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State Auditor

A Report on

**State of Texas Compliance with
Federal Requirements for the
Homeland Security Cluster of
Federal Programs and the Public
Assistance Cluster of Federal
Programs for the Fiscal Year
Ended August 31, 2010**

February 2011

Report No. 11-026



A Report on

State of Texas Compliance with Federal Requirements for the Homeland Security Cluster of Federal Programs and the Public Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2010

SAO Report No. 11-026
February 2011

Overall Conclusion

For the Homeland Security cluster of federal programs, the State of Texas did not comply in all material respects with federal requirements in fiscal year 2010.

However, for the Public Assistance cluster of federal programs, with the exception of certain non-compliance detailed in this report, the State of Texas complied in all material respects with federal requirements in fiscal year 2010.

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 annual audits. Those audits test compliance with federal requirements in 14 areas, such as allowable costs, procurement, and monitoring of non-state entities when the State passes federal funds through to those entities (subrecipients). In addition, each program may outline special tests specific to the program that auditors are required to perform. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$85,612,909 in federal funds during fiscal year 2010 and (2) other selected federal programs.

The Homeland Security Cluster of Federal Programs

The Homeland Security cluster of federal programs provides funding to build and sustain national preparedness capabilities. This funding is intended to enhance the State's ability to prepare for, prevent, respond to, and recover from terrorist attacks and other disasters.

The Public Assistance Cluster of Federal Programs

The Public Assistance cluster of federal programs provides funding to assist state and local governments in responding to and recovering from presidentially declared disasters.

The Federal Emergency Management Agency (FEMA) provides these funds for debris removal; emergency protective measures; and for the repair, restoration, reconstruction, or replacement of public facilities or infrastructure.

This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) 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, 2009, through August 31, 2010, the State of Texas expended \$56.9 billion in federal funds for federal programs and clusters of programs. The State Auditor's Office audited compliance with requirements for the Homeland Security cluster of federal programs and the Public Assistance cluster of federal programs at the Department of Public Safety (Department), which spent \$129,587,514 in federal Homeland Security cluster funds and \$476,103,753 in federal Public Assistance cluster funds during fiscal year 2010.

Auditors identified nine findings, including four material weaknesses with material non-compliance, one material weakness with non-compliance, and four significant deficiencies with non-compliance (see text box for definitions of finding classifications).

Finding Classifications

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

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

Key Points

The Department did not comply in all material respects with federal requirements for the Homeland Security cluster of federal programs.

For all compliance areas tested for the Homeland Security cluster of federal programs, the Department had weaknesses in its control structure or instances of non-compliance. Additionally, for four of those areas, the Department did not comply in all material respects with federal requirements, including requirements related to allowable costs; earmarking limits; procurement, suspension, and debarment; and subrecipient monitoring. Specifically:

- The Department did not allocate direct expenditures, including payroll and payments to its contractors, to ensure that it charged those expenditures to the correct federal awards. This affected all federal programs that the Department's State Administrative Agency (SAA) administered.
- Certain expenditures auditors tested were management and administrative expenditures, but the Department did not always classify them as management and administrative expenditures in its accounting system. As a result, the Department relied on incomplete and inaccurate data to determine whether it complied with requirements that limit administrative costs it can charge to federal grants. This affected all federal programs the Department's SAA administered.
- Department management overrode procurement controls to obtain vendor services. In two instances tested, Department management circumvented or

disregarded the Department's established procurement processes, including competitive bidding, to procure services from its preferred vendor. In fiscal year 2010, one of those procurements totaled \$225,000; for the other procurement, the Department paid the vendor \$420,336 in fiscal year 2010. The Department also could not provide sufficient documentation to support the reasons it classified certain procurements (including the \$225,000 procurement) as emergency procurements and, therefore, did not follow its competitive procurement process.

- The Department did not consistently enforce and monitor subrecipient compliance with federal requirements and, therefore, did not detect subrecipient non-compliance. The Department also did not ensure that its subrecipients obtained OMB Circular A-133 audits when necessary or consistently follow up on issues identified in subrecipients' OMB Circular A-133 audit reports.

Auditors also identified compliance errors and control weaknesses in (1) the methods the Department uses to draw down and expend federal funds and (2) the financial reports the Department submits to the federal government. Specifically:

- The Department did not calculate, monitor, or remit interest earned on federal funds for the Homeland Security cluster of federal programs to the U.S. Treasury. The Department also provided hardship advances to some subrecipients, but it did not obtain evidence that subrecipients spent those funds.
- The Department did not always ensure that the financial reports it submitted to the federal government were adequately supported by information in its accounting system.

While the Department materially complied with most of the requirements tested for the Public Assistance cluster of federal programs, auditors identified certain material weaknesses.

Auditors identified material findings related to allowable costs, cash management, and subrecipient monitoring. Specifically:

- The Department drew down and disbursed federal funds prior to project completion and in violation of its agreement with the Federal Emergency Management Agency. The Department also did not correctly calculate the number of days it held federal funds. That number is important because the State uses that number to determine how much interest it owes to the U.S. Treasury. The Department did not always ensure that its drawdowns of federal funds were properly supported, and it did not always distribute funds within required time frames.
- The Department did not have a formal system to track, administer, and monitor the subgrants it provided to subrecipients. As a result, it did not conduct sufficient monitoring to detect subrecipients' non-compliance with federal requirements. The Department also was not able to provide award agreements for some subrecipients, and it did not ensure that its subrecipients obtained OMB

Circular A-133 audits when necessary or consistently follow up on issues identified in subrecipients' OMB Circular A-133 audit reports.

Auditors also identified compliance and controls issues that were not considered material. Specifically:

- The Department did not verify that vendors and subrecipients were not suspended or debarred from federal procurements.
- The Department did not always ensure that the financial reports it submitted to the federal government were adequately supported by information in its accounting system.

Auditors identified weaknesses in controls over the Department's accounting system.

The Department did not maintain appropriate segregation of duties for high-profile users of its accounting system. Specifically, two programmers had inappropriate, high-level security access to that system.

Auditors followed up on 13 findings from prior fiscal years for the Homeland Security cluster of federal programs, the Public Assistance cluster of federal programs, the Border Enforcement Grant program, the Hazard Mitigation Grant program, and the National Motor Carrier Safety program.

- The Department fully implemented recommendations for six findings.
- The Department partially implemented the recommendation for one finding.
- The State Auditor's Office reissued six findings from prior fiscal years for the Homeland Security cluster of federal programs and the Public Assistance cluster of federal programs as fiscal year 2010 findings in this report.

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 cluster of federal programs and the Public Assistance cluster of federal programs at the Department. As discussed above, auditors identified issues involving segregation of duties for high-profile users of the Department's accounting system.

Summary of Objectives, Scope, and Methodology

With respect to the Homeland Security cluster of federal programs and for the Public Assistance cluster of federal programs, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of 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 cluster of federal programs and the Public Assistance cluster of federal programs.

The audit scope covered federal funds the State spent for the Homeland Security Cluster of federal programs and for the Public Assistance cluster of federal programs from September 1, 2009, through August 31, 2010. The audit work included control and compliance tests at the Department.

The audit methodology included developing an understanding of controls over each compliance area that was material to clusters audited. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate.

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Independent Auditor's Report

*State of Texas Compliance with
Federal Requirements for the
Homeland Security Cluster of Federal
Programs and the Public Assistance
Cluster of Federal Programs for the
Fiscal Year Ended
August 31, 2010*

Report on Compliance with Requirements that Could Have a Direct and Material Effect on the
Homeland Security Cluster and the Public Assistance Cluster and on Internal Control Over
Compliance in Accordance with
U.S. Office of Management and Budget Circular A-133

Compliance

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Homeland Security Cluster and the Public Assistance Cluster for the year ended August 31, 2010. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Homeland Security Cluster and the Public Assistance Cluster is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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 the Homeland Security Cluster and the Public Assistance Cluster 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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

This audit was conducted as part of the State of Texas Statewide A-133 Audit for the year ended August 31, 2010. As such, the Homeland Security Cluster and the Public Assistance Cluster were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2010. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of 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. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.

As identified below and in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to the Homeland Security Cluster and the Public Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to those programs.

Agency	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Allowable Cost/Cost Principles Matching, Level of Effort, Earmarking	11-107
Department of Public Safety	Homeland Security Cluster	Procurement and Suspension and Debarment	11-109
Department of Public Safety	Homeland Security Cluster	Subrecipient Monitoring	11-111
Department of Public Safety	Public Assistance Cluster	Subrecipient Monitoring Special Tests and Provisions - Project Accounting	11-115

In our opinion, because of the effects of the noncompliance identified above, the State did not comply in all material respects with the requirements referred to above that could have a direct and material effect on the Homeland Security Cluster. Also, in our opinion, except for the noncompliance described above, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Public Assistance Cluster for the year ended August 31, 2010. However, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Cash Management Period of Availability of Federal Funds Special Tests and Provisions - Subgrant Awards	11-108
Department of Public Safety	Homeland Security Cluster	Reporting	11-110
Department of Public Safety	Public Assistance Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management	11-112
Department of Public Safety	Public Assistance Cluster	Procurement and Suspension and Debarment Period of Availability of Federal Funds Matching, Level of Effort, Earmarking	11-113
Department of Public Safety	Public Assistance Cluster	Reporting	11-114

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the Homeland Security Cluster and the Public Assistance Cluster. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the Homeland Security Cluster and the Public Assistance Cluster in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the State's internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we considered to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control 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 a 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 which are described in the accompanying Schedule of Findings and Questioned Cost to be material weaknesses.

Agency	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Allowable Cost/Cost Principles Matching, Level of Effort, Earmarking	11-107
Department of Public Safety	Homeland Security Cluster	Procurement and Suspension and Debarment	11-109
Department of Public Safety	Homeland Security Cluster	Subrecipient Monitoring	11-111
Department of Public Safety	Public Assistance Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management	11-112
Department of Public Safety	Public Assistance Cluster	Subrecipient Monitoring Special Tests and Provisions - Project Accounting	11-115

A significant deficiency in internal control over compliance is a deficiency, or 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 which are described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies:

Agency	Cluster or Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Cash Management Period of Availability of Federal Funds Special Tests and Provisions - Subgrant Awards	11-108
Department of Public Safety	Homeland Security Cluster	Reporting	11-110
Department of Public Safety	Public Assistance Cluster	Procurement and Suspension and Debarment Period of Availability of Federal Funds Matching, Level of Effort, Earmarking	11-113
Department of Public Safety	Public Assistance Cluster	Reporting	11-114

Schedule of Program Expenditures

The accompanying Schedule of Program Expenditures for the Homeland Security Cluster and the Public Assistance Cluster (Schedule) of the State for the year ended August 31, 2010, 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, 2010*.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of the Governor, the Members of the Texas Legislature, the Legislative Audit Committee, the management of the State, KPMG LLP, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA
State Auditor

February 18, 2011

Schedule of Program Expenditures for the
 Homeland Security Cluster and the
 Public Assistance Cluster
 for the State of Texas
 For the Year Ended August 31, 2010

Schedule of Program Expenditures Homeland Security Cluster			
Agency	Pass-through to Non-state Entities	Direct Expenditures	Total
Department of Public Safety	\$123,134,462	\$6,453,052	\$129,587,514
Total Audited Homeland Security Cluster	\$123,134,462	\$6,453,052	\$129,587,514
Note: Federal expenditures for the Homeland Security cluster of federal programs at state entities not included in the scope of this audit totaled \$9,442,559 for the year ended August 31, 2010.			

Schedule of Program Expenditures Public Assistance Cluster			
Agency	Pass-through to Non-state Entities	Direct Expenditures	Total
Department of Public Safety	\$397,069,684	\$79,034,069	\$476,103,753
Total Audited Public Assistance Cluster	\$397,069,684	\$79,034,069	\$476,103,753
Note: Federal expenditures for the Public Assistance cluster of federal programs at state entities not included in the scope of this audit totaled \$53,976,087 for the year ended August 31, 2010.			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with Federal
Requirements for the Homeland Security Cluster
of Federal Programs and the Public Assistance
Cluster of Federal Programs for the Fiscal Year
Ended August 31, 2010*

Summary of Auditors' 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 Fiscal Year Ended August 31, 2010*.

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 or Cluster
Cluster	Homeland Security Cluster
Cluster	Public Assistance Cluster

Major programs with Material Weaknesses:

CFDA Number	Name of Federal Program or Cluster
Cluster	Homeland Security Cluster
Cluster	Public Assistance Cluster

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

Adverse:

CFDA Number	Name of Federal Program or Cluster
Cluster	Homeland Security Cluster

Qualified:

CFDA Number	Name of Federal Program or Cluster
Cluster	Public Assistance Cluster

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 or Cluster
Cluster	Homeland Security Cluster
Cluster	Public Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs: \$85,612,909

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 Fiscal Year Ended August 31, 2010*.

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. 11-107

Allowable Costs/Cost Principles

Matching, Level of Effort, Earmarking

(Prior Audit Issues 10-35 and 09-38)

Homeland Security Cluster

Award years – see below

Award numbers – see below

Type of finding – Material Weakness and Material Non-Compliance

Allowable Costs/Cost Principles - Payroll

In accordance with Title 2, Code of Federal Regulations (CFR), Part 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 program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee 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:

Questioned Cost: \$7,566
U.S. Department of Homeland Security

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

Budget estimates 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 amounts 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, Part 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety's (Department) State Administrative Agency (SAA) manages and administers Homeland Security grant programs, including the Homeland Security Cluster of federal awards, for the State of Texas. **SAA employees complete weekly time sheets to indicate the number of hours worked, including the number of hours charged to each federal award. However, the Department does not base its charges to each**

federal award solely on the time charged. Instead, it distributes wages using estimates based on the amount of time employees and management charged as well as the management and administrative (M&A) funds remaining for each grant.

For all 11 monthly payroll charges tested, the Department did not base its payroll charges to federal awards on actual work completed, although most employees did submit weekly timesheets. According to the tool the Department used to allocate payroll charges to federal awards, the Department charged \$33,862 to the Homeland Security Cluster for the monthly payrolls tested. For these 11 employees, the Department charged a total of \$52,761 for the payroll period to all federal programs administered by the SAA. As a result of incorrectly charging federal grants based on factors other than actual time worked, the Department overcharged the Homeland Security Cluster \$7,566 for the 11 payroll charges tested. Total salaries and benefits charged to the Homeland Security Cluster for fiscal year 2010 were \$2,201,786. Because the SAA uses this allocation methodology to charge payroll costs to all of its federal awards, this issue affects all federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered eight other federal grant programs, which are listed below.

Additionally, for 1 (9 percent) of the 11 monthly payroll charges tested, the Department could not provide an employee's timesheets for the majority of the time charged during the period tested.

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, Part 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, OMB requires that costs be treated consistently with other costs incurred for the same purposes in like circumstances.

Four (8 percent) of 49 non-payroll expenditures tested that the Department charged to the Homeland Security Cluster were not solely allocable to the Homeland Security Cluster. All four expenditures were paid to temporary staffing firms for M&A services. These services benefited multiple grant programs, including the Homeland Security Cluster and other federal programs listed below, and should have been allocated across the M&A budgets for each of these grant programs. In fiscal year 2010, the Department charged \$313,971 to the Homeland Security Cluster for the services of two temporary staffing firms that were included in auditors' allowable costs testing.

The Department does not use an allocation process to ensure that it charges expenditures for contract labor to the correct award. Instead, the Department charges contractor invoices to program budgets that have remaining M&A funds available. The contractor invoices auditors reviewed did not contain detailed descriptions of the work performed; therefore, auditors were unable to determine the amount of questioned costs associated with these errors. Because the Department does not use a proper allocation methodology for contract labor, it is not charging the cost of contract labor to the federal grant programs that benefited from the services provided. This issue also affects other federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered nine other federal grant programs, which are listed below.

Additionally, the Department did not classify one of the four payments for temporary services discussed above as an M&A cost, although it was an administrative cost. As a result, the Department did not treat this expenditure in the same manner that it treated similar expenditures. Not properly recording M&A expenditures could cause the Department to charge more M&A expenditures to Homeland Security Cluster programs than is permitted by the Department's grant agreements. This issue is discussed in more detail below.

Earmarking

According to U. S. Department of Homeland Security grant guidance, the Department is required to limit M&A expenditures to a percentage of the award amount. The percentages were 3 percent for award years 2005, 2008, and 2009 (Title 6, United States Code, Section 609(a)(11)) and 5 percent for award years 2006 and 2007 (Title 42, United States Code, Section 3714(c)(2); Title III, Pub. L. No. 108-334; and Conference Report 109-241 to the Fiscal

Year 2006 Department of Homeland Security Appropriations Act (Pub. L. No. 109-90)). The Department establishes separate M&A budget codes within its accounting system to track M&A expenditures and monitors its compliance with earmarking limits. It then classifies expenditures using these budget codes and monitors amounts charged to M&A budget codes to ensure that it does not exceed earmarking limits.

Proper classification and allocation of expenditures across budget codes is important to successful tracking of M&A expenditures and for the Department to ensure that it does not exceed earmarking percentages. As discussed above, however, **the Department does not have a process to allocate direct charges to the appropriate federal programs.** As a result, the Department is relying on incomplete and inaccurate data to monitor its compliance with earmarking requirements. However, that data indicates that the Department complied with earmarking requirements during fiscal year 2010.

The Department received the following Homeland Security Cluster awards:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012
2010-SS-T0-0008	August 1, 2010	July 31, 2013

In addition to the Homeland Security Cluster awards, the Department's SAA also manages grant funds for the following grant programs:

- Buffer Zone Protection Program. (CFDA 97.078)
- Emergency Management Performance Grant. (CFDA 97.042)
- Emergency Operations Center Grant Program. (CFDA 97.052)
- Interoperable Emergency Communications Grant. (CFDA 97.001)
- Non-profit Security Grant Program. (CFDA 97.008)
- Operation Stonegarden. (CFDA 97.067)
- Public Safety Interoperable Communications. (CFDA 11.555)
- Regional Catastrophic Preparedness Grant Program. (CFDA 97.111)
- Transit Security Program Grant. (CFDA 97.075)

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce code changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had

scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure that all payroll and non-payroll costs it charges to the Homeland Security Cluster are allocable to the federal award and that it bases its allocation methods on actual time spent or services provided.
- Maintain sufficient documentation to support the costs it charges to the Homeland Security Cluster.
- Ensure that it charges costs to appropriate budget codes and treats similar costs consistently.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department is installing new leadership to manage the State Administrative Agency.

The Department agrees with the recommendations and will implement controls to:

- *Ensure that all costs charged to the Homeland Security are allocable to the federal award and that the allocation method is based on actual time spent or services provided.*
- *Ensure that sufficient documentation is maintained to support costs charged to the Homeland Security Cluster.*
- *Ensure costs are charged to the appropriate budget codes and that similar costs are treated consistently.*

Implementation Date: These actions will be completed by May 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Robert Bodisch and Mark Doggett

Reference No. 11-108

Cash Management

Period of Availability of Federal Funds

Special Tests and Provisions – Subgrant Awards

Homeland Security Cluster

Award years – see below

Award numbers – see below

Type of finding – Significant Deficiency and Non-Compliance

Interest on Advances

Beginning in fiscal year 2005, Homeland Security Grant Program awards to states were exempted from the provisions of the Cash Management Improvement Act (CMIA). Grantees 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, grantees 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 (CFR), Section 13.21).

Questioned Cost: \$ 0

U.S. Department of Homeland Security

The Department of Public Safety (Department) did not calculate or monitor interest earned on federal funds for the Homeland Security Cluster, 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 earned on advanced federal funds. These funds are received by the Texas Comptroller of Public Accounts and deposited into a treasury account along with non-Homeland Security funds. The Department has not entered into an arrangement with the Texas Comptroller of Public Accounts to isolate the interest earned solely on Homeland Security funds. Therefore, the Department has never remitted any interest earned to the U. S. Treasury. Auditors tested a sample of 85 transactions and estimated an interest liability of \$59.89 related to those transactions. The Department drew down \$132,498,105 of federal Homeland Security Cluster funds during that period.

Subrecipient Advances

Recipients of federal funds are required to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, CFR, Section 13.37 a(4)). The U. S. Department of Homeland Security requires that grantees and subgrantees be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and disbursement by the grantee or subgrantee (Title 44, CFR, Section 13.21).

For 7 (13 percent) of 52 subrecipients tested, the Department provided hardship advances to subrecipients without obtaining proof of subsequent disbursement. The Department allows subrecipients to request cash advances in cases of economic hardship. However, it does not follow up with subrecipients that have received hardship advances to ensure that they spent the federal funds. The Department does not require subrecipients to submit proof of payment for advanced funds. As a result, the Department cannot provide reasonable assurance that recipients of hardship advances are minimizing the time between receipt and disbursement of federal funds.

The Department passed through funds and received advanced funds from the following Homeland Security Cluster awards:

<u>Award Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

Period of Availability of Federal Funds and Special Tests and Provisions – Subgrant Awards

Although the general control weakness described below applies to period of availability of federal funds and special tests and provisions – subgrant awards, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provide reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high level security access to MSA. This could enable the programmers to introduce changes to MSA they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Calculate the amount of interest earned on advanced funds for fiscal year 2010 and work with the awarding agency to return the interest earned.
- Establish procedures to calculate and track interest earned on advanced federal funds and ensure that interest exceeding \$100 annually is remitted to the U.S. Treasury at least quarterly.
- Conduct follow-up with subrecipients who receive hardship advances to ensure that they are minimizing the time elapsing between receipt and disbursement of federal funds.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

DPS will coordinate with Comptroller's Office to calculate interest earned in 2010, and return to the awarding agency. Additionally,

- we will implement procedures to calculate and track interest earned on advanced federal funds and ensure that interest exceeding \$100 annually is remitted to the U.S. Treasury at least quarterly, and
- will implement controls to assure that we Conduct follow-up with subrecipients who receive hardship advances to ensure that they are minimizing the time elapsing between receipt and disbursement of federal funds.

Implementation Date: These actions will be completed by June 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Robert Bodisch and Mark Doggett

Reference No. 11-109

Procurement and Suspension and Debarment

Homeland Security Cluster

Award years – see below

Award numbers – see below

Type of finding – **Material Weakness and Material 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.

Questioned Cost: \$ 225,000

U.S. Department of Homeland Security

Emergency Procurements

The Department of Public Safety's (Department) purchasing policy outlines proper procurement procedures and emphasizes the importance of competitive bidding, including in the case of emergency purchases. That policy requires staff to notify the Department's accounting function immediately before initiating any bidding or purchasing and provide written justification to the accounting function before processing any payments on the procurement. The policy also states that failure to anticipate need does not constitute an emergency.

The Department classified 4 (80 percent) of the 5 procurements that auditors tested as emergency procurements. **For 3 (75 percent) of those 4 emergency procurements totaling \$486,633, the Department was not able to provide sufficient documentation to support that the circumstances constituted an emergency. In each of these three instances, Department documentation indicated that the Department either (1) did not allow sufficient time to complete a competitive bidding process prior to expiration of a current contract or (2) disregarded the results of a competitive bidding process and purchased the services from an existing vendor using an emergency procurement process.** Each of the three emergency procurements was an extension of a previous emergency contract into which the Department had entered. Based on Department documentation and the Department's purchasing policy, those three purchases should have been competitively procured.

For one of the three emergency procurements discussed above, Department management overrode established procurement procedures to award a contract to a preferred vendor. The Department originally solicited and evaluated competitive bids for this purchase. However, when the result of the bid scoring favored a vendor that was not management's preferred vendor, the Department overrode existing controls to cancel the procurement and enter into an emergency contract with its preferred vendor. The amount of this procurement was \$225,000. After it awarded the emergency contract to its preferred vendor, the Department modified its request for proposal (RFP) to include specifications not included in the original RFP and initiated another competitive bidding process. Under the revised RFP specifications, the proposal that the Department's preferred vendor submitted was scored the highest. The proposal review team that scored the proposals consisted of the same reviewers who scored the proposals submitted in response to the original RFP, and the Department awarded a new contract to its preferred vendor. After the State Auditor's Office informed Department executive management about the circumstances surrounding this procurement, the Department canceled its contract with the vendor effective January 31, 2011.

Department of Information Resources (DIR) Procurements

The Department's State Administrative Agency (SAA) used existing contracts through the Texas Department of Information Resources (DIR) to procure consultant services to assist in the administration of the homeland security program and other programs that the SAA administered. DIR's contract provides information technology (IT) staff augmentation services to state entities.

Based on information SAA staff provided, SAA management identified specific individuals whom it wanted to hire as consultants. SAA management then contacted the DIR-approved vendor and requested that the vendor provide the services of these specific individuals through the DIR contract. **This allowed the SAA to retain the services of specific individuals and not use the Department's competitive bidding process.**

The Department was not able to provide detailed information regarding the work that the consultants who worked through the DIR contract performed. However, based on Department documentation and interviews conducted with Department staff, the SAA used the DIR contract to obtain management and administrative support for federal programs that the SAA administered. Most of the consultants paid through the DIR contract did not specifically provide IT staff augmentation services. **As a result, the SAA inappropriately used an existing DIR contract to obtain non-IT services and circumvented the Department's established process to procure non-IT consultant services.**

Department invoices indicated the Department paid the consultants discussed above \$420,336 during fiscal year 2010 for services performed for federal programs administered by the SAA. Of that amount, the department charged \$151,265 to the Homeland Security Cluster. In fiscal year 2011, the SAA entered into a subrecipient agreement with a local government entity and instructed the local government entity to subcontract with a different contractor for the services of the same consultants obtained through the DIR contract.

Because the Department allocates the costs paid under the DIR contract to multiple federal awards, the contracting issues discussed above affected other federal grant programs that the SAA administered, including the programs and awards listed below.

In addition to the Homeland Security Cluster awards, the SAA also manages grant funds for the following grant programs:

- Buffer Zone Protection Program (CFDA 97.078).
- Emergency Management Performance Grant (CFDA 97.042).
- Emergency Operations Center Grant Program (CFDA 97.052).
- Interoperable Emergency Communications Grant (CFDA 97.001).
- Non-profit Security Grant Program (CFDA 97.008).

- Operation Stonegarden (CFDA 97.067).
- Public Safety Interoperable Communications (CFDA 11.555).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Transit Security Program Grant (CFDA 97.075).

The issues discussed above affected the following awards that had procurements in fiscal year 2010:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce code changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Consistently follow its established procurement policies related to competitive bidding and emergency procurements.
- Ensure that it uses pre-existing statewide contracts appropriately and only for their intended purpose.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations. The Department has canceled the contract identified by the SAO as well as terminated the contract services provided by the DIR vendor. Additionally, the Department will implement controls to:

- *Ensure procurement policies related to competitive bidding and emergency procurements are followed.*
- *Ensure that pre-existing statewide contracts are used appropriately and only for their intended purpose.*

Implementation Date: These actions were completed by January 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Robert Bodisch and Mark Doggett

Reference No. 11-110

Reporting

(Prior Audit Issue 10-36)

Homeland Security Cluster

Award years – see below

Award numbers – see below

Type of finding – Significant Deficiency and Non-Compliance

Reporting

Recipients of Homeland Security Cluster funds are required to report the financial status of their federal awards on a quarterly basis through the Federal Financial Report (SF-425). Reports must be submitted for every calendar quarter of the period of performance within 30 days of the end of each quarter (Title 44, Code of Federal Regulations, Section 13.41).

Questioned Cost: \$ 0

U.S. Department of Homeland Security

For 4 (67 percent) of 6 reports tested at the Department of Public Safety (Department), the reported amounts of cash receipts and cash disbursements did not agree with data from the Department's accounting system. For 3 (75 percent) of those 4 reports, the Department did not correct the errors in subsequent quarterly reports.

To ensure accurate reporting, the Department requires reconciliations for each budget number included in the Federal Financial Report. Budget analysts are required to document explanations for all differences between internal spreadsheets and the Department's accounting system and all differences between expenditures and revenue. For all four reports discussed above, budget reconciliations were either missing or contained errors. In some cases, the reconciliation totals did not agree with totals in the Federal Financial Report. As a result, the amounts of cash receipts and cash disbursements the Department reported were not completely accurate. For each report, the errors accounted for less than 1 percent of total reportable grant activity.

The following awards were affected by the above finding:

<u>Award Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high level security access to the MSA accounting system. This is a weak segregation of duties since a programmer could introduce changes to MSA that the programmer could then exploit as an accounting user. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Complete budget reconciliations correctly, and accurately transfer reconciliation totals to its Federal Financial Reports.
- Document all information supporting the amounts on its Federal Financial Reports.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- *Ensure budget reconciliations are completed correctly, and reconciliation totals are accurately transferred to the Federal Financial Reports.*
- *Ensure all information supporting the amounts on Federal Financial Reports is documented.*

Implementation Date: These actions will be completed by April 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Denise Hudson and Mark Doggett

Reference No. 11-111

Subrecipient Monitoring

(Prior Audit Issues 10-37 and 09-43)

Homeland Security Cluster

Award years – see below

Award numbers – see below

Type of finding – Material Weakness and Material Non-Compliance

During-the-award Monitoring

Recipients of Homeland Security Cluster funds are required to monitor grant 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, Section 13.40).

Questioned Cost: \$ 0

U. S. Department of Homeland Security

The Department of Public Safety (Department) largely monitors subrecipient activities through review and approval of reimbursement requests, quarterly progress reporting, and site visits it conducts at subrecipients that it selects based on a biennial risk assessment. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department's controls did not detect instances of subrecipient noncompliance with federal requirements.** Specifically:

- For 34 (65 percent) of 52 subrecipients tested, either (1) the Department did not monitor the subrecipient's compliance with quarterly reporting requirements or (2) the subrecipient did not comply with quarterly reporting requirements. All 34 subrecipients received federal funds during fiscal year 2010.
- Five (10 percent) of the 49 subrecipients in the test sample with moderate or high scores on the Department's risk assessment had never received a site visit from the Department as of October 7, 2010. As a result, the Department could not provide documentation showing that those subrecipients' procurement and equipment policies and procedures had ever been monitored. In addition, two of those subrecipients were not included in the Department's 2010 risk assessment and, therefore, were not considered for site visits.
- For 4 (9 percent) of 44 subrecipients at which the Department conducted site visits, the Department did not maintain documentation that management had reviewed and approved the documented results of the site visits.
- For 7 (24 percent) of 29 subrecipients at which the Department's site visits had uncovered deficiencies, the Department did not maintain documentation showing that its monitoring staff followed up on those deficiencies.

In addition, **the Department did not fully use its risk assessment to select the subrecipients at which it would conduct site visits.** For example, some subrecipients had high risk assessment scores but the Department did not visit them during 2010. However, the Department did visit several subrecipients with low risk assessment scores.

Also, 1 (2 percent) of 52 subrecipients tested received reimbursement for costs incurred outside of the period of performance specified on the subaward between the Department and the subrecipient. Although subrecipients are denied access to the State Preparedness Assessment and Reporting Service (SPARS) at the close of their period of performance, the Department allows subrecipients to submit invoices via fax or mail for 90 days after the end of that period. The Department then processes those invoices and enters them into SPARS. This subrecipient submitted two invoices in this manner, but Department staff did not identify that the subrecipient's costs were not incurred during the period of performance and that the 90-day period had ended.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

A-133 Compliance Monitoring

According to Office of Management and Budget (OMB) Circular A-133, the Department must ensure that subrecipients 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 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with A-133 audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. **However, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain an A-133 audit. As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain an A-133 audit or that subrecipients that did not comply had been appropriately sanctioned.**

For 13 (25 percent) of 52 subrecipients tested, the Department did not verify whether the subrecipient obtained an A-133 audit. Ten of those subrecipients were not included in the Department's A-133 tracking spreadsheet and, therefore, the Department did not monitor them for compliance with A-133 audit requirements. The remaining three were included on that spreadsheet, but they either (1) did not respond to the Department's Single Audit questionnaire or (2) did not submit their A-133 audit report within nine months of their fiscal year end. In addition, three subrecipients had findings in their A-133 audit reports, but the Department's tracking spreadsheet did not contain documentation of a management decision because that spreadsheet lacks fields to document follow-up actions and management decisions regarding audit findings. For all cases discussed above, the Department's A-133 monitoring files did not contain evidence that it responded to subrecipient noncompliance in accordance with its sanction policy. Finally, one subrecipient submitted an audit report that the Department did not review within the required six-month time period.

Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above effect the following Homeland Security Cluster awards:

<u>Award Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a

regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Consistently enforce quarterly reporting requirements for all subrecipients.
- Use its risk assessment to ensure that it will conduct site visits at high-risk subrecipients.
- Maintain supporting documentation of the monitoring activities its performs during site visits at subrecipients.
- Establish and implement procedures to track subrecipients' compliance with requirements to obtain an A-133 audit, and incorporate management review of audit findings into those procedures.
- Issue sanctions when subrecipients do not comply with federal requirements.
- Enhance its policy to guide its risk assessment and site visit selection process, and ensure that this policy includes a requirement to document the Department's rationale for selecting subrecipients for site visits.
- Ensure that subrecipients are reimbursed only for costs incurred within their period of performance.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- *Ensure quarterly reporting requirements are enforced for all subrecipients.*
- *Ensure that site visits are conducted at high-risk subrecipients.*
- *Ensure supporting documentation of monitoring activities performed is maintained.*
- *Track subrecipients' compliance with requirements to obtain an A-133 audit, and incorporate management review of audit findings into those procedures*
- *Ensure sanctions are issued when subrecipients do not comply with federal requirements.*

Additionally, the risk assessment and site visit selection process will be enhanced to ensure that the policy includes a requirement to document the Department's rationale for selecting subrecipients for site visits. Controls will be implemented to ensure subrecipients are reimbursed only for costs incurred within their period of performance.

Implementation Date: These actions will be completed by July 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Robert Bodisch and Mark Doggett

Reference No. 11-112

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management**

Public Assistance Cluster

Award years – see below

Award numbers – see below

Type of finding – Material Weakness and Non-Compliance

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, lists factors affecting allowability of costs, including that costs must be (1) necessary and reasonable for proper and efficient performance and administration of federal awards, (2) allocable to federal awards under the provisions of the circular, and (3) be adequately documented. For the Public Assistance program, allowable costs must be for the federally approved project as described on the project worksheet and supporting documentation.

Questioned Cost: \$ 148,531 U.S. Department of Homeland Security

For 1 (2 percent) of 50 items tested, the Department of Public Safety (Department) did not ensure that its drawdowns of federal funds were properly supported. Specifically, errors the Department made while accumulating information in timesheets led to questioned costs of \$1,965 in state management costs. While the Department has a control to review drawdown information, that control is not adequate to identify inaccuracies in the manual process of inputting timesheets into a spreadsheet that tracks payroll costs per disaster. During fiscal year 2010, the Department did not perform a subsequent review of the information that was included in the drawdown of federal funds. Not having accurately supported documentation could cause unallowable costs to be awarded to the Department and could jeopardize future funding.

These following programs were affected by the above issue:

<u>Disaster</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005

Funding Technique

According to the Cash Management Improvement Act Agreement between the State of Texas and the U.S. Department of the Treasury (Treasury-State Agreement), the Public Assistance program exceeds the State's threshold for major federal assistance programs and, therefore, is subject to the Treasury-State Agreement. The Public Assistance program is subject to the pre-issuance funding technique. Under this method, the State is required to request that funds be deposited in the State account no more than three days prior to the day the State makes a disbursement (Treasury-State Agreement, Section 6.2.1). In an August 14, 2002, letter from the Federal Emergency Management Agency (FEMA) Region VI Regional Director to the Department's Division of Emergency Management, an exception was allowed for up to seven days for the withdrawal and disbursement of federal funds to sub-grantees.

For 3 (6 percent) of 50 items tested, the Department did not comply with established time requirements. In these three instances, the Department distributed funds from 8 to 19 days after the receipt of the federal funds. This occurred due to delays in the manual processing of withdrawal and disbursement of funds to sub-grantees. Not following the required time requirements means that subgrantees are not receiving federal funds in a timely manner.

Disbursement Proportions

According to Title 44, Code of Federal Regulation (CFR), Section 206.207, the State must submit a revised plan to FEMA annually for the administration of the Public Assistance program that must include several items, including

procedures for processing requests for advances of funds and reimbursements. According to the State of Texas Administrative Plan for Hurricane Ike, for large projects that were 99 or 100 percent complete when written, the Division of Emergency Management shall disburse 75 percent of the entire federal share for Hurricane Gustav and 90 percent of the entire federal share for Hurricane Ike to the applicant upon obligation of funds by FEMA. Additionally, an applicant may request an advance on an approved large project, not to exceed 75 percent of the federal share for any one project.

For 15 (30 percent) of 50 items tested, the Department did not ensure that its draws of federal funds complied with the State of Texas Administrative Plan for Hurricane Ike. Specifically, the Department drew down and disbursed 100 percent of the federal share for approved project costs prior to project completion. This occurred because Department management authorized advance payments for seven subgrantees and for projects that the Department directly managed. This advance of funds exceeded the limit established in the State of Texas Administrative Plan for Hurricane Ike. The Department drew down \$1,044,845 for three subrecipient projects included in auditors' testing. Of that amount, \$146,566 was not eligible for disbursement at the time of the drawdowns based on the requirements in the State Administrative Plan. This could jeopardize future funding under the Public Assistance program.

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 (from deposit date to issuance date, where issuance date is the date of the actual release of payments). The Office of the Comptroller of Public Accounts will calculate the clearance pattern for period 2 from issuance date to clearance date.

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

- Determined the number of days in period 1 incorrectly because it calculated the average period 1 time frame for each draw within the time period and then calculated the average of all of those averages.
- Did not correctly calculate the total number of days from the deposit date to the paid date when it calculated period 1. The Department calculated the total number of days from the deposit date to the paid date as 1,630 days when the correct number of days was 1,637.

Errors in the Department's period 1 calculation may result in the State over/under paying interest liabilities to the federal government.

These following programs were affected by the above exceptions:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1356	FEMA-1356-DR	January 8, 2001
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
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
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
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure that state management costs are adequately supported by comparing those costs with supporting timesheets and related information.
- Ensure that its process to withdraw and disburse federal funds to subgrantees adheres to the seven-day time frame approved by FEMA.
- Ensure that management does not override FEMA-approved grant guidelines regarding advances of funds in proportion to the approved award amounts without direct approval from FEMA.
- Calculate the clearance pattern for period 1 in accordance with the Treasury-State Agreement.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- Ensure state management costs are adequately supported by comparing those costs with supporting timesheets and related information.
- Ensure the process to withdraw and disburse federal funds to subgrantees adheres to the seven-day time frame approved by FEMA.
- Ensure that management does not override FEMA-approved grant guidelines regarding advances of funds in proportion to the approved award amounts without direct approval from FEMA.

Implementation Date: These actions will be completed by August 2011.

The Department recalculated the clearance pattern for period 1 and resubmitted it to the Comptroller of Public Accounts in December 2010.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Denise Hudson, Nim Kidd, and Mark Doggett.

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

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, 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).

Questioned Cost: \$ 0

U.S. Department of Homeland Security

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 or 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:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
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

Matching, Level of Effort, Earmarking and Period of Availability of Federal Funds

Although the general control weakness described below applies to matching, level of effort, earmarking; and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Develop and implement a process to verify the suspension and debarment status of all vendors and subrecipients, including those procured under emergency procurement procedures.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Texas Division of Emergency Management has added the requirement to document the review of the suspension and debarment list to the State Operations Center Finance Team procedures checklist.

We will further review controls to ensure the suspension and debarment status is verified for all vendors and subrecipients, including those procured under emergency procurement procedures.

Implementation Date: These actions will be completed by July 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Nim Kidd and Mark Doggett

Reference No. 11-114

Reporting

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

Public Assistance Cluster

Award years – see below

Award numbers – see below

Type of finding – Significant Deficiency and Non-Compliance

Reporting

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. Reports must be submitted within 30 days of the end of each quarter (Title 44, Code of Federal Regulations, Section 13.41).

Questioned Cost: \$ 0
U.S. Department of Homeland Security

The Department of Public Safety (Department) did not always ensure that financial reports it submitted were adequately supported by data in the Department’s accounting system. Specifically:

- 1 (9 percent) of 11 SF-425 reports tested included revenue received through cash draws that could not be traced to the accounting system within a reasonable amount.
- 3 (30 percent) of 10 SF-425 reports tested included expenditures that could not be traced to the accounting system within a reasonable amount.

Department management reviewed all reports tested, but those reviews were not sufficient to ensure that all information in the reports was adequately supported. The Department was unable to provide an explanation for the variances between the SF-425 reports and its accounting system. The Department compares information from the SmartLink system and the Federal Payment Management System to prepare its SF-425 reports, but it does not reconcile the information in Smartlink to its accounting system. When the Department submits an inaccurate report, this decreases the reliability of the information intended for the federal government.

Additionally, the Department submitted 5 (45 percent) of 11 SF-425 financial reports tested after the date they were due. It submitted those five reports for the quarter ending June 30, 2010. The Department submitted them an average of 25 days late because it did not provide the responsible employee with procedures or training.

The issues discussed above affect the following awards:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1606	FEMA-1606-DR	September 24, 2005
1658	FEMA-1658-DR	August 15, 2006
1780	FEMA-1780-DR	July 24, 2008
3216	FEMA-3216-EM	September 2, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Document procedures for preparing and submitting required reports, and provide training to its employees to ensure that it submits accurate reports and in a timely manner.
- Develop and implement a process to reconcile the information in its accounting system to Smartlink on a regular basis.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will:

- *Document procedures for preparing and submitting required reports, and will train employees to ensure that reports are submitted accurately and in a timely manner.*
- *Develop and implement a process to reconcile the information in its accounting system to Smartlink on a regular basis.*

Implementation Date: These actions will be completed by June 2011.

Additionally, the Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Denise Hudson, Nim Kidd, and Mark Doggett

Reference No. 11-115

Subrecipient Monitoring

Special Test and Provisions – Project Accounting

(Prior Audit Issues – 10-42 and 09-48)

Public Assistance Cluster

Award years – see below

Award numbers – see below

Type of finding – Material Weakness and Material Non-Compliance

The Department of Public Safety (Department) is required by Office and 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.

Questioned Cost: \$ 0

U.S. Department of Homeland Security

The Department does not have a formal system to track, administer, and monitor the subgrants it provides to subrecipients. Without such a system, the Department relies on informal processes that vary by disaster and by staff member. This inhibits the Department’s ability to easily locate and maintain subrecipient files. In fiscal year 2010, the Department passed through \$397,069,684 to subrecipients.

Award Identification

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 Compliance Supplement, Part 3, Section M).

For 2 (4 percent) of 50 subrecipients that received pass-through funds from the Department, the Department was not able to provide the award agreements into which it entered with each subrecipient. As a result, the Department was not able to provide evidence that it communicated all required information, including both award information and applicable requirements.

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. Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on a subrecipient’s Schedule of Expenditures of Federal Awards (SEFA).

During-the-award Monitoring and Special Tests and Provisions

The Department’s primary monitoring tool for Public Assistance subrecipients is the final audit that it conducts on projects designated by the Federal Emergency Management Agency (FEMA) as “large” projects. FEMA determines a funding threshold for each disaster (for example, the threshold for Hurricane Ike was \$60,900), and the projects with awarded amounts exceeding that amount are required to have a final audit and a final project accounting prior to payment of the final invoice. The final project audit includes a review of a subrecipient’s compliance with applicable state and federal requirements for each large project.

According to the Department’s State Administrative Plan (1) emergency projects, such as debris removal, must be complete within 6 months of the disaster declaration and (2) permanent projects, such as building repair, must be

complete within 18 months of the disaster declaration. Subrecipients can request that the Department extend those time periods in some circumstances. **For 17 (71 percent) of 24 projects that had exceeded the time periods allowed, the Department could not provide evidence that it approved a time extension.**

For large ongoing projects, subrecipients are required to submit quarterly reports to the Department. For all projects, subrecipients are required to submit a project completion and certification report after the project is complete. **For 8 (19 percent) of 43 subrecipients, the Department could not provide evidence that it received and reviewed those required reports.** For each of those eight subrecipients, the Department could not provide the project completion and certification report.

The Department also did not audit, close, and account for projects that appeared to be complete based on the Department's documentation. Specifically:

- For 2 (17 percent) of 12 large projects that appeared complete, the Department did not request or conduct a final audit.
- For 12 (57 percent) of 21 projects that appeared complete, the Department did not complete final close-out procedures for its audit and could not provide documentation regarding the status of the project.

In addition, the Department uses site inspection visits to monitor subrecipient projects. The Department conducts an on-site visit for some types of large projects and for 20 percent of each subrecipient's small projects. The Department does not conduct on-site visits for projects that were complete at the time the project was approved by FEMA. Based on information the Department provided, **the Department did not use site visits to monitor the 50 subrecipients tested.** Not all of these subrecipients required site visits. **However, at least 6 (12 percent) of the 50 subrecipient projects were large projects requiring a site visit prior to project close-out.** One of these six projects was complete prior to the end of fiscal year 2010.

Insufficient monitoring during the award period increases the risk that the Department would not detect non-compliance by subrecipients administering federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, the Department must ensure that each subrecipient that expends more than \$500,000 in federal funds obtains an OMB Circular A-133 Single Audit and provides a copy of the audit report to the Department within 9 months of the end of the subrecipient's fiscal year (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 Division of Emergency Management Audit and Compliance Unit (Division) is responsible for monitoring its subrecipients' A-133 audit reports. However, the Division did not consistently receive, review, and follow-up on its subrecipients' A-133 audit reports.

For 10 (20 percent) of 50 subrecipients tested that received funding during fiscal year 2010, the Division was unable to provide evidence that it received an A-133 audit report from the subrecipient or verified that an audit was not required. Specifically:

- Three of those 10 subrecipients were not included in the Division's A-133 audit tracking spreadsheet and, as a result, the Division did not monitor them for compliance with A-133 audit requirements.
- For seven of those 10 subrecipients, the Division sent a letter requesting a copy of the subrecipient's A-133 audit report or a certification that an audit was not required, but the Division did not ensure that the subrecipients responded to these letters.

Four of those 10 subrecipients submitted an A-133 audit report to the Federal Audit Clearinghouse in fiscal year 2010, and two of those audit reports identified significant deficiencies.

Because the Division did not receive these A-133 audit reports, it was unable to identify potential issues that would require follow-up; as a result, it was unable to issue management decisions on audit findings associated with these subrecipients. Additionally, while the Department has a policy to sanction subrecipients for failure to comply with audit and compliance requirements, it was unable to determine whether sanctions were necessary without this audit information. Most importantly, the Division and the Department are unaware of potential risks related to subrecipients' compliance with federal compliance requirements.

Additionally, for 1 (2 percent) of 50 subrecipients tested, the Division received and reviewed an A-133 audit report that included a significant deficiency that directly affected the Public Assistance program. However, the Department did not issue a management decision on this finding or follow up to determine the resolution of the finding. While the Department has a tracking system to document its review of A-133 audit findings, that tracking system did not include fields for following up or issuing management decisions on subrecipients' A-133 audit findings. According to Department management, the Department did not generally follow up on subrecipient deficiencies during fiscal year 2010.

Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

The issues discussed above affected the following awards:

<u>Disaster</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008T

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure its record contain subrecipients' applications for federal assistance and information related to compliance requirements to ensure that it has communicated the required elements of award information and specific information related to federal compliance to subrecipients.
- Establish a formal process to track and monitor all active subrecipient and Department projects.

- Maintain documentation of its during-the-award monitoring activities.
- Require all subrecipients to certify that they will obtain an A-133 audit if they meet the threshold or certify that they are not required to obtain an A-133 audit and follow-up with its subrecipients to ensure it receives a response.
- Establish a process to issue a management decision on findings in subrecipients' A-133 audit reports within six months of receipt those reports and follow-up on issues identified in those findings.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will:

- *Ensure records contain subrecipients' applications and evidence of communicating compliance requirements.*
- *Establish a formal process to track and monitor all active subrecipient and Department projects.*
- *Maintain documentation of its during-the-award monitoring activities.*
- *Require all subrecipients to certify that they will obtain an A-133 audit if they meet the threshold or certify that they are not required to obtain an A-133 audit and follow-up with its subrecipients to ensure it receives a response.*

The issue related to management decision making on findings in subrecipients' A-133 audit reports was identified by TDEM's Standards and Compliance Office in a report issued in June 2010. As a result of the findings in that report, TDEM immediately revised a number of its single audit review procedures and adopted a policy requiring the issuance of management decisions based on subrecipient single audit findings. The policy is documented in the TDEM Grant Administration Guide of July 2010. However, to strengthen the policy, management will immediately modify it to include a statement that such decisions "shall be made within six months of receiving the subrecipient's audit report, pursuant to A-133.400(d)(5)." This action will ensure a process is in place to issue a management decision on findings in subrecipients' A-133 audit reports within six months of receipt those reports and follow-up on issues identified in those findings.

Implementation Date: These actions will be completed by August 2011.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: These actions were completed in February 2011.

Responsible Persons: Denise Hudson, Nim Kidd, and Mark Doggett

Summary Schedule of Prior Year Audit Findings

Federal regulations (Office of Management and Budget Circular 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 2009 Schedule of Findings and Questioned Costs.
- Each finding in the 2009 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, 2009) has been prepared to address these responsibilities.

Department of Public Safety

Reference No. 10-35

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Period of Availability of Federal Funds

(Prior Audit Issue - 09-38)

Homeland Security Cluster

Award years - see below

Award numbers - see below

Type of finding - Material Weakness and Material Non-Compliance

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of
Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department’s network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Allocation of Costs

In accordance with Title 2, Code of Federal Regulations, 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 program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee 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.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Is signed by the employee.

Budget estimates that are developed before the 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 amounts 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, Code of Federal Regulations, Chapter 225, to be allowable under federal awards, costs must be adequately documented.

According to the Department, it uses a revenue allocation methodology to charge time for employees who work on multiple grant programs. If an employee works on only one program, then 100 percent of that employee's time will be charged to that specific program. For employees who work on multiple grants, the Department charges time to multiple programs, but not according to the number of hours that the employees worked on each program. Department staff maintains a spreadsheet that details grant management and administration amounts by year in order to calculate the percentage of total revenue that each program represents. If an employee works on multiple programs and one of those programs is one of the smaller programs, the Department uses the smaller program's percentage of total revenue and applies it to the employee's salary. Any salary amounts not covered by the smaller program are applied to one of the larger programs until all of the funds for that program have been expended, then the Department moves on to the next largest program and repeats the process until all funds are expended.

For all 12 payroll expenditures tested, the Department did not properly allocate payroll expenses to various grants. All 12 payroll expenditures tested totaling \$37,923 were charged to one grant when the supporting timesheets showed that the employees worked on multiple grants. Total salaries charged to the Homeland Security Cluster for fiscal year 2009 were \$1,950,439.

Activities Allowed or Unallowed, Allowable Costs, and Period of Availability

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, requires that costs be (1) necessary and reasonable for proper and efficient performance and administration of federal awards and (2) allocable to federal awards under the provisions of the circular. When a funding period is specified for a grant, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. 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 44, Code of Federal Regulations, Section 13.23).

Six (21 percent) of 28 non-payroll expenditure items tested were transfers from one Homeland Security program budget to another. The Department was unable to provide sufficient supporting documentation of the original expenditures to support that the costs were allowable, were allocable, and were obligated and liquidated within the period of availability of federal funds. These expenditures totaled \$4,316.

During cash management testing, auditors noted two draws for which the Department did not provide adequate documentation to support the draw amount. Specifically:

- One (8 percent) of 12 draws tested did not have sufficient supporting documentation to support the draw amount. This draw was for \$1,045 and the supporting documentation summed to \$0.
- One (3 percent) of 34 draws tested lacked sufficient supporting documentation to determine whether the costs supporting the draw equaled the draw amount. The draw's supporting documentation summed to \$1,583,293, while the total draw amount was \$2,842,112, a difference of \$1,258,819.

The key controls identified over Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability do not appear to have been in place over non-payroll expenses during fiscal year 2009. Direct non-payroll expenses go directly from vendors to accounting and are not reviewed by State Administrative Agency management. There was no documentation of review and approval of expenditures by the State Administrative Agency Manager as specified on the Department's payment vouchers.

Additionally, the Department stated that it uses a revenue-based process to allocate management and administration costs among the grants each month. However, it could not provide auditors with an explanation of that allocation process.

The Homeland Security Cluster has the following awards:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

Corrective Action:

This finding was reissued as current year reference number: 11-107.

Reference No. 10-36

**Reporting
Cash Management
Matching, Level of Effort, Earmarking
Procurement and Suspension and Debarment**

Homeland Security Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of
Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report (FSR)*, SF-269 (Office of Management and Budget (OMB) No. 0348-0039), or SF-269A (OMB No. 0348-0038) to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271 (Title 44, Code of Federal Regulations, Section 13.41).

Three (50 percent) of six reports tested for the Homeland Security Cluster were not adequately supported by data in the Department's accounting system. Specifically:

- Two of the quarterly reports did not reconcile to the Department's accounting records because of a data entry error. For one of the reports, the Department corrected the error in the subsequent quarterly report. For the other report, the Department did not recognize the error until after the deadline to file an amended report.
- One of the quarterly reports did not reconcile to the Department's accounting records because the quarterly costs at the time the report was created were estimated instead of actual costs. For the account associated with this error, the actual costs are not allocated until the following quarter.

Department management reviewed all reports tested prior to submission, but this review was not sufficient to ensure that all information in the reports was accurate. The total difference in the reported amounts when compared to the accounting system data was \$42,999.

The Homeland Security Cluster has the following awards:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

Cash Management; Matching, Level of Effort, Earmarking; and Procurement and Suspension and Debarment

Although the general control weaknesses described above apply to cash management; matching, level of effort, earmarking; and procurement and suspension and debarment, auditors identified no compliance issues regarding those compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-110.

Reference No. 10-37

Subrecipient Monitoring

(Prior Audit Issue - 09-43)

Homeland Security Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2008
Status: Partially Implemented
U.S. Department of Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

The Department uses its grant management system, the State Preparedness Assessment and Reporting Service (SPARS), for subrecipients to submit proposed projects, expenditures, reimbursement requests, and reports for review and approval. SPARS provides automated controls over subrecipient project approvals, budgets, and period of availability.

There was a gap in contractual agreements between the Department and the SPARS vendor, K2Share, LLC from April 1, 2009, to June 9, 2009, which resulted in SPARS being unavailable to the Department and subrecipients during that time. This meant that the Department could not rely on automated controls in SPARS to ensure that subrecipient expenditures were allowable, allocable, and obligated and liquidated within the period of availability of federal funds during that time. According to the Department, manual controls similar to those in SPARS were in place during that time, including review of expenditure requests by grant coordinators and reimbursement requests by grant technicians. The only difference was that subrecipients were limited to emergency requests and had to make requests by telephone, fax or mail (and not through SPARS). The Department input all of the expenditures handled outside SPARS into SPARS when it signed the new contract agreement and SPARS was once again available.

During-the-Award Monitoring

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

The Department did not always maintain sufficient documentation of during-the-award monitoring activities and management review of those activities. Specifically:

- For 1 (3 percent) of 40 subrecipients tested for the Homeland Security Cluster, the Department did not provide supporting documentation showing that it reviewed and approved the subrecipient's expenditures for compliance with federal requirements including allowability, period of availability, and cash management. The expenditures without support totaled \$130.
- For all 40 subrecipients tested, the Department did not ensure the subrecipients submitted quarterly status reports as required by grant rules.
- Two (5 percent) of 40 subrecipients tested were not included on the list of active subrecipients the Department used to determine the subrecipients for which the Department would perform site visits in fiscal year 2009.
- For 12 other subrecipients tested, the Department did not obtain evidence from the subrecipients that expenditures were paid prior to the subrecipients' requesting reimbursement.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, Compliance Supplement Part 3, Section M, the Department must ensure that subrecipients that expend \$500,000 or more in federal funds obtain an A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report, issue a management decision on audit findings within six months, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Auditors could not always determine whether the Department ensured that subrecipients had obtained required audits, whether the Department issued a management decision on audit findings within six months after receipt, or whether the Department ensured that subrecipients took timely and appropriate corrective action on audit findings. The Department does not have any formal or informal policies and procedures for the methodology it uses to compile the list of subrecipients that require A-133 monitoring. Therefore, auditors could not determine whether the

Department appropriately monitored all subrecipients. Eight (20 percent) of 40 subrecipients tested did not have any documentation related to A-133 Single Audits in the Department's A-133 monitoring files.

Two subrecipients tested that submitted A-133 audit reports to the Department had audit findings related to Homeland Security. One other subrecipient had a control finding that could affect Homeland Security grant funds. However, there was no evidence that the Department issued a management decision or followed up on those findings.

The Department does not have a process for reviewing subrecipients' A-133 audit reports and making management decisions on findings. In addition, the Department follows up on A-133 audit findings only when it makes site visits to subrecipients; however, the process the Department uses to determine which subrecipients to visit does not take A-133 findings into consideration. The Department makes a limited number of site visits each year. For example, according to the Department's records, its monitors visited 21 (6 percent) of the 350 subrecipients with Homeland Security expenditures in fiscal year 2009. Consequently, subrecipients with A-133 audit findings are unlikely to be visited within six months of the issuance of the audit report.

The Homeland Security Cluster has the following awards:

<u>Grant Number</u>	<u>Beginning Date</u>	<u>End Date</u>
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

During fiscal year 2009, the Department passed \$71,194,165 through to subrecipients for the Homeland Security Cluster.

Corrective Action:

This finding was reissued as current year reference number: 11-111.

Reference No. 10-38

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Cash Management

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 - Material Weakness and Non-Compliance

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written:	2009
Status:	Implemented

U.S Department of Homeland Security
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The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, requires that costs be (1) necessary and reasonable for proper and efficient performance and administration of federal awards and (2) allocable to federal awards under the provisions of the circular. For the Public Assistance Program, allowable costs must be for the federally approved project as described on the project worksheet and supporting documentation.

The Department did not always charge allowable direct costs to the Public Assistance Program. One (2 percent) of 50 direct costs tested were unallowable. Specifically, a cost for \$2 was for another federal program that the Department incorrectly charged to the Public Assistance program.

The Department charged a total of \$50,629,285 in direct expenditures to the Public Assistance Program during fiscal year 2009.

Additionally, the Department did not always establish new budget codes in a timely manner, which resulted in the Department charging non-Public Assistance Program expenditures to budget codes assigned to Public Assistance Program grants. For example, the Department initially charged nine items originally selected for audit testing to a Public Assistance Program budget code and later transferred those expenses into a non-federal budget after it established new budget codes. Auditors verified that all of the identified expenditures were correctly transferred out of the Public Assistance Program budget. The Department asserted that it implemented this practice to expedite payment to vendors for disaster relief activities. However, auditors were unable to determine whether the Department transferred all expenditures it incorrectly charged to Public Assistance program out of the Public Assistance Program budget codes. Therefore, auditors were unable to determine whether the direct cost population represents, with a reasonable degree of certainty, expenses solely for the Public Assistance Program.

Awards that had expenditures for the Public Assistance Program during fiscal year 2009 were:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
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
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Cash Management and Period of Availability of Federal Funds

Although the general control weaknesses described above apply to cash management and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-39

Matching, Level of Effort, Earmarking

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially-Declared Disasters)

Award years - see below

Award numbers - see below

Type of finding - Material Weakness

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of
Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not

descriptive enough to determine appropriateness or accountability for use. Non-federal entities may be required to share in the cost of programs.

Matching

The specific program regulations, general agency award guidance, or individual federal award specifies applicable matching requirements, including the minimum amount or percentage of contributions or matching funds provided by the entity (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 5, Section G). The matching contributions must also comply with the requirements of Title 44, Code of Federal Regulations, Section 13.24, including the allowable cost principles of OMB Circular A-87. These requirements include that matching contributions must be verifiable, from allowable sources, and composed of allowable costs.

The Department was not able to provide auditors with a complete population of costs it used to meet matching requirements for the Public Assistance Program. During fiscal year 2009, the Department charged costs with matching requirements to budget codes that were assigned to costs with no matching requirements. This could prevent the Department from ensuring that costs its uses to meet matching requirements for the Public Assistance Program met required percentages. The Department was also unable to identify all active Department projects for the Public Assistance Program because the Department does not have a formal tracking system for projects. This prevents the tracking of projects with associated matching requirements.

During cash management testing, auditors were able to identify 14 Department projects that included matching requirements. Based on testing of these 14 Department projects, auditors did not identify any instances of non-compliance related to matching requirements for the Public Assistance Program.

Disasters that had expenditures for the Public Assistance Program during fiscal year 2009 were:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
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
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

Corrective action was taken.

Reference No. 10-40

Procurement and Suspension and Debarment

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

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of
Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department’s network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Procurement and 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, Code of 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 non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

The Department of Public Safety (Department) did not ensure that the vendors associated with procurements it made using emergency procurement processes were not suspended or debarred from the Public Assistance Program during fiscal year 2009. Specifically, for 7 (44 percent) of 16 vendors tested, the Department did not verify that the vendors were not suspended or debarred. Of those seven procurements, five were procurements of shelters/emergency services, one was a mutual aid agreement, and the other one was an agreement to allow a local entity to procure services on the behalf of the State.

The Department did not have a process to ensure that vendors providing shelter/emergency services and mutual aid services during emergencies for the State were not suspended or debarred. Failure to verify the suspension and debarment status of all vendors could lead to the Department granting a procurement contract to a vendor that has been suspended or debarred.

Auditors conducted an EPLS search for each vendor for which the Department did not have a suspension and debarment certification and determined that none of the vendors were suspended or debarred.

The issue discussed above affected the following awards:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1379	FEMA-1379-DR	June 9, 2001
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
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-113.

Reference No. 10-41

Reporting

(Prior Audit Issues - 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

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of
Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271 (Title 44, Code of Federal Regulations, Section 13.41).

In lieu of submitting FSR SF-269 reports, OMB Circular A-133 Compliance Supplement, Part 4 97.036-8, allows recipients to report financial information for each approved disaster using the FEMA 20-10 form (OMB No. 1660-0025).

The Department did not always ensure that financial reports it submitted for the Public Assistance Program were adequately supported by data in the Department's accounting system. Specifically:

- 46 (92 percent) of 50 FEMA 20-10 financial reports tested did not have support for the subrecipient share of outlays and, consequently, the total outlays.
- 5 (10 percent) of 50 FEMA 20-10 financial reports tested did not have support for the federal share of outlays.

Department management reviewed all reports tested, but this review was not sufficient to ensure that all information in the reports was adequately supported. The errors noted in the subrecipient share of outlays were due to the lack of a grant management system to track actual amounts spent by subrecipients on small projects. The Department estimates the state/local share amount using the approved local share percentage, rather than the actual amount spent.

The Department uses SmartLink, the federal drawdown system, to complete the federal share of outlays section of the 20-10 reports. However, the Department does not perform a regular reconciliation between SmartLink and the Department's accounting system, MSA. In addition, MSA includes several budget codes that were assigned to multiple disasters for the Public Assistance Program. This increases the risk that supporting information for the reported amounts could not be extracted from the accounting system. This also could cause FEMA to miscalculate program forecasting, cause Department management to make incorrect decisions, and cause the Department to generate incorrect project reports.

Disasters that were active for the Public Assistance Program during fiscal year 2009 were:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1287	FEMA-1287-DR	August 22, 1999
1323	FEMA-1323-DR	April 7, 2000
1356	FEMA-1356-DR	January 8, 2001
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
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-114.

Reference No. 10-42

**Subrecipient Monitoring
Special Tests and Provisions - Project Accounting**
(Prior Audit Issue - 09-48)

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

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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)).

Initial Year Written: 2008 Status: Partially Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Subrecipient and Special Tests and Provisions Population

With respect to subrecipient monitoring, Office of Management and Budget (OMB) Circular A-133, Subpart D, requires pass-through entities 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."

For large projects, the Department of Public Safety (Department) must make an accounting to the Region Director (RD) of eligible costs for each approved large project. The Department must certify that reported costs were incurred in the performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the Federal Emergency Management Agency (FEMA)-State Agreement, and that payments for that project have been made in accordance with Title 44, Code of Federal Regulations, Section 13.21 (Title 44, Code of Federal Regulations, Section 206.205).

The Department was unable to identify all active subrecipient and Department projects for the Public Assistance Program. The Department does not have a formal tracking system for subrecipients that includes information for all

subrecipients, such as risk assessment information, information on monitoring activities (for example, reviews of financial and performance reports), and information from other contacts with its subrecipients. The Department also does not have a system to actively track Department projects. The Department's accounting system is not able to maintain records that identify expenses for specific projects, nor does the Department have a grants management system that is capable of tracking those projects. Therefore, the Department could not ensure that it monitored all subrecipient projects that it was required to monitor. During fiscal year 2009, the total amount of funding the Department passed through to non-state subrecipients was \$744,793,544 and the total amount the Department passed through to other state agencies and higher education institutions was \$218,808,098.

Award Notification

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 award name and number, and the name of federal awarding agency (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

For all 50 subrecipient projects tested, the Department did not include the CFDA number on the award documentation it provided to the subrecipient. The Department uses a standard template for subrecipient awards, but it did not include the CFDA number in that template. This increases the risk of subrecipients misreporting Public Assistance Program expenditures on their schedule of expenditures of federal awards.

During-the-award Monitoring and Special Tests and Provisions

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved (OMB Circular A-133 Compliance Supplement, Part 3, Section M). Additionally, grantees must submit progress reports to the RD on a quarterly basis. These reports describe the status of those projects on which a final payment of the federal share has not been made to the grantee and outline any problems or circumstances expected to result in non-compliance with the approved grant conditions (Title 44, Code of Federal Regulations, Section 206.204).

To comply with the requirement to make an accounting of all large projects, the Department (1) requires subrecipients to submit status reports for all active large projects during the award and (2) performs a project audit on all large projects after a subrecipient has informed the Department that all project objectives are complete. The purpose of the project audit is to ensure that the subrecipient complied with all applicable federal and state requirements prior to final payment of any remaining project funds and closure of the project. The results of this audit are submitted to the federal oversight agency, FEMA, prior to project closure.

The Department did not always maintain sufficient documentation of during-the-award monitoring activities and management review of those activities. Specifically:

- For 1 (11 percent) of 9 subrecipient large projects tested, the Department did not provide evidence that the subrecipient submitted quarterly status reports. These reports are required by the *Disaster Recovery Manual*, published by the Texas Division of Emergency Management to assist the Department in preparing quarterly reports for the RD. There are no federal reporting requirements for subrecipients; however, FEMA's *Public Assistance Guide*, Chapter 5, states that "the State is expected to impose some reporting requirements on applicants so that it can prepare quarterly reports."
- For 5 (10 percent) of 50 subrecipient large project audits tested, the Department did not provide evidence that it provided the results of the audits to the subrecipients in a timely manner.
- For 2 (4 percent) of 50 subrecipient large project audits tested, there was no evidence that Department management approved the project audit report.

The weaknesses discussed above may cause instances of subrecipient non-compliance to go undetected.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, Compliance Supplement Part 3, Section M, the Department must ensure that subrecipients expending federal funds of \$500,000 or more have an OMB Circular A-133 Single Audit performed and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable.

For 16 (48 percent) of 33 subrecipients tested, the Department did not verify whether the subrecipient was required to have an A-133 Single Audit. According to the Federal Audit Clearinghouse, 11 (68 percent) of 16 subrecipients tested obtained A-133 Single Audits for their 2008 fiscal years. The Department does not have procedures to ensure that all active subrecipients who receive at least \$500,000 in federal funds during a year obtained an A-133 Single Audit. Instead, the Department inquires about subrecipient A-133 Single Audits only if the Department passed through any amount of federal funds to the subrecipient in the prior year. Additionally, as discussed above, the Department cannot identify a list of all active subrecipients for which it should inquire about A-133 Single Audits.

The Department does not have an official process to issue management decisions on findings from A-133 Single Audits within six months of receipt of an audit report or follow up on the status of audit findings applicable to the Public Assistance Program. In addition, the Department does not have a formal sanction policy to address instances of non-compliance by subrecipients. This may cause risks applicable to the Public Assistance Program to go unaddressed.

Disasters that were active for the Public Assistance Program during fiscal year 2009 were:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1287	FEMA-1287-DR	August 22, 1999
1323	FEMA-1323-DR	April 7, 2000
1356	FEMA-1356-DR	January 8, 2001
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
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
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	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-115.

Reference No. 09-44

Matching, Level of Effort, Earmarking**CFDA 20.233 Border Enforcement Grant**

Award years - see below

Award numbers - see below

Type of finding - Material Weakness

The grant agreement for the Border Enforcement Grant requires the Department of Public Safety (Department) to maintain a level of effort of \$3,579,084 (state share) in state expenditures on border commercial motor vehicle safety programs and related enforcement activities and projects. The total expenditures for fiscal year 2008 contingent on maintaining the required level of effort was \$16,003,693.05

Initial Year Written:	2008
Status:	Implemented
U.S. Department of Transportation	

The Department has no significant controls or processes--such as periodic monitoring of qualified expenditures throughout the fiscal year--that ensure that it meets the level of effort threshold for the Border Enforcement Grant. However, auditors reviewed qualified expenditures and determined that the Department satisfied the minimum level of effort required for fiscal year 2008.

The border enforcement grant has multiple grant sub awards and award years as noted below:

Award Number**Award Year**

BE-07-48-2

October 1, 2006 - September 30, 2008

BE-08-48-1

October 1, 2007 - September 30, 2009

BE-07-48-4

October 1, 2007 - September 30, 2008

BE-06-48-3

April 1, 2006 - September 31, 2007

Corrective Action:

Corrective action was taken.

Reference No. 09-45

Procurement and Suspension and Debarment**CFDA 20.233 Border Enforcement Grant**

Award years - see below

Award number - see below

Type of finding - Significant Deficiency and Non-Compliance

Texas Government Code, Section 2155.132 (e), requires competitive bidding, whether formal or informal, for a purchase by a state agency if the purchase exceeds \$5,000 and is made under a written contract.

Initial Year Written:	2008
Status:	Implemented
U.S. Department of Transportation	

For purchases made through its purchasing department, the Department of Public Safety (Department) uses *The State of Texas Procurement Manual*, maintained by the Texas Comptroller of Public Accounts, to determine the appropriate procurement method. Section 2.9.1 of the manual requires agencies to "obtain a price quote from as

many TXMAS (Texas Multiple Award Schedule) vendors as are necessary to provide best value to the State. Document all price quotes in your purchasing file.”

For 6 (86 percent) of 7 procurement files tested, the Department used a TXMAS vendor, but the only price quote the Department obtained was the price quote from the actual vendor it used. The Department did not maintain documentation indicating that it obtained price quotes from other vendors or otherwise explaining the method for selecting the vendor used.

The Border Enforcement Grant has multiple grant sub awards and award years as noted below:

<u>Award Number</u>	<u>Award Year</u>
BE-07-48-2	October 1, 2006 - September 30, 2008
BE-08-48-1	October 1, 2007 - September 30, 2009
BE-07-48-4	September 1, 2007 - September 30, 2008
BE-06-48-3	April 1, 2006 - September 30, 2007

Corrective Action:

Corrective action was taken.

Reference No. 09-46

Reporting

CFDA 20.233 Border Enforcement Grant

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency

The grant agreement for the Border Enforcement Grant requires that the Department of Public Safety (Department) present performance status reports to the Federal Motor Carrier Safety Administration (FMCSA) on a quarterly basis. The Department completes these reports using various sources of statistics related to commercial vehicle safety along the border, including inspection numbers, staffing reports, and the status of weigh stations.

Initial Year Written:	2008
Status:	Implemented
U.S. Department of Transportation	

The Department does not have adequate controls related to the compilation of data and submission of the quarterly performance status reports. For example, Department management does not review or approve the information that staff include in these reports. Auditors reviewed all four performance reports the Department submitted for fiscal year 2008 and determined that the reports were completed accurately and in compliance with the grant agreement. However, the lack of controls related to the report preparation process increases the risk of errors in the information reported.

The border enforcement grant has multiple grant sub awards and award years as noted below:

<u>Award Number</u>	<u>Award Year</u>
BE-07-48-2	October 1, 2006 - September 30, 2008
BE-08-48-1	October 1, 2007 - September 30, 2009
BE-07-48-4	September 1, 2007 - September 30, 2008
BE-06-48-3	April 1, 2006 - September 30, 2007

Corrective Action:

Corrective action was taken.

Reference No. 09-47

Reporting

(Prior Audit Issues 08-91 and 07-26)

CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)

Award years- see below

Award number - see below

Type of Finding – Significant Deficiency and Non-Compliance

The Department of Public Safety (Department) must report on a quarterly basis for each Federal Emergency Management Agency (FEMA) approved project a FEMA form 20-10, *Financial Status Report*, per Office of Management and Budget A-133 Compliance Supplement, FEMA *Public Assistance Guide*, and FEMA Grant Applicant Resources. The FEMA *Public Assistance Guide* states that “FEMA has no reporting requirements for applicants, but the State is expected to impose some reporting requirements on applicants so that it can prepare quarterly reports.” Additionally, the guide emphasizes that it is critical that applicants establish and maintain accurate records of events and expenditures related to grant funds.

Initial Year Written:	2006
Status:	Partially Implemented
U.S. Department of Homeland Security	

A Department supervisor did review reports to ensure all required information was reported. However, supporting documentation related to the recipients’ share of outlays is not obtained or reviewed, by report preparers or management, in sufficient level of detail to ensure the accuracy of the reports.

CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)

Auditors tested 13 reports that were filed during fiscal year 2008 for Hazard Mitigation. The non-federal share of a project’s costs must be at least 25 percent of the expenditures. For 12 (92 percent) of the 13 reports tested, the matching share reported on the FEMA Form 20-10 was calculated using total outlay amounts reported (that is, 25 percent of the total project amount reported) instead of based on actual costs incurred.

During performance of matching, level of effort, and earmarking test work, auditors selected invoices for review and noted that the Department reimbursed only 75 percent of the total expenditures incurred to the jurisdiction.

The Hazard Mitigation grant has multiple grant sub awards and award years as noted below:

<u>Disaster Number</u>	<u>Grant Number</u>	<u>Start Date</u>
1257	FEMA-1257-DR-TX	October 21, 1998
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR-TX	June 9, 2001
1425	FEMA-1425-DR-TX	July 4, 2002
1439	FEMA-1439-DR-TX	November 5, 2002
1434	FEMA-1434-DR-TX	September 26, 2002
1479	FEMA-1479-DR-TX	July 17, 2003
1606	FEMA-1606-DR-TX	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

Recommendation:

The Department should develop a process that would facilitate the collection of information related to actual amounts incurred by the jurisdictions as of the report date.

Management Response and Corrective Action Plan 2008:

DPS management agrees with this finding. However, the Emergency Management Division (EMD) does not have the means to implement the recommendation.

Currently EMD has no means of capturing sub-recipient match costs on an ongoing basis as the FEMA NEMIS system, which FEMA used for grant status monitoring and required EMD to use, lacked the capability to provide the data needed for contemporaneous reporting of match costs. The NEMIS system provides cumulative expenditure information; it does not have the capability to provide data for a specific time frame, such as a quarter. This problem is exacerbated by the fact that small projects (under \$55,000) are not routinely audited, and the majority of the grants that EMD administers are small projects. FEMA has been aware of the failings of NEMIS and has developed a new grant information system to replace it. The new system, Emergency Management Mission Environment (EMMIE), does not yet have a financial module and no accounting information can be obtained from the system. Because of this situation, FEMA has allowed states to report a “good faith estimate” of match amounts in quarterly reports. Previous auditors have been party to a conference call with the FEMA Region VI disaster grant manager on this subject.

It should be noted that the potential for sub-recipient failures to meet match requirements is limited because EMD reimburses only 75 percent of the total expenditures incurred by local and state grant sub-recipients and actual match amounts are carefully checked and confirmed during the final audit by EMD personnel.

Until a solution to this problem is put in place by FEMA, EMD will continue to report a “good faith estimate” of sub-recipient match costs in quarterly reports based on the appropriate percentage of match required.

Management Response and Corrective Action Plan 2009:

DPS management partially agrees with this finding. However, the Emergency Management Division (EMD) does not have the means to implement some of the recommendations.

CFDA 97-039 – Hazard Mitigation Grant (including CFDA 83.548.

TDEM Mitigation Section modified internal reporting documentation to show actual match expenditures rather than a formula of straight 25% in April 2009. We have been reporting that on our quarterly reports since that time. It is not feasible for us to change all previous reports.

2010 Update:

During the 2010 follow up testing it was noted that the Department has developed a process that facilitates the collection of information related to actual amounts incurred, however what was reported on the financial reports did not always agree to the supporting documentation.

Management Response and Corrective Action Plan 2010:

The Department will implement controls to assure that the amounts the Department reports on its financial reports agree with the supporting documentation.

Implementation Date: March 1, 2011

Responsible Person: Denita Powell

Reference No. 05-38

**Allowable Costs/Cost Principles
Cash Management**

CFDA 20.218 - National Motor Carrier Safety

Award years - See below

Award numbers - See below

Type of finding - Material Weakness Control and Material Non-Compliance

Allowable Costs:

Per OMB Circular A-87, Attachment B, Section 8H, support of salaries and wages, where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:

- Reflects an after-the-fact distribution of the actual activity of each employee,
- Accounts for the total activity for which each employee is compensated,
- Are prepared at least monthly and coincide with the pay period,
- Are signed by the employee, and
- Budget estimates before the 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 amounts 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 the differences between budgeted and actual costs are less than ten percent.

Initial Year Written:	2004
Status:	Implemented

U.S. Department of Transportation

Two of 24 personnel activity reports did not agree to the federal reimbursement request amount. Fourteen hours in excess of the time sheets was charged to the grant. These two employees were commissioned so the rate was \$31.84 an hour or \$446. The questioned costs relate to MB-03-48-1 and BR-03-48-1 awards.

The timesheets were reviewed by the immediate supervisor and thus certified. The certified timesheets are used by grant accounting to manually update the grant expenditure spreadsheet that is used to prepare the cash

reimbursement requests. Cash requests are reviewed based on the expense spreadsheets, however, there is no detailed review of the data input into the spreadsheet. Total salary and benefits charged to the grant was approximately \$17,575,000.

Cash Management:

According to the Treasury-State Agreement for the State of Texas, the National Motor Carrier Safety grant is not included in Subpart A of 34 CFR, part 205, which implemented the Cash Management Improvement Act. Therefore The Department of Public Safety (DPS) should be complying with Subpart B, which applies to programs in the catalog of federal domestic assistance that are not subject to Subpart A. These standards state that “cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only the actual, immediate cash requirement of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of allowable indirect costs. Neither a State nor the Federal government will incur an interest liability on the transfer of funds for a program subject to this Subpart.” The expense spreadsheets discussed above are to be reconciled to the general ledger on a monthly basis. Sixteen reconciliations were reviewed and none of them agreed to the general ledger. Reconciliations appear to have been done at year-end only in conjunction with the preparation of the schedule of federal expenditures. Thirty expenditures were reviewed and it was determined that the invoice or payroll was paid prior to reimbursement request.

The National Motor Carrier Safety grant has multiple subawards and award years. During fiscal year 2004 the following grant award years and grant award numbers, respectively, were open: Award years: October 1, 2003 to September 30, 2004, September 1, 2003 to August 30, 2004, September 20, 1999 to September 30, 2003, October 1, 2002 to December 30, 2003, July 8, 2003 to July 8, 2004, October 1, 2002 to March 31, 2004, October 1, 2003 to December 31, 2004, March 31, 2004 to September 30, 2004, October 1, 2002, to September 30, 2004, April 1, 2003 to March 31, 2004, August 30, 2003 to September 30, 2004, September 30, 2002 to September 30, 2003, October 1, 2002 to September 30, 2004, October 1, 2003 to March 31, 2004; Award numbers: MB-03-48-1, CD-03-TX-1, MC-99-48-222, MC-01-48-222, MC-03-48-2, MC-03-48-1, MC-04-48-1, CD-02-48-2, BR-03-48-1, MH-03-48-1, MR-03-48-2, RB-02-48-01, BR-03-48-2, and MB-02-48-2.

Corrective Action:

Corrective action was taken.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Homeland Security cluster of federal programs and for the Public Assistance cluster of federal programs, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of 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 cluster of federal programs and the Public Assistance cluster of federal programs.

Scope

The audit scope covered federal funds that the State spent for the Homeland Security cluster of federal programs and the Public Assistance cluster of federal programs from September 1, 2009, through August 31, 2010. The audit work included control and compliance tests at the Department.

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Homeland Security cluster of federal programs and the Public Assistance cluster of federal programs. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate.

Information collected and reviewed included the following:

- Department expenditure, procurement, reporting, cash revenue, required matching, program income, and subrecipient data.
- Federal notices of award and award proposals.
- Transactional support related to expenditures, procurement, and revenues.
- Department-generated reports and data used to support reports, revenues, and other compliance areas.
- Information system support for Department 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 of 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 controls to assess the sufficiency of the Department'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.
- Office of Management and Budget Circulars A-87, A-102, and A-133.
- Federal notices of award and award proposals.
- Department policies and procedures.

Project Information

Audit fieldwork was conducted from June 2010 through January 2011. 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*. The following members of the State Auditor's staff performed the audit:

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