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COMMITTEE ON HOMELAND SECURITY

U.S. HOUSE OF REPRESENTATIVES

CONCERNING

HOMELAND SECURITY GRANTS: MEASURING OUR INVESTMENTS

Good morning Chairman Brooks, Ranking Member Payne, and Members of the Subcommittee:

I am Anne Richards, Assistant Inspector General for Audits at the Department of Homeland Security (DHS) Office of Inspector General (OIG). Thank you for inviting me to testify today on the Homeland Security Grant Program (HSGP).

HSGP provides funds to State, territory, local, and tribal governments to enhance their ability to prepare for, prevent, protect, respond to, and recover from terrorist attacks, major disasters, and other emergencies. Within DHS, the Federal Emergency Management Agency (FEMA) administers HSGP, which is an important part of the administration's larger, coordinated effort to strengthen homeland security preparedness. The program includes several interrelated Federal grant programs that fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administration. Under HSGP, the State Homeland Security Program (SHSP) provides financial assistance to States and U.S. territories for these activities, and the Urban Areas Security Initiative (UASI) provides funding to high risk urban areas for the same types of activities.

Since 2007, DHS OIG has audited States and urban areas to determine whether they have implemented their HSGP grants efficiently and effectively, achieved program goals, and spent funds according to grant requirements. In FY 2012, we completed audits of 13 States, 1 territory, and 2 urban areas: Arizona, Arkansas, Colorado, Florida, Georgia, Kansas, Louisiana, Michigan, Minnesota, Montana, New Mexico, Ohio, Oklahoma, U.S. Virgin Islands, Utah (urban area only), and Washington (urban area only). In total, as of March 2013, we have completed audits on HSGP grant management in 34 States and 1 territory (U.S. Virgin Islands), some of which included urban areas; we have 15 ongoing audits.

Through our audits, we determined that the States complied with applicable laws and regulations in distributing and spending their awards. However, we noted several challenges related to the States' homeland security strategies, obligation of grants, reimbursement to subgrantees for expenditures, monitoring of subgrantees' performance and financial management, procurement, and property management.

Homeland Security Strategies

Many States' homeland security strategies did not include specific goals and objectives and were outdated. According to DHS guidance, States that receive HSGP grants are to create and use strategies aimed at improving preparedness and response to natural and manmade disasters. The goals and objectives in these strategies should be specific, measurable, achievable, results-oriented, and time-limited. However, the goals and objectives in many strategies were too general for States to use to effectively measure their performance and progress toward improving preparedness and response capabilities. In addition, because some States did not update their strategies, they did not reflect the most current priorities, risks, needs, and capabilities. Using outdated strategies can also hamper decision-making on future expenditures.

In our audits completed in FY 2012, we noted that the homeland security strategies for Arkansas, Florida, Georgia, Kansas, Louisiana, Minnesota, Montana, New Mexico, U.S. Virgin Islands, and Washington did not include some or all of the elements necessary for a successful strategy, such as specific, measurable, achievable, results-oriented, and time-limited goals and objectives.

Minnesota and New Mexico also had outdated strategies. For example, Minnesota's homeland security strategy was last updated January 18, 2008, but referred to a comprehensive risk, capabilities, and needs assessment completed in October 2003. According to the strategy, a needs assessment was to have been updated in 2006, but it had not been. New Mexico developed a *3-Year Domestic Preparedness Strategy* in January 2003 that did not contain current and specific goals, objectives, and performance measurements and was never updated. FEMA requested an update in FY 2005, and New Mexico developed a draft, but it was never approved.

Obligation of Grant Funds

Our audits also showed that States did not always obligate HSGP grants to subgrantees in a timely manner. In many cases, it took months for State grantees to obligate grant funds. By not obligating funds promptly, grantees may have increased subgrantees' administrative costs. They may have also hindered the subgrantees' ability to complete projects and deliver needed equipment and training, which could ultimately put preparedness and response capabilities at risk. In addition, some State grantees did not promptly reimburse subgrantees for their grant expenditures.

In 2012, we found that Arkansas, Florida, and Georgia did not obligate funds to their subgrantees in a timely manner. In Arkansas, there was a lapse of 137 to 1,031 days between required obligation and availability of funds during FYs 2008 to 2010. Florida had some instances during FYs 2007 and 2008 in which funds were obligated more than 400 days after the award date, and in FY 2009, the State obligated funds from 44 to 101 days late. Georgia did not make funds available for expenditure to subgrantees until as many as 261 days after the required date.

Additionally, in FY 2009, Florida did not adequately calculate and award SHSP funds designated for local jurisdictions. Rather than following FEMA program guidance to separately obligate at least 80 percent of SHSP and UASI funds within 45 days of receipt, Florida combined the funds, and from the total, allocated 80 percent to local jurisdictions. This method resulted in less than 80 percent of the SHSP award being obligated to local recipients. The difference equated to approximately $2.9 million that local jurisdictions could have used to complete critical projects.

During FYs 2008 through 2009, New Mexico withheld $2.5 million in SHSP grant funds from local units of government to provide training and exercises. By withholding a portion of the grant funds, the State obligated less than the required amount to local units.

In FY 2007, 24 subgrantees and 4 State agencies we visited in Ohio did not receive grant awards until an average of 8 months after the State obligated the grant funds. For FY 2008, delays increased to an average of 10 months (between 6 and 30 months); for FY 2009, they increased to an average of 11 months. Four subgrantees did not receive FY 2009 grant awards by May 15, 2011—19 months after Ohio reported to FEMA that these funds were obligated. Eighteen of the 28 grant recipients requested an extension to the grant performance period because they needed more time to complete planned procurements and obtain reimbursements.

Ohio did not always make payments to subgrantees for grant expenditures in a timely manner. A sample of 55 payment requests showed payments were made anywhere from 13 to 89 days after the requests were submitted to the State. As a result, local funds were often not reimbursed in a timely manner and vendors were not always paid timely for goods and services.

Monitoring of Subgrantees' Performance and Financial and Management

Many HSGP grantees did not adequately oversee subgrantees' performance or measure their progress toward achieving objectives and goals, nor did they always adequately monitor subgrantees' financial management of grants. Inadequate assessment of subgrantees' performance and progress may have limited the States' ability to assess capabilities and gaps and take corrective actions to improve them. Without performance monitoring, States cannot be certain that they have met program goals and used funds to enhance capabilities, rather than wasting them by not addressing deficiencies. The States also could not ensure that subgrantees' funding requests were aligned with real threats and vulnerabilities. By not adequately overseeing subgrantees' financial management practices, States may not have been fully knowledgeable about the subgrantees' financial status. Further, the States could not ensure that subgrantees were using funds efficiently and effectively and complying with Federal and State regulations in administering grants.

In our FY 2012 audits, we determined that nine States needed to improve their monitoring of grant performance and subgrantees' adherence to Federal and State regulations because they did not have procedures to ensure that subgrantees consistently tracked what they accomplished with grant funds, did not always ensure compliance with Federal laws and regulations, or had limited oversight. FY 2012 audits also showed that States needed to improve their financial management practices, performance and financial reporting, transfer of grant funds, management and administrative costs, or grant expenditure reviews.

Arizona and New Mexico did not have procedures to track grant performance. Arizona did not ensure that subgrantees prepared After-Action Reports and Improvement Plans, which are critical to documenting weaknesses identified by exercises and to track corrective actions. New Mexico did not have a system, process, or qualified personnel to track accomplishments resulting from grant funds. Personnel were not trained on measuring improvement in preparedness, and the State had not hired additional personnel to address this function.

Washington had not implemented an assessment process to measure improvements in preparedness. Each year, the State reassessed its priorities without considering improvement in performance and attainment of objectives in prior years. It had not fully used FEMA's Target Capabilities List to measure improvements and identify gaps.

Arkansas monitored subgrantees through desk reviews of budgets, payments, an inventory database, and After-Action Reports, which did not always ensure subgrantee compliance with Federal laws and requirements. No subgrantee reviews were conducted during FYs 2008 through 2010. Consequently, some grant funds were being used for other than the intended purposes.

Colorado's guidance to subgrantees did not provide sufficient grant administration information or program support to ensure compliance with Federal requirements. With the exception of activities such as grant reimbursement requests and modification procedures, Colorado's written guidance did not adequately describe its expectations, methodologies, or functional administration requirements. Also, its guidance did not address requirements to ensure segregation of duties, nor did it suggest methods to accomplish such segregation.

Louisiana did not have adequate oversight to ensure that subgrantees complied with all Federal requirements. Louisiana's monitoring processes were not sufficient to identify subgrantees' non-compliance with Federal financial and equipment-related requirements. Of the 17 subgrantee financial records reviewed, five did not include required information such as records of expenditures, obligations, unobligated balances, and liabilities. In addition, the New Orleans urban area did not have a regional multiyear training and exercise plan, but instead relied on a University of New Orleans consortium to develop a plan. However, the consortium was abolished in 2009 because of budget shortfalls. In December 2010, Texas A&M University selected New Orleans as a pilot site for its Training Needs Assistance Project, which should result in a fully developed multiyear training plan.

Minnesota did not adequately monitor subgrantee activities for FYs 2007 through 2009. Its monitoring was limited, and the State did not have subgrantee program performance monitoring policies and procedures until December 31, 2009.

Montana had minimal oversight through periodic contact with subgrantee staff, review of subgrantee grant applications, and processing of reimbursement requests. According to State officials, subgrantee site visits were not made during the grant years reviewed. There were other weaknesses in the State-required subgrantee progress reports that described the activities, difficulties, and use of funding during the period. For example, Montana's FY 2007 interoperability investment justification requested $3.7 million to meet five milestones; however, the progress reports for this grant did not indicate how well the funds were being spent, nor did the reports discuss the progress toward meeting particular milestones. Therefore, Montana funded activities without knowing the extent that prior funds had on the subgrantee's ability to meet specific program goals.

Oklahoma did not adequately document and analyze performance data related to accomplishing its homeland security strategy goals and objectives. The State did not always collect information on the progress of ongoing projects and did not always document progress in a manner that facilitated ongoing analysis and review.

In FY 2012, our audits also showed that the States needed to improve their financial management practices, performance and financial reporting, transfer of grant funds, monitoring of management and administrative costs, and grant expenditure reviews.

Montana did not comply with Federal grant financial management requirements. The State had incomplete subgrantee file information for award letters and supporting documentation for reimbursement requests. In addition, the State Administrative Agency did not adequately cooperate with the supporting administrative office responsible for paying subgrantee invoices.

Montana had missing grant award letters totaling $477,000 out of $3.4 million in awards selected for testing, had difficulty reconciling subgrantee award amounts with expenditures, and did not have supporting documentation for subgrantee reimbursement requests totaling $938,601. Because the State Administrative Agency did not manage all its grants to subgrantees, it could not determine the actual status of SHSP grant funding.

In New Mexico, one subgrantee paid funds to a vendor for a data management system upgrade and related equipment before it received the services and equipment. The subgrantee advanced a total of $99,250, or 63 percent of the total contract price of $157,620. New Mexico reimbursed the subgrantee for the amount advanced to this vendor; however, as of the date of our audit testing, the upgrades and equipment had not been received. We questioned the $99,250 that the subgrantee advanced.

Minnesota subgrantees did not submit timely State-required quarterly financial status reports and did not always submit State-required quarterly progress reports. Minnesota relied on subgrantee financial and progress information to generate the statewide financial status documents and determine the progress being made in using grant funds. Yet, five financial status reports exceeded the quarterly reporting requirement, with one report covering 28 months. In addition, 5 of the 22 subgrantees we visited did not submit progress reports from October 1, 2007, through June 30, 2010. For example, one subgrantee received $1.69 million of grant funds in FY 2007 and had spent $1.687 million by June 30, 2010, but in that time it had not submitted any progress reports.

New Mexico did not submit timely and accurate Biannual Strategy Implementation Reports and Financial Status Reports to FEMA. Of the 12 Biannual Strategy Implementation Reports submitted, 11 were submitted 24 to 1,003 days late, and the amounts included in these reports were not accurate. Additionally, 8 of 27 Financial Status Reports were submitted late.

In FYs 2009 and 2010, Utah changed the scope of several projects by transferring approximately $2.3 million in UASI grant funds between projects without prior approval from FEMA. Although the grant guidelines allowed these types of expenditures, FEMA should have ensured that the State Administrative Agency submitted budget change requests for all funding transfers between projects. This would help to ensure that items purchased did not exceed approved amounts and were allowable under the grant guidelines.

Kansas and New Mexico did not identify and validate management and administrative costs in accordance with Federal and State requirements. A Kansas fiscal agent representing six of the seven homeland security regions could not provide supporting documentation for any of the $197,532 in management and administrative costs submitted to and reimbursed by the State from FY 2008 through October 2011. Kansas decided to reimburse the fiscal agent for the maximum allowable amount of management and administrative costs without requiring support for these costs.

New Mexico allocated $195,735 as management and administrative costs in FY 2009, which was the 3 percent maximum allowed to the State. However, the State did not provide detailed costs for the $195,735 and spread the amount among various budget line items without sufficient supporting documentation.

Minnesota did not have written policies and procedures to guide its financial review and did not always have documentation to support reimbursement approvals. As a result, the State could not ensure that grant expenditures were allowable, allocable, authorized, and in accordance with grant requirements. In two instances, approved reimbursement requests did not include invoices: (1) $392,000 for hand-held digital portable radios, and (2) $64,000 for a wireless x-ray system. Even though invoices were subsequently obtained from the subgrantees, the State Administrative Agency should not have approved the reimbursements without the appropriate documentation.

Compliance with Procurement Regulations

In some audits that we conducted since 2007, we identified subgrantees that did not fully comply with Federal and State procurement regulations. For example, in our FY 2012 audits, we identified subgrantees that did not comply with Federal regulations because they did not obtain an adequate number of bids, did not properly justify sole source procurements, or did not conduct a cost analysis as required for a non-competitive procurement. As a result, the States could not always be assured that subgrantees made fully informed decisions on contract awards, and that they had selected the best offerors.

In Arkansas, 14 of 18 subgrantees did not (1) obtain an adequate number of qualified quotes or formal bids, (2) conduct a cost analysis, or (3) justify sole source procurements. Of the 114 reviewed transactions, we questioned more than $1.2 million in 63 transactions for issues related to rate quotes, cost analysis, sole source justifications, and formal bidding.

Georgia and some of its subgrantees did not follow Federal regulations for equipment and services procured using grant funds. For example, a subgrantee awarded a noncompetitive contract for $2.2 million to purchase communications equipment without a sole source justification. In another example, a contractor awarded a subcontract for $450,000 to a local university to update an inventory of food systems within the State, also without a sole source justification for awarding a noncompetitive subcontract. Although both the contractor and subcontractor were State entities and therefore exempt from Federal competitive bidding requirements, Georgia law requires competitive bidding for this particular procurement.

Ohio did not ensure that subgrantees followed Federal regulations for equipment and services procured with HSGP funds. Although other sources were available, Ohio made 76 noncompetitive procurements of the 85 procurements reviewed. Subgrantees did not prepare cost or price analyses for any of the procurements. Five of the 76 noncompetitive procurements from Ohio were specifically identified as sole source by the purchasing agent, and local procedures were followed to obtain approval.

Also in Ohio, 55 purchases from suppliers on its State Term Schedules may have met Ohio competition requirements; however, these purchases did not meet Federal procurement standards for fair and open competition for purchases in excess of $100,000. State Term Schedules are lists prepared and maintained by the Ohio Department of Administrative Services of approved manufacturers with products offered at “best prices” and specific State-required terms. Competition is not part of the process for suppliers to be placed on the State Term Schedules. Federal regulations require that all prequalified lists of persons, firms, or products that are used in acquiring goods and services be current and include enough qualified sources to ensure maximum open and free competition. The items on the State Term website are not necessarily the best value, but rather are a list of suppliers that have qualified their products for the State Term Schedules.

Property Management

During our audits, when conducting our onsite visits, we identified weaknesses in property management. Not all subgrantees were regularly inventorying grant-funded equipment. In addition, subgrantees did not always maintain accurate, complete, and up-to-date property records; did not always include required details in inventory documentation; and did not always properly mark grant-funded equipment as required by DHS. Without adequate property management, States and subgrantees may not be able to make certain that they have the necessary equipment, make well-informed decisions on future equipment needs, and prevent duplicative purchases. Proper inventory practices also help safeguard against loss, damage, and theft. Of the 16 States we audited in FY 2012, six had property management weaknesses, including physical inventories that had not been completed and inaccurate, incomplete, and missing property records. One State did not enforce the requirement for subgrantees to establish and maintain effective control and accountability systems.

One subgrantee in Colorado did not properly mark equipment purchased with grant funds, did not enter some items on the inventory control sheet, and did not follow-up with subrecipients to ensure that they had received equipment. Another subgrantee had difficulty providing an equipment list that correlated to our FYs 2007–2009 grant review period. At another location, listed property was assigned to individuals who did not have custody of the property. One subgrantee did not maintain an equipment list.

In Louisiana, 7 of 16 subgrantees' equipment property records did not include pertinent information such as acquisition dates, serial numbers, cost, or location.

Montana subgrantees did not always maintain property management records in accordance with Federal requirements. Property record requirements were not being followed at 14 of 22 subgrantees.

Oklahoma and Utah did not ensure that equipment purchased with grant funds was properly identified as such to help deter theft or unauthorized use. In Oklahoma, 9 of 28 locations had various items such as interoperable equipment, emergency response vehicles, and surveillance cameras not labeled as purchased with grant funds. In Utah, none of the items reviewed was marked.

Minnesota did not enforce the requirement that subgrantees establish and maintain effective control and accountability systems to (1) safeguard property procured with HSGP grant funds or (2) provide assurances that the property was used solely for authorized purposes.

U.S. Virgin Islands as a High-Risk Grantee

In January 2012, we issued *The U.S. Virgin Islands Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009.* This audit, conducted by Foxx & Company, included a review of approximately $4.6 million in SHSP grants awarded to the U.S. Virgin Islands during FYs 2007 through 2009. We determined that the U.S. Virgin Islands did not efficiently and effectively administer its grant program according to guidance and regulations. We identified eight areas for improvement: strategic goals and objectives, sole source procurement and management of contract deliverables, financial management documentation, property management controls and accountability, use of purchased equipment, procurement of training, personnel time charges, and filing of financial reports. As a result of these issues, we questioned nearly $1.3 million in claimed costs for specific items. Furthermore, we considered the entire $3.4 million in funding granted to the U.S. Virgin Islands in FYs 2007 through 2009 as potential questioned costs until the territory could provide adequate support for the funds. Because of the numerous problems we noted in our audit, we determined that FEMA should consider classifying the U.S. Virgin Islands as a high-risk grantee. FEMA concurred with our 22 recommendations for improvements which, if implemented, would help strengthen program management, performance, and oversight.

FEMA Monitoring of HSGP Grantees

As a result of our audits, we have recommended that FEMA work with the States to improve HGSP management. FEMA concurred with almost all of our recommendations and has either coordinated with the State Administrative Agencies to implement them or taken steps to implement them. Although we audited the States' management of HSGP awards rather than FEMA's program management, we noted that FEMA could strengthen HSGP by issuing better guidance to the States on strategic planning, which would in turn improve the States' performance measurement and progress toward achieving their goals and objectives. For example, in our February 2013 report, *Kentucky's Management of State Homeland Security Program and Urban Areas Security Initiative Grants Awarded Fiscal Years 2008-2010*, we recommended that FEMA issue guidance to HSGP grantees to periodically update strategic plans and include goals that align with current National Preparedness Guidelines. According to officials in FEMA's Grant Programs Directorate, the National Preparedness Directorate was expected to issue updated guidance in the summer of 2013.

In the past, FEMA has had challenges monitoring its grant programs. Specifically, the component's financial and programmatic monitoring plans did not ensure that it could properly monitor all grantees with increased risk. However, FEMA has taken steps to improve its grant monitoring process by issuing a comprehensive and integrated risk-based monitoring plan.[1] As we noted in our February 2013 report, *FEMA's Use of Risk-based Monitoring for Grantee Oversight*, FEMA's plans from the prior fiscal year did not specify using risk indicators to select grantees to monitor. Instead, the component relied on legislative mandates, random sampling, and subjective judgment to select grantees. Although the FY 2013 financial and programmatic monitoring plan covers all of FEMA's grants, the component still plans to select random samples

[1] *Fiscal Year 2013 FEMA Monitoring Plan*, October 2012.

of grants for financial monitoring. For HSGP, FEMA plans to pilot joint financial and programmatic monitoring of the maximum number of awards, given resource constraints and monitoring needs. At the end of FY 2013, FEMA will assess the outcome of this effort and consider expansion of joint monitoring of HSGP awards.

In our February 2013 report on monitoring, we made recommendations related to risk-based selection of grantees for financial monitoring and coordination of monitoring plans. FEMA needs to ensure that all grantees with increased risk are properly selected for financial monitoring and will be appropriately monitored. In addition, FEMA should communicate regularly with DHS to ensure consistency in monitoring plans. Without coordination, the component might issue new plans that are inconsistent with the DHS risk model and thus, need to be revised.

Auditing Plans

We are currently conducting 15 HSGP audits, and we plan to complete audits of all States and territories receiving HSGP grants by August 2014. Our overall objective in these audits remains essentially unchanged—to continue recommending actions that will make grants management more efficient and effective, while strengthening the Nation's ability to prepare for and respond to natural and manmade disasters.

Ms. Chairman, this concludes my prepared remarks. I welcome any questions that you or the Members of the Subcommittee may have.