



John Keel, CPA
State Auditor

A Report on

**State of Texas Compliance with
Federal Requirements for
Selected Major Programs at the
Department of Public Safety and
the University of Texas Medical
Branch at Galveston
for the Fiscal Year Ended
August 31, 2014**

February 2015
Report No. 15-023



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Overall Conclusion

The State of Texas complied in all material respects with federal requirements for the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program in fiscal year 2014.

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 \$500,000¹ in federal awards in a fiscal year to obtain Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, reporting, and monitoring of non-state entities (subrecipients) to which the State passes federal funds. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$73,923,376 in federal funds during fiscal year 2014 and (2) other selected federal programs.

From September 1, 2013, through August 31, 2014, the State of Texas expended \$49.1 billion in federal funds. The State Auditor's Office audited compliance with requirements for the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program at the Department of Public Safety (Department) and the University of Texas Medical Branch at Galveston (Medical Branch).

Border Enforcement Grants

The Border Enforcement Grants program provides funding to states and entities that share a land border with another country for carrying out border commercial motor vehicle safety programs and related enforcement activities and projects. The Federal Motor Carrier Safety Administration provides those funds to conduct inspections of commercial motor vehicles engaged in international commerce and for other initiatives designed to improve the compliance of commercial motor vehicles, drivers, and other carriers entering the United States from Canada or Mexico.

Homeland Security Grant Program

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

Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

¹ Title 2, Code of Federal Regulations, Section 200, supersedes OMB Circular A-133 and, for fiscal years beginning on or after December 26, 2014, increases the Single Audit threshold to \$750,000 in federal expenditures in a fiscal year.

During fiscal year 2014:

- The Department spent \$20.1 million in Border Enforcement Grants program funds, \$100.4 million in Homeland Security Grant Program funds, and \$34.1 million in Disaster Grants - Public Assistance (Presidentially Declared Disasters) program funds.
- The Medical Branch spent \$68.9 million in Disaster Grants - Public Assistance (Presidentially Declared Disasters) program funds.

Auditors identified 11 findings, including 9 significant deficiencies with non-compliance and 2 significant deficiencies (see text box for definitions of finding classifications). Ten of those 11 findings related to the 3 federal programs audited at the Department, and 1 finding was related to the federal program audited at the Medical Branch. The number of federal programs audited and compliance areas determined to be direct and material varied significantly between the Department and the Medical Branch. Therefore, a comparison of the number of reported findings between those entities is not an accurate measure of performance.

Finding Classifications

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

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

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

Fiscal year 2014 audit results for the Department represented an improvement compared with fiscal year 2013, when auditors identified findings at the Department that were classified as material weaknesses with material non-compliance.

Key Points

The Department complied in all material respects with requirements for the federal programs audited.

Although auditors identified findings at the Department, it is important to note that no finding was material to the federal programs audited. While that indicates that the State of Texas complied in all material respects with the requirements tested, the Department should correct certain non-compliance and significant deficiencies, which are summarized below:

- For the Border Enforcement Grants program and the Homeland Security Grant Program, the Department did not always allocate direct costs correctly and/or retain the underlying supporting documentation or approvals for direct costs.
- For 1 transaction tested for the Homeland Security Grant Program, the Department did not liquidate the obligation within 90 days after the end of the period of availability.
- For the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department did not always correctly charge employee longevity pay and unused leave to that program.
- For the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department's indirect cost rate proposal did not include all of the required documentation. In addition, the Department's indirect cost pool included unallowable costs, and the Department did not correctly calculate its distribution base for indirect costs. However, those issues did not result in questioned costs because the Department did not request reimbursement for indirect costs for that program during fiscal year 2014.

Auditors also identified control weaknesses and non-compliance related to subrecipient monitoring. Specifically:

- For the Homeland Security Grant Program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department did not consistently enforce and monitor subrecipient compliance with certain federal requirements during the subrecipient awards.
- For the Homeland Security Grant Program, the Department did not always ensure that it made management decisions based on findings in subrecipients' Single Audit reports.
- For the Homeland Security Grant Program, the Department could not provide evidence that it monitored its compliance with a requirement to obligate at least 80 percent of funds within 45 days of receipt of those funds. However, auditors determined that the Department complied with that requirement.
- For the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department did not always ensure that subrecipients submitted required *Project Completion and Certification Reports* in a timely manner.

Auditors identified other control weaknesses and non-compliance related to the Department's reporting and weaknesses in its control structure over earmarking requirements. Specifically:

- For the Border Enforcement Grants program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department did not

always ensure that its financial reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements.

- For the Homeland Security Grant Program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department did not always submit Federal Funding Accountability and Transparency Act reports accurately and/or within the required time frame.
- For the Homeland Security Grant Program, the Department did not always record the correct fund code that it used to track management and administrative costs. In addition, the Department's monitoring of management and administrative costs did not capture adjustments or transfers made in its accounting system.

The Medical Branch had a weakness in its controls over disposition of equipment.

For the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Medical Branch did not obtain the required approvals prior to the disposition of one asset.

Auditors followed up on 24 findings from prior fiscal years regarding certain federal programs.

For the Homeland Security Grant Program and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, the Department implemented corrective action to resolve two findings from prior fiscal years. The State Auditor's Office reissued six findings from prior fiscal years as fiscal year 2014 findings in this report.

The Department fully implemented recommendations for two findings from the prior fiscal year related to the Hazard Mitigation Grant program and one finding related to the Fire Management Assistance Grant program. The Department partially implemented recommendations for four findings from the prior fiscal year related to the Hazard Mitigation Grant program and five findings related to the Fire Management Assistance Grant program.

The State Auditor's Office reissued one finding at the Medical Branch regarding the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program.

The Texas A&M Forest Service (Forest Service) fully implemented recommendations for two findings from the prior fiscal year related to the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program. The Forest Service partially implemented recommendations for one finding from the prior fiscal year related to the Fire Management Assistance Grant program.

Summary of Management's Response

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

Summary of Information Technology Review

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

Summary of Objectives, Scope, and Methodology

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

The audit scope covered federal funds that the State spent for the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program at the Department and the Medical Branch from September 1, 2013, through August 31, 2014. The audit work included control and compliance tests at the Department and the Medical Branch.

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program. Auditors' sampling methodology was based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2014. Auditors conducted tests of compliance and of the controls identified for each direct and material compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data

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the Department and the Medical Branch provided and determined that the data was sufficiently reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the programs identified above.

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Independent Auditor's Report

*State of Texas Compliance with Federal
Requirements for
Selected Major Programs at the
Department of Public Safety and the
University of Texas Medical
Branch at Galveston
for the Fiscal Year Ended
August 31, 2014*

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

Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on Compliance for the Border Enforcement Grants Program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program for the year ended August 31, 2014. The State's major federal programs at the Department of Public Safety and the University of Texas Medical Branch at Galveston are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2014. As such, the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2014. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements.

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

Opinion on the Border Enforcement Grants Program, the Homeland Security Grant Program, and the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program for the year ended August 31, 2014.

Other Matters

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

Agency	Program	Compliance Requirement	Finding Number
Department of Public Safety	Border Enforcement Grants	Activities Allowed or Unallowed Allowable Costs/Cost Principles Period of Availability of Federal Funds	2014-104
		Reporting	2014-105
Department of Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2014-106
		Procurement and Suspension and Debarment Subrecipient Monitoring Cash Management Special Tests and Provisions - Project Accounting	2014-107
		Reporting	2014-108
Department of Public Safety	Homeland Security Grant Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2014-109
		Period of Availability of Federal Funds	2014-111

Agency	Program	Compliance Requirement	Finding Number
		Reporting	2014-112
		Subrecipient Monitoring	2014-113
		Special Tests and Provisions - Subgrant Awards	

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

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and,

therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies:

Agency	Program	Compliance Requirement	Finding Number
Department of Public Safety	Border Enforcement Grants	Activities Allowed or Unallowed Allowable Costs/Cost Principles Period of Availability of Federal Funds Reporting	2014-104 2014-105
Department of Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Activities Allowed or Unallowed Allowable Costs/Cost Principles Procurement and Suspension and Debarment Subrecipient Monitoring Cash Management Special Tests and Provisions - Project Accounting Reporting	2014-106 2014-107 2014-108
Department of Public Safety	Homeland Security Grant Program	Activities Allowed or Unallowed Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking Period of Availability of Federal Funds Reporting Subrecipient Monitoring Special Tests and Provisions - Subgrant Awards	2014-109 2014-110 2014-111 2014-112 2014-113
University of Texas Medical Branch at Galveston	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Equipment and Real Property Management	2014-165

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

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

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program of the State for the year ended

August 31, 2014, 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, 2014*.

John Keel, CPA
State Auditor

February 20, 2015

**Schedule of Federal Program Expenditures for
the Border Enforcement Grants Program, the Homeland Security Grant Program, and
the Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program
For the State of Texas
For the Year Ended August 31, 2014**

Schedule of Federal Program Expenditures CFDA 20.233 - Border Enforcement Grants			
Agency	Federal Pass- through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	\$ 0	\$ 20,105,381	\$ 20,105,381
Total for Border Enforcement Grants	\$0	\$20,105,381	\$20,105,381
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014</i>.</p>			

Schedule of Federal Program Expenditures CFDA 97.067 - Homeland Security Grant Program			
Agency	Federal Pass- through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	\$ 92,414,957	\$ 7,971,241	\$ 100,386,198
Total for Homeland Security Grant Program	\$92,414,957	\$7,971,241	\$100,386,198
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014</i>.</p> <p>Note 2: Federal expenditures for the Homeland Security Grant Program at state entities not included in the scope of this audit totaled \$56,000 for the year ended August 31, 2014.</p>			

Schedule of Federal Program Expenditures CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
Agency or Higher Education Institution	Federal Pass- through to Non-state Entity	Federal Direct Expenditures	Totals
Department of Public Safety	\$ 20,015,456	\$ 14,086,580	\$34,102,036
University of Texas Medical Branch at Galveston	0	68,857,460	68,857,460
Total for Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$20,015,456	\$82,944,040	\$102,959,496
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014</i>.</p> <p>Note 2: Federal expenditures for Disaster Grants - Public Assistance (Presidentially Declared Disasters) program at state entities not included in the scope of this audit totaled \$10.4 million for the year ended August 31, 2014.</p>			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with Federal
Requirements for
Selected Major Programs at the
Department of Public Safety and the
University of Texas Medical
Branch at Galveston
for the Fiscal Year Ended
August 31, 2014*

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

Major programs with Significant Deficiencies:

CFDA Number	Name of Federal Program
20.233	Border Enforcement Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.067	Homeland Security Grant Program

Type of auditor's report issued on compliance for major programs:
Unmodified

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
20.233	Border Enforcement Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$73,923,376

Auditee qualified as low-risk auditee? No

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014*.

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. 2014-104

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Period of Availability of Federal Funds

CFDA 20.233 – Border Enforcement Grants

Award years – October 1, 2012 to September 30, 2014 and October 1, 2013 to September 30, 2015

Award numbers – FM-BEG-0036-13 and FM-BEG-0053-14

Type of finding – Significant Deficiency and Non-Compliance

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

Questioned Cost: \$ 2,692

U.S. Department of
Transportation – Federal Motor
Carrier Safety Administration

When a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period (Title 49, CFR, Section 18.23).

The Department of Public Safety (Department) was unable to locate supporting documentation for 3 (5 percent) of 64 expenditures tested. The Department also was unable to locate supporting documentation for an additional two transactions that auditors selected using professional judgment. As a result, auditors were not able to determine whether those costs were allowable, were for allowable activities, were necessary and reasonable, or were incurred during the period of availability. In addition, auditors were unable to determine whether Department management reviewed and approved those costs. Those errors resulted in \$2,692 in questioned costs associated with award FM-BEG-0036-13.

In addition, the Department was unable to locate documentation to support the approval of the transfer of costs for 3 (13 percent) of 23 transfers tested. As a result, auditors were unable to determine whether Department management reviewed and approved those transfers for allowability or compliance with period of availability requirements. Auditors reviewed the underlying supporting documentation and determined that the costs associated with those transfers were allowable and in compliance with period of availability requirements. Therefore, there were no questioned costs associated with those errors.

Not maintaining documentation of expenditures or reviewing and approving transfers increases the risk that unallowable costs could be charged to federal grants.

Recommendations:

The Department should:

- Retain documentation for expenditures.

- Strengthen controls to help ensure that it adequately documents its review and approval of transfers and that it maintains that documentation.

Management Response and Corrective Action Plan:

The Department agrees with the recommendation and will:

- Return the questioned costs to the grant.
- Strengthen controls around the approval of transfers, and the retention of those approvals.

Implementation Date: March 2015

Responsible Person: Maureen Coulehan

Reference No. 2014-105

Reporting

CFDA 20.233 – Border Enforcement Grants

Award years – October 1, 2011 to September 30, 2013; October 1, 2012 to September 30, 2014; and October 1, 2013 to September 30, 2015

Award numbers – FM-BEG-0025-12, FM-BEG-0036-13, and FM-BEG-0053-14

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each program, subaward, function, or activity supported by the award. Recipients use the Federal Financial Report Standard Form 425 (SF-425) to report financial activity on a quarterly basis. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions of key reporting elements (Title 49, Code of Federal Regulations (CFR), Section 18.41).

Questioned Cost: \$ 0

U.S. Department of
Transportation – Federal Motor
Carrier Safety Administration

The U.S. Department of Transportation’s Federal Motor Carrier Safety Administration (FMCSA) requires recipients to report outlays and program income, if any, on an accrual basis (FMCSA, *Financial Assistance Agreement General Provisions and Assurances*, November 2012).

The Department of Public Safety (Department) did not ensure that its reports included all activity in the reporting period and were fairly presented in accordance with program requirements for all four SF-425 reports tested. The Department reported on a cash basis instead of an accrual basis for all four reports tested. The Department also reported incorrect information on all four reports. Those errors included reporting activity after the reporting period, not including all activity that occurred during the reporting period, including payroll accruals in the calculation of cash disbursements, and recording cash receipts as cash disbursements.

As a result of those errors, the Department incorrectly reported the amount of cash disbursements, cash on hand, federal share of expenditures, unobligated balance of federal funds, and federal share of unliquidated obligations. While Department management reviewed and approved those financial reports, that review was not sufficient to detect those errors.

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

General Controls

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

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, one Department employee had access that did not reflect that employee's current job responsibilities. That employee changed positions within the Department, and the Department should have changed that employee's access from data entry and posting to inquiry only. The Department's periodic review of user access was not effective in identifying and changing that access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

Recommendations:

The Department should:

- Correct its methodology for reporting the federal share of expenditures required in its SF-425 reports by using the correct basis of accounting.
- Develop and implement a process to report required information accurately based on information from its financial systems or other accounting information.
- Restrict access to its USAS accounts to current staff whose responsibilities require that access.
- Ensure that its periodic review process is effective and identifies all users whose access needs to be changed.

Management Response and Corrective Action Plan:

The Department agrees with the recommendation.

The Department will:

- *Change to accrual basis to report expenditures from USAS on the SF-425 reports.*
- *Restrict USAS accounts to match staff responsibilities and will complete periodic reviews.*

Implementation Date: January 2015

Responsible Persons: Maureen Coulehan and Sharon Page

DEPARTMENT OF PUBLIC SAFETY

Reference No. 2014-106

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

(Prior Audit Issues 2013-107 and 13-117)

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs - Payroll

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

Questioned Cost: \$ 7,936

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

Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component (Title 2, CFR, Section 225).

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

The Department did not always perform quarterly activity report reconciliations accurately. Specifically, for 2 (3 percent) of 68 payroll charges tested, the Department charged employee longevity pay to the grant when the employee did not perform work on the grant during the pay period. That occurred because the Department does not perform a reconciliation of longevity pay. Those errors resulted in questioned costs of \$105.

In addition, the Department did not allocate unused leave as a general administrative expense to all activities of the Department. For 2 (3 percent) of 68 payroll charges tested, the Department treated unused leave payments as direct costs. Those errors resulted in questioned costs of \$739. Auditors identified an additional \$7,092 in unused leave payments for fiscal year 2014 that the Department charged as direct costs.

Indirect Costs

Departments or agencies that desire to claim indirect costs under federal awards are required to prepare indirect cost rate proposals and documentation to support those costs. These proposals must include the proposed rates, a copy of the financial data upon which the rate is based, the approximate amount of direct base costs incurred under federal awards, a chart showing the organizational structure of the agency during the period for which the proposal applies, along with functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency, and a required certification (Title 2, CFR, Section 225, Appendix E).

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The U.S. Office of Management and Budget requires that costs be accorded consistent treatment and must conform to any limitations or exclusions set forth in Title 2, CFR, Section 225. Costs of advertising and promotional costs unrelated to the performance of federal awards as well as penalties resulting from violations of or failure of the governmental unit to comply with state laws are unallowable. In addition, when a depreciation method is followed to allocate the costs of fixed assets, the straight line method of depreciation shall be used in the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life (Title 2, CFR, Section 225, Appendix B).

The Department hired a third-party vendor to develop its indirect cost rate proposal on its behalf based on its fiscal year 2011 expenditures. The Federal Emergency Management Agency (FEMA) approved the proposed indirect cost rate in April 2014. The approved rate for the Department’s Division of Emergency Management is a fixed rate of 64.43 percent for fiscal years 2012 and 2013, and FEMA approved that same rate on a provisional basis until December 2016. During fiscal year 2014, the Department did not draw down federal Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds for indirect costs.

The Department’s indirect cost rate proposal did not include all of the required documentation. Specifically, the Department did not include functional statements noting the duties and/or responsibilities of all units that comprise the Department.

The Department’s indirect cost pool included unallowable costs. Specifically, the indirect cost pool included costs already treated as direct federal costs, including unused leave; unallowable costs, such as interest on late payments and advertising and promotional costs; vehicle depreciation calculated with a methodology that did not consider the useful life of the vehicles; costs that were included in the indirect cost pool twice; and central service costs that did not match the State’s approved state/local-wide central service cost allocation plan.

The Department did not accurately calculate its distribution base for indirect costs. The Department’s distribution base, composed of direct salaries and wages, inaccurately included activity related to the Department’s State Administrative Agency and excluded activity related to the Department’s Division of Emergency Management’s direct salaries and wages.

Those errors occurred because the Department did not provide complete and accurate information to the vendor or because of an error the vendor made in the preparation of the proposal. Additionally, the Department’s review and approval of the proposal was not sufficient to detect those errors. Including unallowable costs in the indirect cost pool and inaccurately calculating the distribution base could result in an inaccurate indirect cost rate being applied to federal grant funds. The Department did not request reimbursement for indirect costs during fiscal year 2014; therefore, there were no questioned costs.

The issues noted above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>	<u>Questioned Costs</u>
1379	TX01PA1379	June 9, 2001	\$ 0
1425	TX02PA1425	July 4, 2002	0
1606	1606DRTXP00000001	September 24, 2005	0
1624	1624DRTXP00000001	January 11, 2006	0
1658	1658DRTXP00000001	August 15, 2006	0
1709	1709DRTXP00000001	June 29, 2007	0
1780	1780DRTXP00000001	July 24, 2008	0
1791	1791DRTXP00000001	September 13, 2008	7,936
1931	1931DRTXP00000001	August 3, 2010	0
1999	1999DRTXP00000001	July 1, 2011	0
3216	3216EMTXP00000001	September 2, 2005	0
3294	3294EMTXP00000001	September 10, 2008	0
3363	3363EMTXP00000001	April 19, 2013	0
4029	4029DRTXP00000001	September 9, 2011	0

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>	<u>Questioned Costs</u>
4136	4136DRTXP00000001	August 2, 2013	0
4159	4159DRTXP00000001	December 20, 2013	0
Total			<u>\$ 7,936</u>

Recommendations:

The Department should:

- Perform a reconciliation of longevity benefits based on actual hours worked for all employees.
- Allocate unused leave as a general administrative expense to all activities of the Department.
- Include all of the required documentation in its indirect cost rate proposals.
- Include only allowable costs in its indirect cost pool.
- Correct its methodology for calculating the distribution base for its indirect cost rate

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Department will:

- *Include longevity benefits as part of the payroll reconciliation process.*
- *Make corrections to the next indirect cost rate proposal to be submitted to FEMA.*

Implementation Date: March 2015

Responsible Person: Maureen Coulehan

Reference No. 2014-107

**Procurement and Suspension and Debarment
Subrecipient Monitoring**

Cash Management

Special Tests and Provisions – Project Accounting

(Prior Audit Issues 2013-110, 2013-108, 13-120, 12-113, 11-115, 10-42, and 09-48)

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Questioned Cost: \$ 0

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

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In fiscal year 2014, the Department passed through \$74,953,423 in Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds to its subrecipients.

During-the-award Monitoring

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

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, CFR, Section 13.20(b)(7)).

The Department did not consistently enforce and monitor subrecipient compliance with federal requirements related to cash management and procurement. Specifically:

- For 2 (7 percent) of 29 subrecipients tested, the Department did not obtain sufficient documentation to ensure that its subrecipients minimized the time between their receipt of funds and the disbursement of those funds. The Department's procedures do not require subrecipients to provide documentation to support that they are minimizing the time between receipt and disbursement of funds. As a result, auditors could not verify whether subrecipients minimized that time.
- The Department could not provide evidence that it monitored subrecipients' compliance with requirements related to procurement and suspension and debarment for 13 (59 percent) of 22 subrecipient projects tested for which it should have monitored compliance. Other than its close-out audits of large projects, the Department does not have a standard tool to monitor procurement during the award period.

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

Project Accounting

According to Department policy, subrecipients must submit a *Project Completion and Certification Report* after completion of work on a large project; that report certifies that all work has been completed in accordance with funding approvals and that all claims have been paid in full for each specific project.

For 45 (75 percent) of 60 subrecipients tested that were required to submit a *Project Completion and Certification Report*, the Department did not ensure that the subrecipients submitted those reports in a timely manner. Specifically, 39 of those subrecipients submitted certifications between 78 and 1,685 days after completion of the project. The remaining six subrecipients did not include the work completion date on the certification; therefore, auditors could not determine whether the certifications were submitted in a timely manner. Those errors occurred because the Department did not have a process to help ensure that subrecipients submitted certification reports in a timely manner after completion of the project.

Not notifying the Department of project completion in a timely manner delays final audits and project close-outs.

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The issues discussed above affect the following awards:

Disaster Number	Award Number	Disaster Declaration Date
1479	1479DRTXP00000001	July 17, 2003
1606	1606DRTXP00000001	September 24, 2005
1658	1658DRTXP00000001	August 15, 2006
1709	1709DRTXP00000001	June 29, 2007
1780	1780DRTXP00000001	July 24, 2008
1791	1791DRTXP00000001	September 13, 2008
1931	1931DRTXP00000001	August 3, 2010
1999	1999DRTXP00000001	July 1, 2011
3216	3216EMTXP00000001	September 2, 2005
3290	3290DRTXP00000001	August 29, 2008
4159	4159DRTXP00000001	December 20, 2013

Recommendations:

The Department should:

- Strengthen controls over subrecipient monitoring to help ensure that its subrecipients minimize the time between receipt and disbursement of federal funds.
- Establish and implement a formal process to track and monitor all during-the-award monitoring activities for large and small subrecipient projects.
- Collect and retain documentation of its verification that subrecipients and their principals are not suspended or debarred or otherwise excluded from receiving federal contracts.
- Establish and implement a process to help ensure that its subrecipients submit *Project Completion and Certification Reports* after completion of work on large projects.

Management Response and Corrective Action Plan:

The Department agrees with the finding.

The Department will:

- *Strengthen controls to ensure subrecipients employ proper cash management.*
- *Conduct and document suspension and debarment checks of subrecipients.*
- *Ensure subrecipients are submitting closeout documentation timely.*
- *Implement a formal process to track subrecipients during award monitoring activities.*

Implementation Date: July 2015

Responsible Person: Paula Kay Logan

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Reference No. 2014-108

Reporting

(Prior Audit Issues 2013-111, 13-121, 12-114, 11-114, 10-41, 09-47, 08-91, and 07-26)

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

Questioned Cost: \$ 0

U.S. Department of Homeland
Security – Federal Emergency
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For 9 (60 percent) of 15 financial reports tested, the Department of Public Safety (Department) did not ensure that its reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Those errors occurred because (1) those reports were not based on information in the Department’s financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information to report the recipient’s share of expenditures. The Department’s methodology to report the recipient’s share of expenditures does not consider the different matching requirements across projects and disasters. Department management reviewed and approved those reports; however, that review was not sufficient to detect those errors.

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

Federal Funding Accountability and Transparency Act

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

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

The Department did not consistently submit Transparency Act reports within the required time frames or with accurate information. Specifically:

- For 1 (14 percent) of 7 Transparency Act reports tested, the Department did not report the subaward. That occurred because the subrecipient was not registered in the System for Award Management (SAM), and the Transparency Act Subaward Reporting System (FSRS) requires a DUNS match to SAM to accept reports on a subrecipient. The Department could not provide documentation of a good-faith effort to either report on the subrecipient or to have the subrecipient registered in SAM by the reporting deadline.
- For 3 (43 percent) of 7 Transparency Act reports tested, the Department did not accurately report all key data elements. The Department did not accurately report at least one of the following key data elements: DUNS number, obligation or action date of the subaward, or the subaward amount. Those errors occurred because of (1) a data entry error in the reporting tool the Department used and (2) an error in the query the Department

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used to pull key data elements included in the amounts exceeding the local cost share. Additionally, as noted above, the Department had not reported one subaward at all by the time of audit testing.

- For 3 (43 percent) of 7 Transparency Act reports tested, the Department did not submit the reports in a timely manner. The Department submitted 1 of those 3 reports 11 days late, and it submitted another of those 3 reports 103 days late. That occurred because the prime award was not established in FSRS and the Department could not provide documentation that it made a good-faith effort to submit those reports. That issue affected one other subaward. The Department reported an additional obligation related to one of those awards 15 days late. That occurred because the Department did not perform Transparency Act reporting in June 2014 due to an information technology issue with the electronic data warehouse it used to pull the key data elements. That issue affected one other subaward. Additionally, as noted above, the Department had not reported one subaward at all by the time of audit testing.

After auditors brought those issues to its attention, the Department corrected the reporting errors and submitted the missing report. Not submitting accurate Transparency Act reports decreases the reliability and availability of information to the awarding agency and the public.

The financial reporting issues discussed above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
1379	TX01PA1379	June 9, 2001
1479	TX03PA1479	July 17, 2003
1606	1606DRTXP00000001	September 24, 2005
1780	1780DRTXP00000001	July 24, 2008
1999	1999DRTXP00000001	July 1, 2011
3290	3290DRTXP00000001	August 29, 2008
4136	4136DRTXP00000001	August 2, 2013

The Transparency Act reporting issues above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
4029	4029DRTXP00000001	September 9, 2011
4136	4136DRTXP00000001	August 2, 2013
4159	4159DRTXP00000001	December 20, 2013

General Controls

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

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, one Department employee had access that did not reflect that employee's current job responsibilities. That employee changed positions within the Department, and the Department should have changed that employee's access from data entry and posting to inquiry only. The Department's periodic review of user access was not effective in identifying and changing that access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

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Recommendations:

The Department should:

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

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Department will:

- *Strengthen controls to ensure we report required financial information based on correct documentation.*
- *Accurately report recipient share match.*
- *Restrict USAS accounts to match staff responsibilities and will complete periodic reviews.*

The Department has implemented controls to submit all Transparency Act reports accurately and will document communications with FEMA when errors in the Data Warehouse are noted.

Implementation Date: July 2015

Responsible Persons: Paula Kay Logan and Sharon Page

Reference No. 2014-109

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

(Prior Audit Issues 2013-118, 13-103, 12-106, 11-107, 10-35, and 09-38)

CFDA 97.067 – Homeland Security Grant Program

Award year – 2011

Award number – EMW-2011-SS-00019

Type of finding – Significant Deficiency and Non-Compliance

In accordance with Title 2, Code of Federal Regulation (CFR), Section 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.

One (2 percent) of 65 non-payroll expenditures tested that the Department of Public Safety (Department) charged to the 2011 Homeland Security Grant Program was not solely allocable to that program. That expenditure

was a management and administrative cost that benefited the State Administrative Agency, which manages and administers multiple federal grant programs. That expenditure could have benefited other grant programs, but the Department charged it solely to the Homeland Security Grant Program. That error resulted in \$135 in questioned

Questioned Cost: \$ 135

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

DEPARTMENT OF PUBLIC SAFETY

costs. The Department has a process to allocate management and administrative costs among the programs that the State Administrative Agency administers; however, it did not follow that process for that expenditure.

In addition to the Homeland Security Grant Program, the State Administrative Agency manages funds for the following federal programs:

- State and Local Implementation Grant Program (CFDA 11.549).
- Nonprofit Security Program (CFDA 97.008).
- Emergency Operations Center Program (CFDA 97.052).
- Buffer Zone Protection Program (CFDA 97.078).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Border Interoperability Demonstration Project (CFDA 97.120).

In addition, the Department's State Administrative Agency reviews and approves direct expenditures to help ensure that expenditures are allowable and appropriate for the project. However, for 1 (2 percent) of 65 transactions tested, the Department could not provide evidence that the State Administrative Agency reviewed and approved the transaction. The Department could not locate the related Payment and Reporting System request for that transaction.

Recommendations:

The Department should:

- Allocate management and administrative costs that benefit multiple federal grant programs.
- Maintain documentation of the State Administrative Agency's review and approval of all Homeland Security Grant Program expenditures.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Department will:

- *Return questioned costs to the grant.*
- *Allocate costs correctly.*
- *Maintain documentation of review and approvals.*

Implementation Date: January 2015

Responsible Persons: Garry Jones and Maureen Coulehan

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Reference No. 2014-110

Matching, Level of Effort, Earmarking

CFDA 97.067 – Homeland Security Grant Program

Award years – 2010 and 2011

Award numbers – 2010-SS-T0-0008 and EMW-2011-SS-00019

Type of finding – Significant Deficiency

State Administrative Agencies are allowed to retain a maximum of 5 percent of their Homeland Security Grant program awards for management and administrative costs. The maximum amount of management and administrative costs the State Administrative Agency may retain is calculated based on the total amount received under all Homeland Security Grant Program awards (Federal Emergency Management Agency Grant Programs Directorate Policy FP 207-087-1).

Questioned Cost: \$ 0

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

The Department of Public Safety (Department) has management and administrative index and fund codes in its accounting system that it uses to track management and administrative expenditures. **However, for 3 (5 percent) of 65 transactions tested, the Department did not record the transaction with the correct management and administrative fund code.** In all three cases, however, the Department charged the expenditures to the correct grant.

The Department monitors management and administrative charges using federal cash draw request information, instead of using actual management and administrative expenditure data from its accounting system. It does not reconcile the amounts from its monitoring of management and administrative costs with the actual management and administrative expenditures recorded in its accounting system to help ensure that its management and administrative charges do not exceed earmarking limits. Therefore, the Department’s monitoring of its management and administrative expenditures does not capture expenditures resulting from transfers or adjustments in its accounting system, which can increase the amount charged to the management and administrative budget code.

Although the Department complied with management and administrative cost requirements during fiscal year 2014, the control weaknesses discussed above increase the risk that the Department could exceed the management and administrative limit in the future.

Recommendations:

The Department should:

- Record transactions with the correct index and fund codes.
- Implement a process to monitor compliance with management and administrative limits using expenditure data in its accounting system.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Department will monitor compliance of Management and Administration costs through its expenditure reports from USAS.

Implementation Date: January 2015

Responsible Persons: Garry Jones and Maureen Coulehan

DEPARTMENT OF PUBLIC SAFETY

Reference No. 2014-111

Period of Availability of Federal Funds

CFDA 97.067 – Homeland Security Grant Program

Award year – 2010

Award number – 2010-SS-T0-0008

Type of finding – Significant Deficiency and Non-Compliance

A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend that deadline at the request of the grantee (Title 44, Code of Federal Regulations (CFR), Section 13.23(b)).

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

For 1 (14 percent) of 7 transactions tested that were charged after the end of the period of availability, the Department of Public Safety’s (Department) liquidation occurred more than 90 days after the end of the period of availability. That payment delay resulted from confusion at the Department following the reissue of the invoice due to a pricing error. That issue affected grant 2010-SS-T0-0008.

Recommendation:

The Department should implement a process to ensure that it makes payments within 90 days of the end of the period of availability for a grant.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Department agrees with the recommendation and will implement a process to ensure payments are made within 90 days of the end of the period of availability for a grant.

Implementation Date: March 2015

Responsible Person: Maureen Coulehan

Reference No. 2014-112

Reporting

(Prior Audit Issues 2013-119 and 13-107)

CFDA 97.067 – Homeland Security Grant Program

Award year – 2011

Award number – EMW-2011-SS-00019

Type of finding – Significant Deficiency and Non-Compliance

Federal Funding Accountability and Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that equal or exceed \$25,000 (Title 2, Code of Federal Regulations, Chapter 170, Appendix A).

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

Recipients of awards that are subject to the Transparency Act must report all required elements, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System

(DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number. Additionally, the amount of the subaward is the net dollar amount of federal funds awarded to the subawardee, including modifications (U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting*, August 27, 2010, Appendix C).

The Department of Public Safety (Department) did not always accurately report key data elements for Transparency Act reports. Specifically, the Department reported the subaward amount incorrectly for 1 (7 percent) of 15 subawards tested. That occurred because the Department did not include one obligation amount in the total amount reported. After auditors brought that error to its attention, the Department corrected the error and reported the correct amount.

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

General Controls

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

The Department did not adequately restrict access to its accounts in the State's Uniform Statewide Accounting System (USAS). Specifically, one Department employee had access that did not reflect that employee's current job responsibilities. That employee changed positions within the Department, and the Department should have changed that employee's access from data entry and posting to inquiry only. The Department's periodic review of user access was not effective in identifying and changing that access. Not maintaining appropriate access to USAS increases the risk of unauthorized modification of the Department's accounting data.

Recommendation:

The Department should:

- Strengthen controls to help ensure that it includes all obligations in the total subaward amounts it reports under the Transparency Act.
- Restrict access to its USAS accounts to current staff whose responsibilities require that access.
- Ensure that its periodic review process is effective and identifies all users whose access needs to be changed.

Management Response and Corrective Action Plan:

The Department agrees with the recommendation.

The Department has:

- *Corrected the error.*
- *Developed a new report in the Grant Management System to ensure amounts are correctly reported.*

The Department will restrict USAS accounts to match staff responsibilities and will complete periodic reviews.

Implementation Date: January 2015

Responsible Persons: Garry Jones and Sharon Page

Reference No. 2014-113

**Subrecipient Monitoring
Special Tests and Provisions – Subgrant Awards**

CFDA 97.067 – Homeland Security Grant Program

Award years – 2013, 2012, and 2011

Award numbers – EMW-2013-SS-00045, EMW-2012-SS-00018, and EMW-2011-SS-00019

Type of finding –Significant Deficiency and Non-Compliance

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

Questioned Cost: \$ 0

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

In fiscal year 2014, the Department passed through \$89,713,018 in Homeland Security Grant Program funds to its subrecipients.

During-the-award Monitoring

Indirect costs claimed by a governmental unit are to be supported by an indirect cost rate proposal. Where a local government only receives funds as a subrecipient, the primary recipient will be responsible for negotiating and/or monitoring the subrecipient’s plan (Title 2, Code of Federal Regulations (CFR), Section 225, Appendix E (D)(1)).

For 1 (2 percent) of 49 subrecipients tested, the Department reimbursed that subrecipient for indirect costs at a higher rate than the rate allowed under the subrecipient’s approved indirect cost rate proposal. That occurred because the State Administrative Agency (SAA) accepted the subrecipient’s explanation for the higher indirect cost rate without determining whether it was allowable. The subrecipient asserted that it was charging the adjustment from the provisional to final indirect cost rate on the 2011 grant because the 2010 grant was closed at the time the reimbursement request was submitted. However, that was not allowable according to the subrecipient’s approved Indirect Cost Rate Agreement. After auditors brought this issue to the Department’s attention, it reimbursed the Federal Emergency Management Agency; therefore, there were no questioned costs.

Additionally, for 2 (4 percent) of 49 subrecipients tested, the Department did not include those subrecipients in the fiscal year 2014 risk assessment it used to select subrecipients for desk reviews and site visits. That occurred because the Department did not include 2013 grant subawards (obligated during fiscal year 2014) in the query it used to populate the risk assessment.

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

Subrecipient Audits

According to OMB Circular A-133, the Department must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within nine months of the subrecipient’s fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient’s audit report (OMB Circular A-133, Section 400).

The Department could not provide evidence that it made a management decision within six months for any of the three subrecipients tested that had findings. For two of those subrecipients, that occurred because the Department did not document its management decision that no further action was needed. The remaining subrecipient had a finding related to the Homeland Security Grant Program, and the standards section within the Department did not notify the grant administrator of the need for a management decision after reviewing the single audit checklist. As a result of not making a determination with six months, the Department did not record the effects of noncompliance in its records for that subrecipient. After auditors brought that issue to its attention, the Department made a decision to follow up on the corrective action for that subrecipient. The Department maintains a tracking spreadsheet to monitor subrecipient audits; however, that control was not working effectively.

Not making management decisions in a timely manner increases the risk that subrecipient non-compliance that affects federal grants the Department manages could go undetected.

Special Tests and Provisions – Subgrant Awards

According to the Federal Emergency Management Agency’s fiscal year 2013 Homeland Security Grant Program Funding Opportunity Announcement, the State must obligate at least 80 percent of the funds awarded under the State Homeland Security Program and Urban Area Security Initiative to local units of government within 45 days of receipt of the funds.

The Department’s key control over special tests and provisions - subgrant awards is not adequately designed to ensure monitoring for compliance with the 45-day obligation requirement. There are no actual dates or target dates in the Department’s distribution report and, while e-mails and grant management system entries demonstrating compliance are time-stamped, there was no evidence that the Department reviewed or used those dates to monitor compliance with the 45-day obligation requirement. However, the Department complied with the requirement to obligate 80 percent of State Homeland Security Program and Urban Area Security Initiative awards to subrecipients within 45 days during fiscal year 2014.

Recommendations:

The Department should:

- Ensure that indirect costs submitted for reimbursement comply with the relevant approved indirect cost rate proposal.
- Include all subrecipients in its risk assessment for site visit or desk review consideration.
- Strengthen controls to ensure that it reviews all Single Audit reports for active subrecipients within six months of receipt of those reports and issues management decisions on findings within the required time frame.
- Implement and document a control to track and ensure that subawards are obligated to local governments within 45 days of the Department’s receipt of the award.

Management Response and Corrective Action Plan:

The Department agrees with the recommendation.

The Department will:

- *Conduct training to ensure all grant accountants understand the indirect cost rate,*
- *Run a report periodically to ensure sub-recipients are identified and included in the risk assessment*
- *Develop a procedure and generate a report to document management controls over this process.*
- *Strengthen controls to ensure grant program management is notified timely for management decisions and that those decisions are documented.*

Implementation Date: March 2015

Responsible Persons: Garry Jones and Paula Kay Logan

University of Texas Medical Branch at Galveston

Reference No. 2014-165

Equipment and Real Property Management
(Prior Audit Issue 2013-187)

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

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions 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)).

Questioned Cost: \$ 0

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

The University of Texas Medical Branch at Galveston (Medical Branch) requires an asset disposition form to be completed when an asset is disposed. In addition, the asset manager and a representative of the Office of Sponsored Programs are required to review that form when an asset is acquired with federal funds.

The Medical Branch did not obtain the required approvals from a representative of the Office of Sponsored Programs for the asset disposition tested prior to the disposition of that asset.

That error occurred as a result of a weakness in the University’s disposal process when auctioned assets were not routed to obtain proper approvals prior to final disposition. Not obtaining the required approvals increases the risk that assets acquired with federal funds could be disposed of improperly.

Recommendation:

The Medical Branch should strengthen controls to help ensure that it obtains required approvals prior to final disposition of assets.

Management Response and Corrective Action Plan:

UTMB will add additional data fields in eSurplus, the web application which tracks disposals through its surplus program. UTMB will monitor those fields to ensure proper approvals occur when assets are in the process of being disposed. UTMB will also perform a quarterly review of all disposed assets purchased with federal funds to ensure appropriate approvals have occurred.

Implementation Date: February 2015

Responsible Persons: Mike Linton and Kelly Dean

Summary Schedule of Prior Year Audit Findings

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

- Each finding in the 2013 Schedule of Findings and Questioned Costs.
- Each finding in the 2013 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, 2014) has been prepared to address these responsibilities.

Department of Public Safety

Reference No. 2013-107

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

(Prior Audit Issue 13-117)

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles - Payroll

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

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

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

Initial Year Written: 2012
Status: Partially Implemented

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

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

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

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

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

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

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

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

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

Indirect Costs

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

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

In 2009, the Department hired a third-party vendor to develop an IDCRP on its behalf based on its fiscal year 2007 expenditures. However, the Department did not submit that IDCRP to the federal cognizant agency until February 2012. The Federal Emergency Management Agency (FEMA) approved the IDCRP in May 2012. The IDCRP

DEPARTMENT OF PUBLIC SAFETY

included a fixed rate of 55.59 percent for fiscal years 2008 and 2009, and that same rate on a provisional basis for periods after fiscal year 2009. **However, the Department did not retain sufficient support for its IDCRP for auditors to test the accuracy of the indirect cost rate.** As a result, auditors could not determine whether the indirect cost rate approved in May 2012 was accurate. **The Department's next IDCRP was due in February 2013. However, the Department was still in the process of completing that proposal at the close of fiscal year 2013.** During fiscal year 2013, the Department drew down federal Disaster Grants – Public Assistance (Presidentially Declared Disasters) funds for indirect costs using the provisional rate of 55.59 percent on the previous indirect cost rate agreement.

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

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

The issues discussed above affected the following awards:

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

Corrective Action:

This finding was reissued as current year reference number 2014-106.

Reference No. 2013-108

Cash Management

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

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

Award years – See below

Award numbers – See below

Type of finding –Significant Deficiency and Non-Compliance

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

Initial Year Written: 2010
 Status: Partially Implemented

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

For 9 (14 percent) of 65 drawdowns tested, the Department of Public Safety (Department) did not comply with the time requirements for disbursing federal funds. The Department disbursed funds from those 9 drawdowns between 4 and 18 days after it received the funds, instead of within 3 days as required by the Treasury-State Agreement. Those errors occurred because the Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure that the Department disburses funds in a timely manner. In February 2013, the Department adjusted its process for drawing down funds for payroll costs to better ensure compliance with timing requirements outlined in the Treasury-State Agreement.

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

The timing issues discussed above affected the following awards:

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

Corrective Action:

This finding was reissued as current year reference number 2014-107.

Reference No. 2013-109

Period of Availability of Federal Funds

(Prior Audit Issue 13-119)

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2012
Status: Implemented

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

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

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

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

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The issues noted above affected the following awards:

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

Corrective Action:

Corrective action was taken.

Reference No. 2013-110

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

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2008
Status: Partially Implemented

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

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

Pre-award Monitoring

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

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

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

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

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

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

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

During-the-award Monitoring

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

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

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

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

Project Accounting

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

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

The issues discussed above affect the following awards:

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

Corrective Action:

This finding was reissued as current year reference number 2014-107.

Reference No. 2013-111

Reporting

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

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

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

Financial Reporting

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

Initial Year Written: 2006
Status: Partially Implemented

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

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

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

Federal Funding Accountability and Transparency Act

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

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

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

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

General Controls

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

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

The financial reporting issues discussed above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
1379	TX01PA1379	June 9, 2001
1425	TX02PA1425	July 4, 2002
1479	TX03PA1479	July 17, 2003
1606	1606DRTXP00000001	September 24, 2005
1658	1658DRTXP00000001	August 15, 2006
1709	1709DRTXP00000001	June 29, 2007
1780	1780DRTXP00000001	July 24, 2008
1931	1931DRTXP00000001	August 3, 2010
3216	3216EMTXP00000001	September 2, 2005
3294	3294EMTXP00000001	September 10, 2008
4029	4029DRTXP00000001	September 9, 2011

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

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
4029	4029DRTXP00000001	September 9, 2011

Corrective Action:

This finding was reissued as current year reference number 2014-108.

Reference No. 2013-112

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

CFDA 97.046 - Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles - Payroll

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

For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

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

<p>Initial Year Written: 2013 Status: Partially Implemented</p> <p>U.S. Department of Homeland Security – Federal Emergency Management Agency</p>
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Budget estimates or other distribution percentages that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

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

Corrective Action:

Corrective action was taken.

Indirect Costs

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

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

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

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

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

The payroll issues identified discussed affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2785	2785FMTXP00000001	August 7, 2008
2794	2794FMTXP00000001	February 25, 2009
2795	2795FMTXP00000001	February 27, 2009
2796	2796FMTXP00000001	February 28, 2009
2797	2797FMTXP00000001	March 3, 2009
2798	2798FMTXP00000001	March 5, 2009
2800	2800FMTXP00000001	March 20, 2009
2801	2801FMTXP00000001	April 3, 2009
2802	2802FMTXP00000001	April 4, 2009
2803	2803FMTXP00000001	April 5, 2009
2804	2804FMTXP00000001	April 7, 2009
2805	2805FMTXP00000001	April 10, 2009
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2810	2810FMTXP00000001	April 10, 2009
2814	2814FMTXP00000001	April 10, 2009
2867	2867FMTXP00000001	March 11, 2011

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2870	2870FMTXP00000001	March 12, 2011
2881	2881FMTXP00000001	April 3, 2011
2882	2882FMTXP00000001	April 5, 2011
2884	2884FMTXP00000001	April 9, 2011
2885	2885FMTXP00000001	April 9, 2011
2886	2886FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2889	2889FMTXP00000001	April 15, 2011
2891	2891FMTXP00000001	April 15, 2011
2892	2892FMTXP00000001	April 15, 2011
2893	2893FMTXP00000001	April 16, 2011
2894	2894FMTXP00000001	April 16, 2011
2895	2895FMTXP00000001	April 16, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2899	2899FMTXP00000001	April 21, 2011
2901	2901FMTXP00000001	April 27, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2905	2905FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2908	2908FMTXP00000001	May 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2911	2911FMTXP00000001	May 29, 2011
2912	2912FMTXP00000001	May 29, 2011
2913	2913FMTXP00000001	May 29, 2011
2914	2914FMTXP00000001	June 2, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2924	2924FMTXP00000001	June 17, 2011
2925	2925FMTXP00000001	June 18, 2011

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2928	2928FMTXP00000001	June 20, 2011
2929	2929FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2937	2937FMTXP00000001	July 11, 2011
2949	2949FMTXP00000001	August 15, 2011
2952	2952FMTXP00000001	August 30, 2011
2957	2957FMTXP00000001	September 4, 2011
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2960	2960FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2963	2963FMTXP00000001	September 6, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011
2967	2967FMTXP00000001	September 8, 2011
2968	2968FMTXP00000001	September 9, 2011
2976	2976FMTXP00000001	April 30, 2012

The indirect cost issues discussed above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2794	2794FMTXP00000001	February 25, 2009
2795	2795FMTXP00000001	February 27, 2009
2796	2796FMTXP00000001	February 28, 2009
2797	2797FMTXP00000001	March 3, 2009
2798	2798FMTXP00000001	March 5, 2009
2800	2800FMTXP00000001	March 20, 2009
2801	2801FMTXP00000001	April 3, 2009
2802	2802FMTXP00000001	April 4, 2009
2803	2803FMTXP00000001	April 5, 2009

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2804	2804FMTXP00000001	April 7, 2009
2805	2805FMTXP00000001	April 10, 2009
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2810	2810FMTXP00000001	April 10, 2009
2814	2814FMTXP00000001	April 10, 2009

Recommendations:

The Department should:

- Submit an updated IDCRCR to its federal cognizant agency and retain adequate documentation of its proposed indirect cost rate.
- Record indirect cost revenues accurately in its accounting system.

Management Response and Corrective Action Plan 2013:

The Department agrees with the finding.

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

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

2014 Update:

The Department submitted an indirect cost rate proposal that was approved by the Federal Emergency Management Agency in April 2014. The Department maintained relevant support for the indirect cost rate proposal; however, the proposal did not include all of the required documentation. In addition, the indirect cost pool included unallowable costs and the distribution base was not accurately calculated. The Department did not request reimbursement for indirect costs in fiscal year 2014.

Management Response and Corrective Action Plan 2014:

These corrections and additional documentation will be built into the next indirect cost rate proposal to be presented to FEMA.

Implementation Date: March 2015

Responsible Person: Maureen Coulehan

DEPARTMENT OF PUBLIC SAFETY

Reference No. 2013-113

Cash Management

CFDA 97.046 – Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written:	2013
Status:	Implemented

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

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

The cash management issues discussed above affected the following awards:

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

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2968	2968FMTXP00000001	September 9, 2011

Corrective Action:

Corrective action was taken.

Reference No. 2013-114

Eligibility

CFDA 97.046 – Fire Management Assistance Grant

Award year – September 6, 2011

Award number – 2962FMTXP00000001

Type of finding –Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013 Status: Partially Implemented U.S. Department of Homeland Security – Federal Emergency Management Agency

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

Recommendation:

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

Management Response and Corrective Action Plan 2013:

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

Management Response and Corrective Action Plan 2014:

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

Implementation Date: March 2015

Responsible Person: Paula Logan

Reference No. 2013-115

Period of Availability of Federal Funds

CFDA 97.046 - Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013
 Status: Partially Implemented

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

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

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

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

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

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

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>	<u>Questioned Costs</u>
2785	2785FMTXP00000001	August 7, 2008	\$ 0
2794	2794FMTXP00000001	February 25, 2009	0
2795	2795FMTXP00000001	February 27, 2009	0

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>	<u>Questioned Costs</u>
2796	2796FMTXP00000001	February 28, 2009	0
2797	2797FMTXP00000001	March 3, 2009	0
2798	2798FMTXP00000001	March 5, 2009	0
2800	2800FMTXP00000001	March 20, 2009	0
2801	2801FMTXP00000001	April 3, 2009	0
2802	2802FMTXP00000001	April 4, 2009	0
2803	2803FMTXP00000001	April 5, 2009	0
2804	2804FMTXP00000001	April 7, 2009	0
2805	2805FMTXP00000001	April 10, 2009	0
2806	2806FMTXP00000001	April 10, 2009	0
2807	2807FMTXP00000001	April 10, 2009	0
2810	2810FMTXP00000001	April 10, 2009	0
2814	2814FMTXP00000001	April 10, 2009	0
2867	2867FMTXP00000001	March 11, 2011	141
2870	2870FMTXP00000001	March 12, 2011	198
2881	2881FMTXP00000001	April 3, 2011	153
2882	2882FMTXP00000001	April 5, 2011	141
2884	2884FMTXP00000001	April 9, 2011	190
2885	2885FMTXP00000001	April 9, 2011	568
2886	2886FMTXP00000001	April 9, 2011	142
2888	2888FMTXP00000001	April 15, 2011	713
2889	2889FMTXP00000001	April 15, 2011	192
2891	2891FMTXP00000001	April 15, 2011	120
2892	2892FMTXP00000001	April 15, 2011	437
2893	2893FMTXP00000001	April 16, 2011	142
2894	2894FMTXP00000001	April 16, 2011	165
2895	2895FMTXP00000001	April 16, 2011	117
2896	2896FMTXP00000001	April 17, 2011	141
2898	2898FMTXP00000001	April 17, 2011	165
2899	2899FMTXP00000001	April 21, 2011	141
2901	2901FMTXP00000001	April 27, 2011	88
2903	2903FMTXP00000001	April 29, 2011	239
2904	2904FMTXP00000001	April 30, 2011	88

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>	<u>Questioned Costs</u>
2905	2905FMTXP00000001	April 30, 2011	88
2906	2906FMTXP00000001	May 8, 2011	281
2908	2908FMTXP00000001	May 9, 2011	141
2910	2910FMTXP00000001	May 24, 2011	188
2911	2911FMTXP00000001	May 29, 2011	130
2912	2912FMTXP00000001	May 29, 2011	248
2913	2913FMTXP00000001	May 29, 2011	194
2914	2914FMTXP00000001	June 2, 2011	218
2916	2916FMTXP00000001	June 3, 2011	241
2922	2922FMTXP00000001	June 16, 2011	255
2924	2924FMTXP00000001	June 17, 2011	150
2925	2925FMTXP00000001	June 18, 2011	174
2926	2926FMTXP00000001	June 18, 2011	197
2927	2927FMTXP00000001	June 20, 2011	197
2928	2928FMTXP00000001	June 20, 2011	197
2929	2929FMTXP00000001	June 20, 2011	174
2930	2930FMTXP00000001	June 21, 2011	150
2931	2931FMTXP00000001	June 21, 2011	173
2937	2937FMTXP00000001	July 11, 2011	174
2949	2949FMTXP00000001	August 15, 2011	113
2952	2952FMTXP00000001	August 30, 2011	286
2957	2957FMTXP00000001	September 4, 2011	23
2958	2958FMTXP00000001	September 4, 2011	320
2959	2959FMTXP00000001	September 5, 2011	141
2960	2960FMTXP00000001	September 5, 2011	141
2962	2962FMTXP00000001	September 6, 2011	141
2963	2963FMTXP00000001	September 6, 2011	0
2964	2964FMTXP00000001	September 6, 2011	72
2965	2965FMTXP00000001	September 6, 2011	317
2967	2967FMTXP00000001	September 8, 2011	141
2968	2968FMTXP00000001	September 9, 2011	141
2976	2976FMTXP00000001	April 30, 2012	<u>0</u>
		Total	\$9,687

Recommendations:

The Department should:

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

Management Response and Corrective Action Plan 2013:

The Department agrees with the finding.

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

2014 Update:

The federal application forms approved by the Federal Emergency Management Agency for disasters either did not have a period of performance included or the time period was the same as the incident period. Those conditions impeded the Department's compliance with period of availability requirements. The Department asserts that corrective action was implemented in August 2014; however, there were no new fire disasters in fiscal year 2014.

Management Response and Corrective Action Plan 2014:

The Department has implemented processes to track Period of Availability and will ensure these processes are followed on all future FMAGs.

However, the Department asserts the dates audited include the submission dates for the projects to FEMA, rather than the period of availability following the award and obligation of the grants.

Implementation Date: February 2014

Responsible Persons: Paula Logan

Reference No. 2013-116

**Procurement and Suspension and Debarment
Subrecipient Monitoring**

CFDA 97.046 – Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

Initial Year Written: 2013
Status: Partially Implemented

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

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

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

Pre-award Monitoring

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

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

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

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

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

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

Inadequate identification of federal awards to subrecipients could lead to inaccurate reporting of federal funding on a subrecipient’s schedule of expenditures of federal awards. Not verifying that subrecipients or their principals are not suspended or debarred from participation in federal awards increases the risk that the Department could enter

into awards with ineligible parties. Not obtaining DUNS numbers prior to making a subaward could lead to inaccurate federal reporting.

During-the-award Monitoring

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

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

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

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

The issues discussed above affected the following awards:

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

Recommendations:

The Department should:

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

Management Response and Corrective Action Plan 2013:

The Department agrees with the finding.

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

Management Response and Corrective Action Plan 2014:

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

Implementation Date: May 2014

Responsible Person: Paula Logan

Reference No. 2013-117

Reporting

CFDA 97.046 – Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

Initial Year Written: 2013 Status: Partially Implemented U.S. Department of Homeland Security – Federal Emergency Management Agency

The Department of Public Safety (Department) did not always ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Specifically, for 28 (47 percent) of 60 financial reports tested, the Department inaccurately reported the total recipient share required and the remaining recipient share to be provided.

Those errors occurred because the Department used an incorrect methodology to report those amounts. The Department's methodology for determining the total recipient share required used current expenditures in its calculation instead of the total award amount. That methodology does not produce an accurate amount if all federal obligations for an award have not been liquidated. As a result of those errors, for those 28 reports the Department underreported the total recipient share required and remaining recipient share to be provided by \$4,767,762. Department management reviewed and approved those financial reports; however, that review was not sufficient to detect those errors. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

Corrective Action:

Corrective action was taken.

Federal Funding Accountability and Transparency Act

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

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

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

- For 4 (25 percent) of 16 Transparency Act reports tested, the Department underreported the total subaward amount because it did not include amounts for donated resources projects as required. Those errors occurred because the Federal Emergency Management Agency's Electronic Data Warehouse, which the Department uses to prepare its Transparency Act reports, excludes amounts for donated resources projects.
- For 6 (38 percent) of 16 Transparency Act reports tested, the Department did not submit reports within the required time frame. The Department submitted those 6 reports between 16 and 132 days late. During the prior-year audit, auditors communicated to the Department information regarding its noncompliance with Transparency Act requirements. The Department implemented a formal process for Transparency Act reporting in April 2013. For four of those subawards, the Department did not submit the reports in a timely manner because the reports were due prior to the Department's implementation of a formal process for Transparency Act reporting. For the other two subawards, the Department was not aware that the applicable prime awards were available in the Transparency Act reporting system.

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

General Controls

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

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

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The financial reporting issues discussed above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2806	2806FMTXP00000001	April 10, 2009
2807	2807FMTXP00000001	April 10, 2009
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2885	2885FMTXP00000001	April 9, 2011
2889	2889FMTXP00000001	April 15, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2912	2912FMTXP00000001	May 29, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2925	2925FMTXP00000001	June 18, 2011
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2958	2958FMTXP00000001	September 4, 2011
2960	2960FMTXP00000001	September 5, 2011
2962	2962FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011

The Transparency Act issues discussed above affected the following awards:

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2886	2886FMTXP00000001	April 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2913	2913FMTXP00000001	May 29, 2011
2929	2929FMTXP00000001	June 20, 2011
2958	2958FMTXP00000001	September 4, 2011

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2960	2960FMTXP00000001	September 5, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011

Recommendations:

The Department should:

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

Management Response and Corrective Action Plan 2013:

The Department agrees with the finding.

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

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

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

Management Response and Corrective Action Plan 2014:

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

Implementation Date: May 2014

Responsible Persons: Paula Logan

General Controls

The Department will restrict USAS accounts to match staff responsibilities and will complete periodic reviews.

Implementation Date: January 2015

Responsible Persons: Garry Jones and Sharon Page

Reference No. 2013-118

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

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

CFDA 97.067 – Homeland Security Grant Program

Award year – 2010

Award number – 2010-SS-T0-0008

Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles - Payroll

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

Initial Year Written: 2008
Status: Partially Implemented
U.S. Department of Homeland Security – Federal Emergency Management Agency

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

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

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

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

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

Allowable Costs/Cost Principles – Non-payroll

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

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

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

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

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

Corrective Action:

This finding was reissued as current year reference number 2014-109.

Reference No. 2013-119

Reporting

(Prior Audit Issue 13-107)

CFDA 97.067 - Homeland Security Grant Program

Award years – 2011 and 2012

Award numbers – EMW-2011-SS-00019 and EMW-2012-SS-00018

Type of finding – Significant Deficiency and Non-Compliance

Federal Funding Accountability and Transparency Act

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

Initial Year Written: 2012
Status: Partially Implemented

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

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

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

- For 25 (50 percent) of 50 Transparency Act reports tested, the Department did not accurately report the subaward obligation date. Those errors occurred because the Department did not have a consistent process for determining the obligation date to report.
- For 25 (76 percent) of 33 Transparency Act reports tested that were due in fiscal year 2013, the Department did not report the subaward within the required time frame. Additionally, the Department submitted other Transparency Act reports in fiscal year 2013 that were due in a previous fiscal year. During the prior-year audit, auditors communicated to the Department information regarding its noncompliance with Transparency Act requirements. The Department implemented a formal process for Transparency Act reporting in April 2013. That process decreased, but did not eliminate, instances of noncompliance with federal requirements.

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

General Controls

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

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

Corrective Action:

This finding was reissued as current year reference number 2014-112.

Reference No. 2013-120

Subrecipient Monitoring

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

CFDA 97.067 – Homeland Security Grant Program

Award years – 2009, 2010, 2011, and 2012

Award numbers – 2009-SS-T9-0064, 2010-SS-T0-0008, EMW-2011-SS-00019, and EMW-2012-SS-00018

Type of finding – Significant Deficiency and Non-Compliance

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

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

Initial Year Written:	2008
Status:	Implemented
U.S. Department of Homeland Security – Federal Emergency Management Agency	

During-the-award Monitoring

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

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 13-111

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

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Non-Compliance

Allowable Costs/Cost Principles – Payroll

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Homeland Security

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

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

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

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

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

Corrective Action:

Corrective action was taken.

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

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

the federal awards, or for other reasons. Additionally, to be allowable under federal awards, costs must be adequately documented (Title 2, CFR, Chapter 225).

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

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

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

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

Corrective Action:

The Department has not purchased equipment over the past two years with Hazard Mitigation program funds; therefore, this finding is longer valid.

Indirect Costs

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

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

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

DEPARTMENT OF PUBLIC SAFETY

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

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

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

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

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

Recommendations:

The Department should:

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

Management Response and Corrective Action Plan 2012:

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

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

Management Response and Corrective Action Plan 2013:

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

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

2014 Update:

The Department submitted an indirect cost rate proposal that was approved by the Federal Emergency Management Agency in April 2014. The Department maintained relevant support for the indirect cost rate proposal; however, the proposal did not include all of the required documentation. In addition, the indirect cost pool included unallowable costs and the distribution base was not accurately calculated. The Department did not request reimbursement for indirect costs in fiscal year 2014.

Management Response and Corrective Action Plan 2014:

These corrections and additional documentation will be built into the next indirect cost rate proposal to be presented to FEMA.

Implementation Date: March 2015

Responsible Person: Maureen Coulehan

DEPARTMENT OF PUBLIC SAFETY

Reference No. 13-112

Cash Management

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

Funding Technique

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

Initial Year Written: 2012
Status: Implemented

U.S. Department of Homeland Security

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

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

The Department uses a manual process to disburse funds to its subrecipients, and that process does not consistently ensure the timely disbursement of funds. Additionally, the Department's process for drawing funds for payroll costs is not adequately designed to minimize the time between the drawdown of funds and the disbursement of payroll. The Department drew funds for payroll at the same time that it ran its monthly trial balance; on average, that occurred 9.4 days before the Department needed to disburse payroll.

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

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

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<u>Disaster</u>	<u>Grant Number</u>	<u>Start Date</u>	<u>Questioned Costs</u>
1931	FEMA-1931-DR	August 3, 2010	\$0
1999	FEMA-1999-DR	July 1, 2011	\$0
4029	FEMA-4029-DR	September 9, 2011	\$0

Corrective Action:

Corrective action was taken.

Reference No. 13-113

Eligibility

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

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

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

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

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

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 13-114

Period of Availability of Federal Funds

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

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

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

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

- For 1 (6 percent) of 18 transfers tested, the Department could not provide evidence that it incurred the original cost supporting that transfer within the period of performance for the award to which it charged the cost. For

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that transfer, the Department incurred the cost between December 2011 and February 2012; however, based on information provided by the Department, the period of performance for the award ended on August 8, 2007. That resulted in questioned costs of \$17 associated with award FEMA-1439-DR. The Department asserted that it was aware that it should not have charged those costs to that award, but it had not yet transferred those costs to non-federal funds.

- For 3 (6 percent) of 51 direct cost expenditures tested, the Department incurred direct costs after the period of performance for the federal awards to which it charged those costs. The Department incurred two of those costs in August 2011, but the period of performance for the award ended in June 2009. The Department incurred the remaining cost in May 2012, but the period of performance for the award ended in March 2012. That resulted in questioned costs of \$8,769 associated with award FEMA-1606-DR and \$261 associated with award FEMA-1697-DR.
- The Department incurred 2 (10 percent) of 21 payroll expenditures tested after the end of the period of performance for the awards to which it charged those costs. Further analysis of the entire population of Department payroll charges during fiscal year 2012 indicates that the Department charged a total of \$33,890 in payroll costs after the end of the period of performance for the awards to which it charged those costs (see “Questioned Costs Related to Payroll” below for the individual awards to which the Department charged the \$33,890).
- For 1 (5 percent) of 21 payroll expenditures tested, auditors could not determine whether the Department incurred the cost during the period of performance for the award because the Department assigned that cost to a generic budget code that could be connected with multiple disasters. However, the Department asserted that it had not yet drawn federal expenditures for that transaction.

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

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

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

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<u>Award Number</u>	<u>Start Date</u>	<u>Questioned Costs Related to Payroll</u>	<u>Other Questioned Costs</u>	<u>Total Questioned Costs</u>
FEMA-4029-DR	September 9, 2011	0	0	0
	Total Questioned Costs	\$33,889	\$9,047	\$42,936

Recommendation:

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

Management Response and Corrective Action Plan 2012:

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

Management Response and Corrective Action Plan 2013:

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

Management Response and Corrective Action Plan 2014:

The Department agrees with the recommendation and will ensure current processes are followed.

Implementation Date: August 2013

Responsible Person: Paula Logan

Reference No. 13-115

**Procurement and Suspension and Debarment
Subrecipient Monitoring**

(Prior Audit Issue 12-110)

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

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

Initial Year Written: 2011
 Status: Partially Implemented

 U.S. Department of Homeland Security

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

Award Identification and Subrecipient Suspension and Debarment

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

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

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

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

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

Corrective Action:

Corrective action was taken.

During-the-award Monitoring

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

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

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

The Department uses a final project audit as its primary audit tool for monitoring its subrecipients' compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. **However, the Department does not always complete a final project audit prior to making the final payment on a project, which limits the effectiveness of the final project audit to monitor compliance with federal requirements.** The

Department also does not perform other types of monitoring of subrecipient compliance with requirements related to equipment maintenance, procurement, and real property acquisitions. As a result, auditors identified the following issues:

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

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

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

Recommendations:

The Department should:

- Retain documentation of its during-the-award monitoring activities and communicate deficiencies identified during its monitoring process to subrecipients.
- Implement a process to ensure that it monitors subrecipients during the award for all required compliance areas.

Management Response and Corrective Action Plan 2012:

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

Additionally, the Department will implement procedures to ensure:

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

Management Response and Corrective Action Plan 2013:

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

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

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

Management Response and Corrective Action Plan 2014:

The Department agrees with the recommendation and will ensure current processes are followed.

Implementation Date: April 2014

Responsible Person: Paula Logan

Subrecipient Audits

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

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

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

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

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

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

The issues noted above affect the following Hazard Mitigation awards:

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

Corrective Action:

Corrective action was taken.

Reference No. 13-116

Reporting

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

CFDA 97.039 – Hazard Mitigation Grant Program

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

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

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Homeland Security

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

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

The Department did not ensure that its SF-425 reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. That occurred because (1) reports the Division of Emergency Management prepared were not based

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on information in the Department’s financial system (instead, those reports were based on information from the federal system through which the Department requested funds) and (2) the Department used an incorrect methodology or incomplete information for some information it reported. As a result, auditors identified errors in all 13 SF-425 reports tested. Specifically:

- For 11 (85 percent) of 13 reports tested, the Department incorrectly reported its cash disbursements and the federal share of expenditures based on the amount of funds it received according to the federal SmartLink system through which it requested funds, instead of based on expenditure information from the Department’s accounting system. The Department also incorrectly reported several other data fields, including cash on hand, total federal share, and the unobligated balance of federal funds because those fields were derived from the incorrectly reported cash disbursement amount. In addition, the Department incorrectly reported the federal share of unliquidated obligations for those 11 reports.
- For 2 (15 percent) of the 13 reports tested, both of which the Grants Finance unit prepared, the Department indicated that it prepared the reports on a cash basis; however, the supporting accounting data indicated the reports were prepared on an accrual basis.
- For all 13 reports tested, the Department did not correctly report information associated with matching amounts for each project. Specifically, for the two reports the Grants Finance unit prepared, the total recipient share required and the recipient share of expenditures were based on incorrect formulas. For the 11 reports the Division of Emergency Management prepared, the amounts reported for total recipient share required and recipient share of expenditures were supported by spreadsheets the Department used to track recipient expenditures; however, the Department does not reconcile those spreadsheets with its accounting data; therefore, the Department should not rely on those spreadsheets. As a result of those errors, the Department also incorrectly reported the remaining subrecipient share to be provided for all 13 reports tested.
- For all 13 reports tested, the Department did not include indirect cost expenditures in the amount it reported for cash disbursements as required. The Department omitted those expenditures because it had not established a method to record them in the accounting system when it charges those expenditures to a federal grant.

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

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

<u>Disaster Number</u>	<u>Award Number</u>	<u>Start Date</u>
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1439	FEMA-1439-DR	November 5, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1697	FEMA-1697-DR	May 1, 2007
1709	FEMA-1709-DR	June 29, 2007
1730	FEMA-1730-DR	October 02, 2007
1780	FEMA-1780-DR	July 24, 2008

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<u>Disaster Number</u>	<u>Award Number</u>	<u>Start Date</u>
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
1999	FEMA-1999-DR	July 1, 2011
4029	FEMA-4029-DR	September 9, 2011

Recommendation:

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

Management Response and Corrective Action Plan 2012:

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

Management Response and Corrective Action Plan 2013:

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

Management Response and Corrective Action Plan 2014:

The Department agrees with the recommendation and will ensure current processes are followed.

Implementation Date: May 2014

Responsible Person: Paula Logan

Texas A&M Forest Service

Reference No. 2013-130

Activities Allowed or Unallowed

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

Award year – July 1, 2011

Award number – 1999DRTXP00000001

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013
Status: Implemented

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

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

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

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 2013-131

Cash Management

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

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013
 Status: Implemented

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

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

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

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

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

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
1999	1999DRTXP00000001	July 1, 2011
4029	4029DRTXP00000001	September 9, 2011

Corrective Action:

Corrective action was taken.

TEXAS A&M FOREST SERVICE

Reference No. 2013-132

Cash Management

CFDA 97.046 - Fire Management Assistance Grant

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

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

Initial Year Written: 2013 Status: Partially Implemented
U.S. Department of Homeland Security – Federal Emergency Management Agency

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

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

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

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2867	2867FMTXP00000001	March 11, 2011
2870	2870FMTXP00000001	March 12, 2011
2881	2881FMTXP00000001	April 3, 2011
2882	2882FMTXP00000001	April 5, 2011
2884	2884FMTXP00000001	April 9, 2011
2885	2885FMTXP00000001	April 9, 2011
2886	2886FMTXP00000001	April 9, 2011
2888	2888FMTXP00000001	April 15, 2011
2889	2889FMTXP00000001	April 15, 2011
2891	2891FMTXP00000001	April 15, 2011

TEXAS A&M FOREST SERVICE

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2892	2892FMTXP00000001	April 15, 2011
2894	2894FMTXP00000001	April 16, 2011
2896	2896FMTXP00000001	April 17, 2011
2898	2898FMTXP00000001	April 17, 2011
2901	2901FMTXP00000001	April 27, 2011
2903	2903FMTXP00000001	April 29, 2011
2904	2904FMTXP00000001	April 30, 2011
2905	2905FMTXP00000001	April 30, 2011
2906	2906FMTXP00000001	May 8, 2011
2908	2908FMTXP00000001	May 9, 2011
2910	2910FMTXP00000001	May 24, 2011
2911	2911FMTXP00000001	May 29, 2011
2912	2912FMTXP00000001	May 29, 2011
2913	2913FMTXP00000001	May 29, 2011
2914	2914FMTXP00000001	June 2, 2011
2916	2916FMTXP00000001	June 3, 2011
2922	2922FMTXP00000001	June 16, 2011
2924	2924FMTXP00000001	June 17, 2011
2925	2925FMTXP00000001	June 18, 2011
2926	2926FMTXP00000001	June 18, 2011
2927	2927FMTXP00000001	June 20, 2011
2928	2928FMTXP00000001	June 20, 2011
2929	2929FMTXP00000001	June 20, 2011
2930	2930FMTXP00000001	June 21, 2011
2931	2931FMTXP00000001	June 21, 2011
2937	2937FMTXP00000001	July 11, 2011
2949	2949FMTXP00000001	August 15, 2011
2952	2952FMTXP00000001	August 30, 2011
2958	2958FMTXP00000001	September 4, 2011
2959	2959FMTXP00000001	September 5, 2011
2960	2960FMTXP00000001	September 5, 2011

TEXAS A&M FOREST SERVICE

<u>Disaster Number</u>	<u>Award Number</u>	<u>Disaster Declaration Date</u>
2962	2962FMTXP00000001	September 6, 2011
2964	2964FMTXP00000001	September 6, 2011
2965	2965FMTXP00000001	September 6, 2011
2967	2967FMTXP00000001	September 8, 2011
2968	2968FMTXP00000001	September 9, 2011

Recommendations:

The Forest Service should:

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

Management Response and Corrective Action Plan 2013:

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

Management Response and Corrective Action Plan 2014:

Written procedures were prepared and implemented to 1) ensure prompt disbursement of federal funds and 2) require a second review of the worksheets to verify cost eligibility and accuracy. However, there were no Fire Management Assistant Grants during the audit period (FY 2014), so the new procedures were not able to be tested.

Implementation Date: October 2013

Responsible Persons: Travis Zamzow and Gary Lacox

University of Texas Medical Branch at Galveston

Reference No. 2013-187

Equipment and Real Property Management

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

Award year – September 13, 2008

Award number – 1791DRTXP00000001

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013
Status: Partially Implemented

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

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

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

Corrective Action:

This finding was reissued as current year reference number 2014-165.

Appendix

Objectives, Scope, and Methodology

Objectives

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

Scope

The audit scope covered federal funds that the State spent for the Border Enforcement Grants program, the Homeland Security Grant Program, and the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program at the Department of Public Safety (Department) and the University of Texas Medical Branch at Galveston (Medical Branch) from September 1, 2013 through August 31, 2014. The audit work included control and compliance tests at the Department and the Medical Branch.

Methodology

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

Auditors selected non-statistical samples for tests of compliance and controls for each direct and material compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2014. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. In some cases, auditors used professional judgment to select additional items for compliance testing.

Those sample items generally were not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

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

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

Information collected and reviewed included the following:

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

Procedures and tests conducted included the following:

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

Criteria used included the following:

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

Project Information

Audit fieldwork was conducted from August 2014 through December 2014. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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