 days after the latest performance period date of a non-management cost Hazard Mitigation Grant Program project narrative, whichever is sooner (Title 44, Code of Federal Regulations (CFR), Section 207.8(b) and Title 44, CFR Section 207.9(a) and (d)).

The Hazard Mitigation Assistance Unified Guidance, Part VI, Section B.4, states that the period of performance is the period of time during which the grantee is expected to complete all grant activities and to incur and expend approved funds. The period of performance begins on the date that the grant is awarded and ends no later than 36 months from the award of the final subgrant under the grant.

The Department of Public Safety (Department) charged direct costs to Hazard Mitigation Grant Program awards when it had incurred those costs after the period of performance for those awards. Specifically:

- For 1 (6 percent) of 18 transfers tested, the Department could not provide evidence that it incurred the original cost supporting that transfer within the period of performance for the award to which it charged the cost. For that transfer, the Department incurred the cost between December 2011 and February 2012; however, based on information provided by the Department, the period of performance for the award ended on August 8, 2007. That resulted in questioned costs of $17 associated with award FEMA-1439-DR. The Department asserted that it was aware that it should not have charged those costs to that award, but it had not yet transferred those costs to non-federal funds.
- For 3 (6 percent) of 51 direct cost expenditures tested, the Department incurred direct costs after the period of performance for the federal awards to which it charged those costs. The Department incurred two of those costs in August 2011, but the period of performance for the award ended in June 2009. The Department incurred the remaining cost in May 2012, but the period of performance for the award ended in March 2012. That resulted in questioned costs of $8,769 associated with award FEMA-1606-DR and $261 associated with award FEMA-1697-DR.

- The Department incurred 2 (10 percent) of 21 payroll expenditures tested after the end of the period of performance for the awards to which it charged those costs. Further analysis of the entire population of Department payroll charges during fiscal year 2012 indicates that the Department charged a total of $33,890 in payroll costs after the end of the period of performance for the awards to which it charged those costs (see "Questioned Costs Related to Payroll" below for the individual awards to which the Department charged the $33,890).
- For 1 (5 percent) of 21 payroll expenditures tested, auditors could not determine whether the Department incurred the cost during the period of performance for the award because the Department assigned that cost to a generic budget code that could be connected with multiple disasters. However, the Department asserted that it had not yet drawn federal expenditures for that transaction.

The errors discussed above occurred because the Department has not established controls to ensure that it does not incur direct costs for disasters after the period of performance for awards has ended.

The issues noted above affected the following Hazard Mitigation Grant Program awards:

Award Number	Start Date	Questioned Costs Related to Payroll	Other Questioned Costs	Total Questioned Costs
FEMA-1356-DR	January 8, 2001	$ 15	$ 0	$ 15
FEMA-1379-DR	June 9, 2001	25,551	0	25,551
FEMA-1425-DR	July 4, 2002	593	0	593
FEMA-1439-DR	November 5, 2002	334	17	351
FEMA-1479-DR	July 17, 2003	297	0	297
FEMA-1606-DR	September 24, 2005	0	8,769	8,769
FEMA-1624-DR	January 11, 2006	2,448	0	2,448
FEMA-1658-DR	August 15, 2006	1,280	0	1,280
FEMA-1697-DR	May 1, 2007	3,371	261	3,632
FEMA-1709-DR	June 29, 2007	0	0	0
FEMA-1730-DR	October 2, 2007	0	0	0
FEMA-1780-DR	July 24, 2008	0	0	0
FEMA-1791-DR	September 13, 2008	0	0	0
FEMA-1999-DR	July 1, 2011	0	0	0
FEMA-4029-DR	September 9, 2011	0	0	0
	Total Questioned Costs	$33,889	$9,047	$42,936

Recommendation:

The Department should implement a process to ensure that it charges expenditures to disasters only within the period of performance.

<u>Management Response and Corrective Action Plan 2012:</u>

We agree with the recommendation. We will implement a process to ensure that expenditures will only be charged to disasters within the period of performance.

<u>Management Response and Corrective Action Plan 2013:</u>

Procedures have been put in place to ensure that program informs Financial Management Section and Grants Accounting when the period of performance (POP) date is set to preclude the Department from expending funds outside the POP.

Implementation Date: *August 31, 2013*

Responsible Person: *Paula Logan*

Reference No. 13-115

Procurement and Suspension and Debarment
Subrecipient Monitoring
(Prior Audit Issue 12-110)

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Initial Year Written: 2011
Status: Partially Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In fiscal year 2012, the Department passed through $28,552,465 to subrecipients.

<u>Award Identification and Subrecipient Suspension and Debarment</u>

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d) to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

The Department communicates federal award information to subrecipients in an award letter that it provides to subrecipients following final approval of a project. However, **prior to January 2012, the award letter template the Department used did not include the CFDA number associated with the award.** As a result, for 61 (98 percent) of 62 subrecipient agreements tested, the Department could not provide evidence that it communicated the CFDA number to the subrecipient. The Department made subawards to those subrecipients prior to January 2012.

The Department requires that subrecipients certify that they are not suspended or debarred at the time they submit an application. **For 1 (2 percent) of 62 subrecipients tested, the Department could not provide evidence that the subrecipient certified that it was not suspended or debarred.** Auditors verified through the EPLS that the subrecipient was not currently suspended or debarred.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Not verifying that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.

<u>During-the-award Monitoring</u>

Recipients of Hazard Mitigation Grant Program grant funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40).

The Department monitors subrecipient activities through review and approval of reimbursement requests and final audits of subrecipient projects. However, **for 3 (5 percent) of 62 subrecipient reimbursement requests tested, the Department could not provide evidence that it monitored the subrecipients for compliance with requirements related to allowability, cash management, or matching; it also could not provide evidence that it reviewed the federal share of costs for accuracy.** For those three subrecipients, the Department could not provide evidence that it had approved those subrecipients' reimbursement requests.

In addition, the Department did not consistently follow up to ensure that subrecipients took corrective action on deficiencies that it noted during its review of the reimbursement requests. **For 1 (25 percent) of 4 reimbursement requests for which the Department noted deficiencies, the Department could not provide evidence that it communicated the deficiencies to the subrecipient or followed up to ensure that the subrecipient took corrective action.**

The Department uses a final project audit as its primary audit tool for monitoring its subrecipients' compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. **However, the Department does not always complete a final project audit prior to making the final payment on a project, which limits the effectiveness of the final project audit to monitor compliance with federal requirements.** The Department also does not perform other types of monitoring of subrecipient compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. As a result, auditors identified the following issues:

- For 30 (91 percent) of 33 subrecipient projects for which the Department was required to monitor the subrecipients' compliance with equipment requirements, the Department could not provide evidence that it monitored subrecipients' record keeping and safeguarding of equipment.
- For 59 (95 percent) of 62 subrecipient projects tested, the Department could not provide evidence that it monitored the subrecipients' compliance with procurement requirements.
- For all 7 subrecipient projects tested that included the acquisition of real property, the Department could not provide evidence that it monitored the subrecipients' compliance with requirements related to acquisition and appraisal.

The Department does not have a process to ensure that subrecipients spend funds within the period of availability for the subaward. For all 62 subrecipient projects tested, the Department could not provide evidence that it verified that the subrecipients did not spend funds outside of the established performance period for their subawards.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects.

Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of $500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Section 225).

The Department's Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 6 (10 percent) of 62 subrecipients tested, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain a Single Audit during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned the subrecipients that did not comply. Specifically:

- The Department did not include one subrecipient on its tracking spreadsheet. As a result, the Department did not verify whether that subrecipient complied with the requirement to obtain a Single Audit or review that subrecipients' Single Audit report. Based on a review of the Federal Audit Clearinghouse, that subrecipient did not submit a Single Audit report for fiscal year 2011.
- The Department did not obtain Single Audit reports from three subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.
- The Department did not review the Single Audit reports that two subrecipients submitted. The Department incorrectly determined that it did not need to review one of those reports because it did not pass through funds to the subrecipient during fiscal year 2011; however, that subrecipient received funds during fiscal year 2012. The Department had not yet reviewed the other Single Audit report at the time of the audit, which was more than six months after it had received that report.

For all five subrecipient Single Audit reports the Department reviewed that contained audit findings, the Department did not issue a management decision regarding those findings within the required time period. For each of those subrecipients, the Department reviewed the Single Audit reports, but it did not issue a management decision on findings identified in those reports within six months of receiving those reports.

Finally, **for 9 (15 percent) of 62 subrecipients tested, the Department's Single Audit tracking spreadsheet was incomplete or contained inaccurate information.** This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient noncompliance. Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Hazard Mitigation awards:

Disaster	Grant Number	Start Date
1606	FEMA-1606-DR	September 24, 2005
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007
1730	FEMA-1730-DR	October 2, 2007
1780	FEMA-1780-DR	July 24, 2008

Disaster	Grant Number	Start Date
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
1999	FEMA-1999-DR	July 1, 2011
4029	FEMA-4029-DR	September 9, 2011

Recommendations:

The Department should:

- Communicate all relevant federal award information and applicable compliance requirements to subrecipients.
- Retain documentation of verification that subrecipients are not suspended or debarred.
- Retain documentation of its during-the-award monitoring activities and communicate deficiencies identified during its monitoring process to subrecipients.
- Implement a process to ensure that it monitors subrecipients during the award for all required compliance areas.
- Track all subrecipients to determine whether they are required to obtain a Single Audit.
- Require all subrecipients to certify that they will obtain a Single Audit if they meet the threshold or certify that they are not required to obtain a Single Audit, and follow up with subrecipients to ensure they respond.
- Review all Single Audit reports for active subrecipients within six months of receipt of those reports, and issue management decisions promptly when findings in those reports could affect pass-through funds.
- Ensure that information in the Department's Single Audit tracking spreadsheet is accurate.

Management Response and Corrective Action Plan 2012:

We agree with the recommendations. We have implemented a procedure to ensure we communicate all relevant federal award information and applicable compliance requirements to subrecipients.

Additionally, the Department will implement procedures to ensure:

- *Documentation of verification that subrecipients are not suspended or debarred is retained,*
- *Documentation of during-the-award monitoring activities is retained and deficiencies identified during the monitoring process are communicated to subrecipients.*
- *Subrecipients are monitored during the award for all required compliance areas.*
- *All open grant subrecipients are included in the A-133 Single Audit Review tracking sheet.*
- *Subrecipients receive notification of the OMB A-133 requirements and obtain a certification that a single audit is not required, or receive a copy of the single audit report and follow up with Subrecipients who do not respond to ensure they respond.*
- *Single Audit reports are reviewed and management decisions are issued within six months of receipt.*
- *The A-133 Review spreadsheet is updated as reports are received and reviewed, reports with findings are forwarded to grant program management for management decisions, and management decisions are received.*

Management Response and Corrective Action Plan 2013:

Draft documentation has been completed to ensure we communicate all relevant federal award information and applicable compliance requirements to subrecipients.

Procedures have been implemented to ensure subrecipients are monitored during the awards for all required compliance areas.

Single Audit review processes have been updated to ensure submitted single audit reports are reviewed. Management decisions on findings affecting grant programs have been made within six months.

Implementation Date: April 2014

Responsible Person: Paula Logan

Reference No. 13-116

Reporting

(Prior Audit Issues 12-111, 09-47, 08-91, and 07-26)

CFDA 97.039 – Hazard Mitigation Grant Program
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Homeland Security

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. The Office of Management and Budget provides specific instructions for completing the SF-425 in its Federal Financial Report Instructions, including definitions of key reporting elements.

Additionally, Hazard Mitigation grantees are required to submit quarterly Federal Financial Reports on which obligations and expenditures must be reported (Hazard Mitigation Assistance Unified Guidance, Part VI, Sec. C.1).

During fiscal year 2012, the Department of Public Safety's (Department) Division of Emergency Management and the Department's Grants Finance unit prepared SF-425 reports. Prior to January 2012, the Division of Emergency Management prepared all reports. In January 2012, the Department moved the reporting function for some disasters to its Grants Finance unit.

The Department did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. That occurred because (1) reports the Division of Emergency Management prepared were not based on information in the Department's financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information for some information it reported. As a result, auditors identified errors in all 13 SF-425 reports tested. Specifically:

- For 11 (85 percent) of 13 reports tested, the Department incorrectly reported its cash disbursements and the federal share of expenditures based on the amount of funds it received according to the federal SmartLink system through which it requested funds, instead of based on expenditure information from the Department's accounting system. The Department also incorrectly reported several other data fields, including cash on hand, total federal share, and the unobligated balance of federal funds because those fields were derived from the incorrectly reported cash disbursement amount. In addition, the Department incorrectly reported the federal share of unliquidated obligations for those 11 reports.

- For 2 (15 percent) of the 13 reports tested, both of which the Grants Finance unit prepared, the Department indicated that it prepared the reports on a cash basis; however, the supporting accounting data indicated the reports were prepared on an accrual basis.
- For all 13 reports tested, the Department did not correctly report information associated with matching amounts for each project. Specifically, for the two reports the Grants Finance unit prepared, the total recipient share required and the recipient share of expenditures were based on incorrect formulas. For the 11 reports the Division of Emergency Management prepared, the amounts reported for total recipient share required and recipient share of expenditures were supported by spreadsheets the Department used to track recipient expenditures; however, the Department does not reconcile those spreadsheets with its accounting data; therefore, the Department should not rely on those spreadsheets. As a result of those errors, the Department also incorrectly reported the remaining subrecipient share to be provided for all 13 reports tested.
- For all 13 reports tested, the Department did not include indirect cost expenditures in the amount it reported for cash disbursements as required. The Department omitted those expenditures because it had not established a method to record them in the accounting system when it charges those expenditures to a federal grant.

Unsupported, omitted, and inaccurate information in reports increases the risk that federal agencies could rely on inaccurate information.

The issues noted above affected the following Hazard Mitigation Program awards:

Disaster Number	Award Number	Start Date
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1439	FEMA-1439-DR	November 5, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007
1730	FEMA-1730-DR	October 02, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
1999	FEMA-1999-DR	July 1, 2011
4029	FEMA-4029-DR	September 9, 2011

Recommendation:

The Department should develop and implement a process to report required information based on supporting information, including information from its financial systems or other accounting information.

Management Response and Corrective Action Plan 2012:

The Department agrees with the recommendation and will implement a process to assure reported information is properly supported.

Management Response and Corrective Action Plan 2013:

The federal quarterly 425 reporting process on the Hazard Mitigation grant program has been a shared process between TDEM and Grants Accounting. A complete transition to Grants Accounting is scheduled to be completed in May 2014, where data from the accounting system is the standard support for these reports.

Implementation Date: *May 2014*

Responsible Person: *Maureen Coulehan*

Reference No. 13-117

Activities Allowed or Unallowed
Allowable Costs/Cost Principles

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award years –See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

Allowable Costs/Cost Principles Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Chapter 225, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that award or cost objective for the period covered by the certification. Those certifications must be prepared at least semi-annually and signed by the employees or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

Additionally, according to Title 2, CFR, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety (Department) based 7 (54 percent) of 13 Disaster Grants - Public Assistance (Presidentially Declared Disasters) payroll charges tested that were based on budget estimates; therefore, those payroll charges did not reflect an after-the-fact distribution of the actual activity of each employee. The Department requires its employees to complete weekly time sheets to indicate the number of hours they work, including the number of hours charged to each federal award. The Department then estimates its payroll charges based on actual time charged in a previous period. However, the Department has not established controls to ensure that it reconciles the estimated effort with the actual effort for each employee. That resulted in questioned costs of $8,004 associated with the awards listed in the column "Question Costs Related to Payroll" in the table below.

Additionally, for 6 (46 percent) of 13 payroll charges tested that were based on budget estimates, the Department did not perform its reconciliation of estimated effort with actual effort; however, for those payroll charges, this did not result in non-compliance because the estimated and actual charges were the same.

For 1 (6 percent) of 18 payroll charges tested, the Department did not allocate the cost correctly. The percentage of effort the Department charged to the disaster did not match the percentage of effort that staff worked on the disaster. That resulted in a questioned cost of $346 associated with award FEMA-1791-DR.

Controls relating to payroll expenditures were not always operating effectively to ensure compliance with applicable federal requirements. **For 1 (6 percent) of 18 payroll charges tested, the Department could not provide all of the evidence of its review or approval of the associated employee time sheets.** Therefore, auditors were unable to determine whether that expenditure was supported by timesheets and whether there were related questioned costs.

<u>Allowable Costs/Cost Principles and Activities Allowed or Unallowed – Non-payroll</u>

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Chapter 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

One (2 percent) of 64 non-payroll expenditures tested at the Department was unallowable. The Department charged an expenditure for food to a Disaster Grants - Public Assistance **(**Presidentially Declared Disasters) grant, but it did not have a corresponding, approved project worksheet. This resulted in questioned costs of $1,564 associated with award FEMA-4029-DR.

In addition, 4 (6 percent) of 64 non-payroll expenditures tested were not solely allocable to individual awards within the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, but the Department charged all of those expenditures to that program. Specifically:

- The Department charged one expenditure to the wrong disaster. Although the Department reviewed that expenditure prior to payment, its review was not sufficient to identify the error. Because that expenditure was strictly related to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, auditors did not consider this to be a questioned cost.
- The Department's support for one expenditure indicated that the expenditure was related to the Fire Management Assistance Grant program, but the Department incorrectly charged that expenditure to the to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program. That resulted in questioned costs of $349 associated with award FEMA-4029-DR.
- The Department's support for two expenditures did not identify the grant programs that benefited from the work performed. Those errors occurred because the Department does not have a policy requiring vendors to submit adequate documentation specifying the grant programs that benefited, which is necessary to appropriately allocate those costs. Those errors resulted in questioned costs of $43,234 associated with award FEMA-1791-DR.

<u>Indirect Costs</u>

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must be retained for audit and must be submitted to the cognizant agency (Title 2, CFR, Section 225, Appendix E, (D)(1)).

An Indirect Cost Rate Proposal (IDCRP) documents the indirect cost rates that an agency will use to charge its indirect costs by calculating a ratio of indirect costs to a direct cost base. These rates are calculated using an indirect cost pool, which represents accumulated costs that jointly benefit two or more programs or other cost objectives (Title 2, CFR, Chapter 225, Appendix E (B)).

The Department began charging indirect costs to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program during fiscal year 2012. In 2009, the Department hired a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Department asserted that the submission delay occurred because it had originally submitted the IDCRP to the incorrect federal cognizant agency. The Federal Emergency Management Agency (FEMA) approved the IDCRP on May 7, 2012. The IDCRP included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods from fiscal year 2009 forward. The Department's next IDCRP is due in February 2013.

However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate. **As a result, auditors could not determine whether the indirect cost rate approved in May 2012 was accurate.**

Prior to the approval of its IDCRP, the Department used a previous indirect cost rate agreement to charge indirect costs to federal awards; however, that agreement expired on August 31, 2007. As a result, the Department had been charging indirect costs without a valid rate agreement. Additionally, the Department did not record indirect cost transactions in its financial system at the time it made each charge. Instead, the Department processed an adjusting entry to its schedule of expenditures of federal awards to recognize $1,123,360 in indirect cost charges for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program during fiscal year 2012; however, based on auditors' analysis, the Department charged $1,207,153 in indirect costs during fiscal year 2012. (The Department's calculation excluded one indirect cost charge it made in the amount of $83,793.)

Through analysis of the Department's draw downs and expenditures during fiscal year 2012, auditors identified a total of $732,241 in indirect costs the Department charged under the expired agreement. That amount is considered questioned costs. (See "Questioned Costs Related to Indirect Costs" below for the individual awards to which the Department charged the $732,241.)

The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

Award Number	Start Date	Questioned Costs Related to Payroll	Questioned Costs Related to Non-Payroll Direct Costs	Questioned Costs Related to Indirect Costs	Total Questioned Costs
FEMA-1257-DR	October 21, 1998	$ 0	$ 0	$ 0	$ 0
FEMA-1379-DR	June 9, 2001	1,099	0	0	1,099
FEMA-1425-DR	July 4, 2002	66	0	0	66
FEMA-1479-DR	July 17, 2003	44	0	0	44
FEMA-1606-DR	September 24, 2005	0	0	0	0
FEMA-1624-	January 11, 2006	0	0	0	0

Award Number	Start Date	Questioned Costs Related to Payroll	Questioned Costs Related to Non-Payroll Direct Costs	Questioned Costs Related to Indirect Costs	Total Questioned Costs
DR					
FEMA-1658-DR	August 15, 2006	0	0	0	0
FEMA-1709-DR	June 29, 2007	22	0	0	22
FEMA-1780-DR	July 24, 2008	0	0	83,793	83,793
FEMA-1791-DR	September 13, 2008	346	43,234	611,181	654,761
FEMA-1931-DR	August 3, 2010	0	0	23,999	23,999
FEMA-1999-DR	July 1, 2011	0	0	13,268	13,268
FEMA-3216-EM	September 2, 2005	88	0	0	88
FEMA-3261-EM	September 21, 2005	0	0	0	0
FEMA-3277-EM	August 18, 2007	0	0	0	0
FEMA-3290-EM	August 29, 2008	768	0	0	768
FEMA-4029-DR	September 9, 2011	5,917	1,913	0	7,830
	Totals	$8,350	$45,147	$732,241	$785,738

General Controls

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300 (b)).

The Department did not appropriately update and review administrator-level access to the Web-based Electronic Timekeeping Application (ETA), which it uses to track time and effort for Department employees. Specifically, the Department did not disable a user account with administrator-level access to ETA in a timely manner after it terminated employment of the individual associated with that account for cause. The Department also did not conduct periodic reviews of users with administrator-level access to ETA to ensure that the users were still employed by the Department and that users' access was appropriate for their job duties.

Not maintaining appropriate access to ETA increases the risk of unauthorized modification of data.

Corrective Action:

This finding was reissued as current year reference number: 2013-107.

Reference No. 13-118

Cash Management

(Prior Audit Issues 12-112 and 11-112)

CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

Initial Year Written: 2010 Status: Partially Implemented U.S. Department of Homeland Security

Funding Technique

According to the Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State of Texas (Treasury-State Agreement) applicable to fiscal year 2012, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program exceeds the State's threshold for major federal assistance programs (Treasury-State Agreement, Section 4.2). Therefore, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the requirements of the Treasury-State Agreement. Specifically, the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program is subject to the pre-issuance funding technique (Treasury-State Agreement, Section 6.3.2). Under the pre-issuance funding method, the State is required to request that funds be deposited into the state account no more than three days prior to the day the State makes a disbursement (Treasury-State Agreement, Section 6.2.1).

For 25 (38 percent) of 65 drawdowns tested for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, the Department of Public Safety (Department) did not comply with the time requirements for disbursing federal funds. Specifically, the Department disbursed funds from those 25 drawdowns between 4 and 14 days after it received those funds.

The Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure the timely disbursement of funds. Additionally, the Department's process for drawing funds for payroll costs is not adequately designed to minimize the time between the drawdown of funds and the disbursement of payroll. The Department drew funds for payroll at the same time that it ran its monthly trial balance; on average, that occurred 12.8 days before the Department needed to disburse payroll.

Draw Support

Cash advances to a state shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (Title 2, Code of Federal Regulations (CFR), Section 215.22(b)(2)).

Five (8 percent) of 66 cash draws tested at the Department were not supported by actual or identifiable costs. That occurred because the Department has not implemented sufficient monitoring or review controls over its cash draw process. Additionally, the Department has not identified clear criteria to establish the level of support necessary for each draw down. **Based on additional analysis of Department's fiscal year 2012 drawdowns, the Department drew down a total of $275,938 in federal funds that were not supported by actual or identifiable costs (see the table below for the awards associated with the $275,938 in questioned costs).**

Calculation of Clearance Pattern

According to Title 31, CFR Section 205.12, the federal government and a state may negotiate the use of mutually-agreed upon funding techniques. Funding techniques should be efficient and minimize the exchange of interest between states and federal agencies. States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. States must ensure that clearance patterns meet the requirements of Title 31, CFR, Section 205.20.

According to the Treasury-State Agreement, the Department must calculate the clearance pattern for period 1 (the number of days from deposit date to issuance date, where issuance date is the date of the actual release of payments). The Texas Office of the Comptroller of Public Accounts will calculate the clearance pattern for period 2 (the number of days from issuance date to clearance date).

The Department's clearance pattern for period 1 does not comply with the requirements for developing and maintaining clearance patterns in the Treasury-State Agreement. Specifically, the Department:

- Incorrectly classified its payroll expenses as reimbursements. However, the Department drew down funds for those expenses on a pre-issuance basis. During fiscal year 2012, the Department changed its payroll drawdown process from a reimbursement-based draw process to a pre-issuance draw process, but it did not account for that change when it calculated its clearance pattern for period 1.
- Based its calculation of the clearance pattern for period 1 on an incorrect disbursement date. That occurred because the Department used an incorrect field in its financial system.

As a result of those errors, the Department overstated its clearance pattern for period 1 by 1.08 days. Although management within the Department's Grants Finance unit reviewed the clearance pattern calculation, that review was not sufficient to ensure that the Department correctly calculated the clearance pattern for period 1.

The issues noted above affected the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

Disaster	Grant Number	Start Date	Questioned Costs
1257	FEMA-1257-DR	October 12, 1998	$ 0
1379	FEMA-1379-DR	June 9, 2001	0
1425	FEMA-1425-DR	July 4, 2002	0
1479	FEMA-1479-DR	July 17, 2003	3,142
1606	FEMA-1606-DR	September 24, 2005	0
1624	FEMA-1624-DR	January 11, 2006	0
1658	FEMA-1658-DR	August 15, 2006	0
1709	FEMA-1709-DR	June 29, 2007	0
1780	FEMA-1780-DR	July 24, 2008	72,674
1786	FEMA-1786-DR	September 2, 2008	0
1791	FEMA-1791-DR	September 13, 2008	160,846
1931	FEMA-1931-DR	August 3, 2010	9,306
1999	FEMA-1999-DR	July 1, 2011	1,370
3216	FEMA-3216-EM	September 2, 2005	0
3261	FEMA-3261-EM	September 21, 2005	0
3277	FEMA-3277-EM	August 18, 2007	149

Disaster	Grant Number	Start Date	Questioned Costs
3290	FEMA-3290-EM	August 29, 2008	28,451
3294	FEMA-3294-EM	September 10, 2008	0
4029	FEMA-4029-DR	September 9, 2011	0
		Total Questioned Costs	$275,938

Corrective Action:

This finding was reissued as current year reference number: 2013-108.

Reference No. 13-119

Period of Availability of Federal Funds

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

Period of Availability

For major disaster declarations, the grantee may expend management cost funds for allowable costs for a maximum of 8 years from the date of the major disaster declaration or 180 days after the latest performance period date of a non-management cost Public Assistance project worksheet, whichever is sooner (Title 44, Code of Federal Regulations (CFR), Section 207.8(b) and Title 44, CFR Section 207.9(a) and (d)). Additionally, project worksheets issued by the Federal Emergency Management Agency (FEMA) specify a period of performance for each project.

The Department of Public Safety (Department) charged direct costs to Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards that it had incurred after the period of performance for those awards. Specifically:

- For 1 (6 percent) of 16 transfers tested, the Department could not provide evidence that it incurred the original cost supporting that transfer within the period of performance for the award to which it charged the cost. For that transfer, the Department incurred the cost between December 2011 and January 2012; however, based on information the Department provided, the period of performance for the award ended on September 27, 2005. That resulted in questioned costs of $152 associated with award number FEMA-1257-DR.
- For 1 (2 percent) of 64 non-payroll direct cost expenditures tested, the Department incurred direct costs after the period of performance for the federal award to which it charged that cost. The Department incurred that cost in May 2012; however, based on information the Department provided, the period of performance for the award ended on September 27, 2005. That resulted in questioned costs of $383 associated with award number FEMA-1257-DR.
- The Department incurred 1 (6 percent) of 18 payroll expenditures tested after the end of the period of performance for the federal awards to which it charged those costs. Further analysis of the entire population of Department payroll charges during fiscal year 2012 indicates that the Department charged a total of $58,908 in payroll costs after the end of the period of performance for the awards to which it charged those costs (see

"Questioned Costs Related to Payroll" below for the individual awards to which the Department charged the $58,908).

- For 2 (11 percent) of 18 payroll expenditures tested, auditors could not determine whether the Department incurred the cost during the period of performance for the award because the Department assigned that cost to a generic budget code that could be connected with multiple disasters. However, the Department asserted that it had not yet drawn federal expenditures for that transaction.

The errors discussed above occurred because the Department has not established controls to ensure that it does not incur direct costs for disasters after the period of performance for awards has ended.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards:

Disaster	Award Number	Start Date	Questioned Costs Related to Payroll	Other Questioned Costs	Total Questioned Costs
1257	FEMA-1257-DR	October 21, 1998	$305	$535	$840
1379	FEMA-1379-DR	June 9, 2001	39,044	0	39,044
1425	FEMA-1425-DR	July 4, 2002	9,147	0	9,147
1479	FEMA-1479-DR	July 17, 2003	760	0	760
1606	FEMA-1606-DR	September 24, 2005	0	0	0
1624	FEMA-1624-DR	January 11, 2006	9,652	0	9,652
1658	FEMA-1658-DR	August 15, 2006	0	0	0
1709	FEMA-1709-DR	June 29, 2007	0	0	0
1780	FEMA-1780-DR	July 24, 2008	0	0	0
1791	FEMA-1791-DR	September 13, 2008	0	0	0
1931	FEMA-1931-DR	August 3, 2010	0	0	0
1999	FEMA-1999-DR	July 1, 2011	0	0	0
3216	FEMA-3216-EM	September 2, 2005	0	0	0
3261	FEMA-3261-EM	September 21, 2005	0	0	0
3277	FEMA-3277-EM	August 18, 2007	0	0	0
3290	FEMA-3290-EM	August 29, 2008	0	0	0
4029	FEMA-4029-DR	September 9, 2011	0	0	0
		Total Questioned Costs	$58,908	$535	$59,443

Corrective Action:

This finding was reissued as current year reference number: 2013-109.

Reference No. 13-120

Procurement and Suspension and Debarment
Subrecipient Monitoring
Special Test and Provisions - Project Accounting
(Prior Audit Issues 12-113, 11-115, 10-42, and 09-48)

CFDA 97.036 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Materiel Weakness and Material Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients' use of federal awards to provide reasonable assurance that subrecipients administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In fiscal year 2012, the Department passed through $90,232,350 in Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds to its subrecipients.

Award Identification and Subrecipient Suspension and Debarment

As a pass-through entity, the Department is required by OMB Circular A-133, Section .400(d), to identify to subrecipients, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

In addition, federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.220).

The Department communicates federal award information to subrecipients on an application for federal assistance and requires that subrecipients sign various assurances to ensure that they are aware of award information and applicable federal compliance requirements. The application also serves as the subrecipients' certification that they are not suspended or debarred from participating in federal contracts.

For 7 (11 percent) of 65 subrecipients tested, the Department could not provide all signed assurances that it should have maintained in the subrecipients' files. As a result, the Department could not provide evidence that it communicated the CFDA title and number, award name and number, name of federal awarding agency, and applicable compliance requirements. It also could not provide evidence that it verified that those subrecipients were not suspended or debarred through the subrecipients' certifications. Auditors verified through the EPLS that those subrecipients were not currently suspended or debarred.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Failure to verify that a subrecipient is not suspended or debarred increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funds.

During-the-award Monitoring

Recipients of Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds are required to monitor grant-supported and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, CFR, Section 13.40). The Department monitors subrecipient projects classified as "large" projects through review and approval of payment vouchers, quarterly performance reporting, and audits and inspections of subrecipient projects. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department's controls did not detect subrecipient non-compliance with federal requirements.**

For 10 (15 percent) of 65 subrecipients tested, the Department could not provide evidence that it monitored the subrecipients' compliance with requirements related to period of availability of federal funds. For those 10 projects, the performance period of the subgrant had expired, and the Department could not provide evidence that it had approved an extension of that period. The Federal Management Emergency Agency's (FEMA) Public Assistance Grant Guide from June 2007 requires that (1) debris removal and emergency projects be completed within 6 months of a disaster declaration and (2) permanent projects, such as building repair, be completed within 18 months of a disaster declaration. In limited circumstances, a state is authorized to award time extensions to its subrecipients. Additionally, periods of performance are identified in award documentation. However, the Department has not established a formal monitoring process to identify subrecipients that do not complete projects within the established period of performance prior to project close-out. This increases the risk that subrecipients could incur costs outside of the period of performance, and that the non-compliance could go undetected by the Department.

For 2 (3 percent) of 65 subrecipients tested, the Department did not provide sufficient evidence that it monitored subrecipients' compliance with cash management requirements. Specifically, for one subrecipient, the Department could not provide evidence that it ensured that the subrecipient requested an advance through the Department's advance funds request process, and the Department passed through funds to that subrecipient that were not in compliance with the requirements established in the Department's State Administrative Plan. As a result, the Department paid that subrecipient with funds that it should have held until the completion of the project. For the second subrecipient, the Department did not follow up with the subrecipient to obtain funds that were due back to the Department and FEMA from insurance proceeds received on the subrecipient's project. The Department asserted that the subrecipient was still negotiating with FEMA regarding that adjustment; as a result, the Department had not yet required the subrecipient to return those funds.

The Department conducts final audits on projects that FEMA designates as "large" projects according to the Department's State Administrative Plan for each disaster, and it uses those audits to monitor its subrecipients' compliance with requirements related to allowable costs and activities, equipment maintenance, and procurement. However, the Department conducts those audits at the conclusion of a project. **Final audits may not always be an effective monitoring tool to identify potential subrecipient non-compliance during the performance period of a subgrant.**

The Department has not established processes to monitor subrecipients' compliance with requirements related to equipment maintenance and procurement during the performance period of a subgrant. Therefore, it could not provide evidence that it monitored subrecipients' compliance with those requirements during the performance period of a subgrant. Specifically:

- The Department could not provide evidence that it monitored subrecipients' compliance with requirements related to equipment for 13 (33 percent) of 39 subrecipient projects for which it should have monitored compliance.
- The Department could not provide evidence that it monitored subrecipients' compliance with requirements related to procurement and suspension and debarment for 29 (50 percent) of 58 subrecipient projects for which it should have monitored compliance.

In addition, the Department did not consistently identify deficiencies in subrecipient compliance, such as deficiencies related to quarterly reporting requirements, submission of required project completion forms, and other deficiencies that auditors noted in subrecipients' files. It also did not follow up on those deficiencies to ensure that subrecipients took corrective action. **As a result, for 15 (33 percent) of 45 subrecipients with deficiencies, the Department could not provide evidence that it communicated the deficiencies to the subrecipients in a timely manner or that the subrecipients took corrective action.**

For subrecipients with projects classified as "small" projects (as established by the Department's State Administrative Plan for each disaster), the Department is required to perform site inspections for at least 20 percent of each subrecipient's small projects for each disaster. However, the Department exempted from that requirement small projects that are identified as 99 or 100 percent complete at the time that a project worksheet is written. As a result, the Department did not perform during-the-award monitoring of subrecipients with projects that met those criteria, although those subrecipients may have had multiple projects under each disaster. **Auditors identified 3 (5 percent) of 65 subrecipients tested whose projects were closed but for which the Department did not conduct site visits.**

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects.

Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of $500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133, Section 225).

The Department's Standards and Compliance group within its Division of Emergency Management monitors subrecipient Single Audits through a tracking spreadsheet, and it documents its review of submitted audit reports using a checklist. However, **for 12 (22 percent) of 55 subrecipients tested for which the Department was required to monitor compliance with the requirement to obtain a Single Audit, the Department did not effectively monitor or enforce subrecipient compliance with this requirement during fiscal year 2012.** As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain a Single Audit or that it sanctioned subrecipients that did not comply. Specifically:

- The Department did not include one subrecipient on its tracking spreadsheet. As a result, the Department did not verify whether that subrecipient complied with the requirement to obtain a Single Audit or review that subrecipient's Single Audit report. Based on a review of the Federal Audit Clearinghouse, that subrecipient did not submit Single Audit reports for fiscal year 2011.
- The Department did not review the Single Audit reports that nine subrecipients submitted. The Department incorrectly determined that it did not need to review two of those reports because its Division of Emergency Management did not pass through funds to the subrecipients during fiscal year 2011; however, each of these subrecipients received funds during fiscal year 2012.
- The Department did not obtain Single Audit reports from two subrecipients on its tracking spreadsheet and could not provide evidence that it sanctioned those subrecipients for non-compliance.

Finally, **for 4 (7 percent) of 55 subrecipients tested, the Department's Single Audit tracking spreadsheet was incomplete or contained inaccurate information.** This increases the risk that the Department may not identify instances of subrecipient non-compliance, or that it may not require a subrecipient to submit a Single Audit report.

Inaccurate information in its tracking spreadsheet can prevent the Department from identifying and addressing subrecipient noncompliance. Not ensuring that subrecipients obtain Single Audits and not reviewing those Single Audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above affect the following Disaster Grants – Public Assistance (Presidentially Declared Disasters) awards:

Disaster	Grant Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
1999	FEMA-1999-DR	July 1, 2011
3216	FEMA-3216-EM	September 2, 2005
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008
4029	FEMA-4029-DR	September 9, 2011

Corrective Action:

This finding was reissued as current year reference number: 2013-110.

Reference No. 13-121

Reporting

(Prior Audit Issues 12-114, 11-114, 10-41, 09-47, 08-91, and 07-26)

CFDA 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award years – See below
Award numbers – See below
Type of finding – Material Weakness and Material Non-Compliance

SF-425 Reports

Recipients are responsible for managing, monitoring, and reporting performance for each program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. Additionally, the Office of Management and Budget provides specific instructions for completing the SF-425 in its Federal Financial Report Instructions, including definitions of key reporting elements.

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Homeland Security

During fiscal year 2012, the Department of Public Safety's (Department) Division of Emergency Management and the Department's Grants Finance unit prepared SF-425 reports. Prior to January 2012, the Division of Emergency Management prepared all reports. In January 2012, the Department moved the reporting function for some disasters to its Grants Finance unit.

The Department did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Those errors occurred because (1) reports the Division of Emergency Management prepared were not based on information in the Department's financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information for some information it reported. As a result, auditors identified errors in all 19 SF-425 reports tested. Specifically:

- For 15 (79 percent) of 19 reports tested, the Department reported its cash disbursements and the federal share of expenditures based on the amount of funds it received according to the federal SmartLink system through which it requested funds, instead of based on expenditure information from the Department's accounting system. As a result, the Department also incorrectly reported several other data fields, including cash on hand, total federal share, and unobligated balance of federal funds.
- For 3 (16 percent) of 19 reports, the Department's Grants Finance unit incorrectly reported cash disbursements based on the amount of cash the Department received from its federal awarding agency, instead of based on expenditures.
- For all 19 reports tested, the Department did not correctly report information associated with matching amounts for each project. Specifically, the Department reported its total recipient share required based on an incorrect formula that it applied to all reports. Additionally, it incorrectly reported its recipient share of expenditures because it based the amount it reported on a calculation instead of actual expenditures. As a result of those errors, the Department also incorrectly reported the remaining recipient share to be provided.
- For all 19 reports tested, the Department did not correctly determine its federal share of unliquidated obligations.
- For all 19 reports tested, the Department did not include indirect cost expenditures in the amount it reported for cash disbursements as required. The Department omitted those expenditures because it had not established a method to record them in its accounting system when it charges those expenditures to a federal grant.

Unsupported, omitted, and inaccurate information in reports increases the risk that federal agencies could rely on inaccurate information.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) program awards:

Disaster Number	Award Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1379	FEMA-1379-DR	October 1, 1999
1425	FEMA-1425-DR	July 4, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006

Disaster Number	Award Number	Start Date
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1786	FEMA-1786-DR	September 9, 2008
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 15, 2006
1999	FEMA-1999-DR	July 1, 2011
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	September 7, 2008
3294	FEMA-3294-EM	September 10, 2008
4029	FEMA-4029-DR	September 9, 2011

Federal Funding Accountability and Transparency Act (FFATA) Reports

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed $25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations (CFR), Chapter 170).

During fiscal year 2012, the Department did not attempt to report subawards for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program to the FFATA Reporting System (FSRS). Specifically, the Department could not provide evidence that it attempted to report subawards that it issued under two prime awards that were subject to FFATA to FSRS until October 18, 2012; 405 days after the declaration date for DR-4029 and 475 days after the declaration date for DR-1999. The Department passed-through $ 28,173,337 to subrecipients for DR-1999 and DR-4029 during fiscal year 2012.

The issues noted above affected the following Disaster Grants - Public Assistance (Presidentially Declared Disasters) awards:

Disaster Number	Award Number	Start Date
4029	FEMA-4029-DR	September 9, 2011
1999	FEMA-1999-DR	July 1, 2011

Not submitting all required reports to FSRS decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Corrective Action:

This finding was reissued as current year reference number: 2013-111.

Reference No. 11-113

Procurement and Suspension and Debarment
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
(Prior Audit Issue 10-40)

Public Assistance Cluster
Award years – see below
Award numbers – see below
Type of finding – Significant Deficiency and Non-Compliance

Procurement and Suspension and Debarment

Initial Year Written: 2009
Status: Implemented

U.S. Department of Homeland Security

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210).

For all 12 procurements tested, the Department of Public Safety (Department) did not verify that the vendors were not suspended or debarred from federal procurements. Eleven of those 12 procurements were for sheltering services, and the remaining procurement was for the purchase of showers, toilets, and hand-washing stations. Auditors reviewed the EPLS and verified that the vendors for those 12 procurements were not currently suspended or debarred. The 12 procurements totaled $6,683,329.

The Department did not have a process to ensure that vendors providing shelter/emergency services and mutual aid services during emergencies were not suspended or debarred from federal procurements. Failure to verify the suspension and debarment status of all vendors increases the risk that the Department will enter into an agreement with an entity that is not eligible for federal procurements.

Additionally, the Department could not provide evidence that it verified that 2 (4 percent) of 50 subrecipients were not suspended of debarred before entering into an award agreement. For these two subrecipients, the Department was not able to provide evidence of subrecipient award documentation, including the subrecipients' certification that they were not suspended or debarred.

The issue discussed above affected the following awards that had procurements and subawards in fiscal year 2010:

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1791	FEMA-1791-DR	September 13, 2008
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

Corrective action was taken.

Reference No. 12-116

Cash Management

CFDA 11.555 – Public Safety Interoperable Communications Grant Program
Award year – October 1, 2007 to September 30, 2011
Award number – 2007-GS-H7-0044
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2011
Status: Implemented

U.S. Department of Commerce
U.S. Department of Homeland Security

The Public Safety Interoperable Communications (PSIC) Grant Program's program guidance and application kit permits the drawdowns of funds on an advance basis and requires state grantees to comply with interest requirements of the Cash Management Improvement Act (CMIA). This guidance also states that interest will accrue from the time federal funds are credited to a state account until the time the state pays out funds or transfers the funds to a subgrantee. The grantee must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury at least quarterly. Interest amounts up to $100 per year may be retained by the grantee for administrative expenses (Title 44, Code of Federal Regulations, Section 13.21).

<u>Interest on Advances</u>

The Department of Public Safety (Department) did not calculate or monitor interest it earned on federal funds for the PSIC Grant Program, nor did it remit interest earned on federal funds to the U.S. Treasury. The Department has not established a process to calculate or monitor interest it earns on advanced federal funds. The Texas Office of the Comptroller of Public Accounts receives those funds and deposits them into a state treasury account along with non-PSIC Grant Program funds. The Department has not entered into an arrangement with the Texas Office of the Comptroller of Public Accounts to isolate the interest earned solely on PSIC Grant Program funds. Therefore, the Department has never remitted any interest earned on PSIC Grant Program funds to the U.S. Treasury.

Auditors tested a sample of 47 transactions representing 26 percent of the $25,571,009 in federal PSIC Grant Program funds the Department drew down during fiscal year 2011, and estimated an interest liability of $52 associated with those transactions.

<u>Corrective Action:</u>

Corrective action was taken.

Reference No. 12-119

Subrecipient Monitoring

CFDA 11.555 – Public Safety Interoperable Communications Grant Program
Award year – October 1, 2007 to September 30, 2011
Award number – 2007-GS-H7-0044
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2011
Status: No Longer Valid

U.S. Department of Commerce
U.S. Department of Homeland Security

The Department of Public Safety (Department) is required by Office of Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of the contracts or grant agreements.

In fiscal year 2011, the Department passed through $20,818,024 in Public

Safety Interoperable Communications (PSIC) funding to its subrecipients.

Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of $500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with Single Audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. However, **for 1 (13 percent) of 8 subrecipients tested, the Department did not ensure that it obtained a copy of the subrecipient's Single Audit report.** The subrecipient was included in the Department's tracking spreadsheet, however, the Department did not ensure that the subrecipient submitted its Single Audit report within nine months of the end of its fiscal year. The Department asserted that it requested the Single Audit report from the subrecipient, but that the subrecipient did not respond to its request. The Department did not provide evidence that it took additional action, such as sanctioning the subrecipient. Information in the Federal Audit Clearinghouse database indicated that the subrecipient had findings related to the PSIC program in its Single Audit report.

Not obtaining a subrecipient's Single Audit report increases the risk that deficiencies could go unaddressed.

Corrective Action:

The PSIC grant period ended on June 30, 2012, and auditors did not identify any subrecipients that received PSIC funds in fiscal year 2013. Therefore, this finding is no longer valid.

University of Texas Medical Branch at Galveston

Reference No. 13-177

Period of Availability of Federal Funds

CFDA 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award year – September 13, 2008
Award number – FEMA-1791-DR
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Implemented

U.S. Department of Homeland Security

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations (CFR), Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, CFR, Section 215.71(b)).

The Federal Emergency Management Agency (FEMA) enters into an agreement with the State of Texas (State) for each federally declared disaster. That agreement outlines requirements and responsibilities related to the funds provided by the federal government for the disaster. As specified in the FEMA-State Agreement for Hurricane Ike, each approved project must be completed within the time period described in FEMA regulations and documents. Additionally, the State Administrative Plan for Hurricane Ike establishes project time limitations of 6 months for work classified as emergency work and 18 months for work classified as permanent work. Time limitations can be extended in 6-month increments by request to the Texas Division of Emergency Management or FEMA.

The University of Texas Medical Branch at Galveston (Medical Branch) charged costs to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program outside of the performance period established in the project worksheets for the applicable projects. Specifically, for 36 (60 percent) of 60 transactions tested that were recorded after the end of the performance period listed in the Medical Branch's tracking system, the Medical Branch incurred the associated expense after the end of the performance period established in the approved project worksheet. Specifically:

- For three of those transactions, the Medical Branch requested a project extension after the performance period had expired for the applicable projects. However, at the time it incurred the expenses associated with those transactions, the Medical Branch had not received a letter approving an extension. The Medical Branch subsequently provided evidence that it had received an extension, but it could not provide evidence of when that extension was approved. Because the evidence of an extension covered the dates of those transactions, there were no questioned costs associated with those transactions.

- For the remaining 33 transactions, the Medical Branch was unable to provide evidence that it had received a project extension. As a result, those transactions were unallowable because the associated expenses were incurred outside of the performance period. This resulted in $16,396 in questioned costs associated with award FEMA-1791-DR.

In addition, for 28 of the transactions that the Medical Branch incurred after the performance period, it also liquidated those obligations more than 90 days after the end of the period.

The Medical Branch's process is to request project extensions every six months; however, it did not consistently request extensions for the projects discussed above. Additionally, the Medical Branch has not developed controls to prevent it from charging costs to its federal account for Hurricane Ike after it has reached the end of the period of performance for each project.

Corrective Action:

Corrective action was taken.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess the control risk of noncompliance, and perform tests of those controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Scope

The audit scope covered federal funds that the State spent for the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program from September 1, 2012 through August 31, 2013. The audit work included control and compliance tests at the Department of Public Safety (Department), the Texas A&M Forest Service (Forest Service), and the University of Texas Medical Branch at Galveston (Medical Branch).

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Auditors selected non-statistical samples for tests of compliance and controls for each direct and material compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. In some cases, auditors used professional judgment to select additional items for compliance testing. Those sample items generally were not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data the Department, the Forest Service, and the Medical Branch provided and determined that the data was sufficiently reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Homeland Security Grant Program, the Fire Management Assistance Grant program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program.

Information collected and reviewed included the following:

- Department, Forest Service, and Medical Branch data on expenditures, procurement, reporting, revenues, required matching funds, and subrecipients.
- Federal notices of award.
- Transactional support related to expenditures, procurement, and revenues.
- Department-generated, Forest Service-generated, and Medical Branch-generated reports and data used to support reports, revenues, and other compliance areas.
- Information system support for Department, Forest Service, and Medical Branch assertions related to general controls over information systems that support the control structure related to federal compliance.

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing for samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of design of other controls to assess the sufficiency of the Department's, the Forest Service's, and the Medical Branch's control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

- The Code of Federal Regulations.
- U.S. Office of Management and Budget Circulars A-21, A-87, A-102, A-110, and A-133.
- U.S. Office of Management and Budget Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting.
- The Federal Funding Accountability and Transparency Act.
- Federal notices of award.
- Federal agency circulars, handbooks, and guidance.
- Department, Forest Service, and Medical Branch policies and procedures.

Project Information

Audit fieldwork was conducted from August 2013 through December 2013. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

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