



*U.S. DEPARTMENT OF COMMERCE
Office of Inspector General*



*National Telecommunications
and Information Administration*

*California Public Safety
Interoperable Communications
Grant Award No. 2007-GS-H7-0008*

*Report No. OIG-11-002-A
October 21, 2010*

FOR PUBLIC RELEASE

Office of Audit and Evaluation





UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

October 21, 2010

Mr. Matthew R. Bettenhausen
Secretary
California Emergency Management Agency
3650 Schriever Avenue
Mather, CA 95655

Dear Mr. Bettenhausen:

Attached is a copy of final audit report number OIG-11-002-A concerning the Public Safety Interoperable Communications (PSIC) grant your agency received from the National Telecommunications and Information Administration (NTIA; award number 2007-GS-H7-0008).

This letter is notice of your opportunity to review the report and develop a complete response that addresses each audit finding and recommendation. If you believe the report is incorrect, or if you disagree with any findings or recommendations, it is important that you explain the error or your reasons for disagreement and either submit evidence to the Department supporting your contentions or refer to any such evidence submitted previously. You also should explain how each documentary submission supports your position; otherwise, we may be unable to assess the information.

Your response must be postmarked no later than November 21, 2010. There will be no extensions to this deadline, and you will have no other opportunity to submit comments, arguments, or documentation before the Department makes a decision on the audit findings and recommendations. The Department will consider your complete response in determining what action to take with respect to our audit. Enclosure 1 explains the administrative dispute procedures available to you.

As you prepare your response, if you have any questions about this report or the process by which the Department reaches a final decision, please call Jerry McMahan, Assistant Regional Inspector General for Audits, at (404) 730-2065 and refer to final audit report number OIG-11-002-A.

Please send your response (including documentary evidence) to

Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration
U.S. Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

Please send a copy of your response letter only to

Ms. Elizabeth M. Harman
Assistant Administrator
Grant Programs Directorate
Federal Emergency Management Agency
500 C Street, SW
Washington, DC 20472-3635

Ann C. Eilers
Principal Assistant Inspector General for
Audit and Evaluation
U.S. Department of Commerce
1401 Constitution Avenue, N.W., Room 7886B
Washington, D.C. 20230

Jerry McMahan, Assistant Regional Inspector General for Audits
United States Department of Commerce
Office of Inspector General
Atlanta Regional Office of Audits
401 W. Peachtree Street, N.W., Suite 2742
Atlanta, GA 30308

After evaluation of your response, the audit action official may provide you with further guidance or request clarification. Our final report, along with your response, will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

Sincerely,



Ann C. Eilers
Principal Assistant Inspector General for
Audit and Evaluation

Enclosure

cc (w/o encl.): Laura M. Pettus, NTIA PSIC Program Manager
David Turner, DHS/FEMA Grant Programs Directorate
Elaine M. Howle, California State Auditor
Frank McCarton, CALEMA Undersecretary
Helen Lopez, CALEMA Deputy Chief
Ann Marie Nielsen, CALEMA Acting Audit Chief of Audit and Evaluation

NOTICE TO AUDITEES
Financial Assistance Audits

1. Audit requirements applicable to a particular financial assistance award may be established by law, regulation, policy, or the terms of the recipient's financial assistance agreement with the Department of Commerce.
2. Audit results will be reported to the bureau or office administering the financial assistance award and to you (the recipient/auditee), unless the Department's inspector general determines it is in the government's interest to withhold the audit report.
3. Audit results may lead to adverse consequences for you, including the following actions (which are subject to applicable laws and regulations):
 - suspension and/or termination of current awards;
 - referral of identified problems to other federal funding agencies and entities as deemed necessary for remedial action;
 - denial of eligibility for future awards;
 - cancellation of authorization for advance payment and substitution of reimbursement by check;
 - establishment of special conditions in current or future awards; and,
 - disallowance of costs, which could result in a reduction in the amount of federal payments, withholding of payments, offset of amounts due the government against amounts due you, or establishment of a debt and appropriate debt collection follow-up (including referrals to collection agencies).

Because of these and other possible consequences, it is important that you take your responsibility to respond to audit findings seriously by providing explanations and evidence to support your position with respect to the disputed results.

4. You have the following opportunities to point out errors (of fact or law) that you believe were made in the audit, to explain other disagreements with audit findings and recommendations, to present evidence that supports your positions, and to dispute final determinations:
- At any time during the audit, you may bring to the attention of the auditors evidence you believe affects the auditors' work.
 - At the completion of the audit on-site, as a matter of courtesy, you will usually be given the opportunity to discuss (during an exit conference) the preliminary audit findings and to present a clear statement of your position on the significant preliminary findings, including possible cost disallowances.
 - When the draft audit report is issued, you will have the opportunity to comment and to submit evidence during the 30 days after we transmit the report to you. (We will not extend this deadline.)
 - When the final audit report is issued, you will have the opportunity to comment and to present evidence during the 30 days after we transmit the report to you. (We will not extend this deadline.)
 - When the Department issues its decision (the "Audit Resolution Determination") on the audit report's findings and recommendations, you have the right to appeal for reconsideration within 30 calendar days after receiving the Determination Letter if monies are due the government. (We will not extend this deadline.) The Determination Letter will explain the specific appeal procedures.
 - Once you file an appeal or the appeal period has expired, the Department will not accept any further submissions concerning your dispute of its decisions. If it is determined that you owe money or property to the Department, the Department will take appropriate collection action but will not thereafter reconsider the merits of the debt.

There are no other administrative appeals available in the Department.



October 21, 2010

MEMORANDUM FOR: Lawrence E. Strickling
Assistant Secretary for
Communications and Information
National Telecommunications and
Information Administration

FROM: Ann C. Eilers 
Principal Assistant Inspector General for
Audit and Evaluation

SUBJECT: Final Audit Report No. OIG-11-002-A
Auditee: California Emergency Management Agency
PSIC Award No. 2007-GS-H7-0008

Attached is a copy of our final audit report of the California Public Safety Interoperable Communications (PSIC) award for your action in accordance with Department Administrative Order (DAO) 213-5, *Audit Resolution and Follow-up*. Our original audit report has been sent to the recipient, who has until November 21, 2010, to submit comments and supporting documentation to you. A copy of our final audit report will be posted on the Office of Inspector General's (OIG's) website pursuant to section 8L of the Inspector General Act of 1978, as amended.

Under DAO 213-5, you have 60 calendar days from the date of this memorandum to reach a decision on the actions you propose to take on each audit finding and recommendation and to submit an audit resolution proposal to this office. The format for the proposal is shown in Exhibit 8 of the DAO. As applicable, your written proposal must include the rationale and/or legal basis for reinstating any questioned costs in the report and should refer to any supporting documentation you relied on. Your comments should also address the funds to be put to better use, if any, cited in the report. Under the DAO, OIG must concur with your proposal before it may be issued as a final determination and implemented. The DAO prescribes procedures for handling any disagreements this office may have with the audit resolution proposal. Also, please copy us when the audit determination letter is sent to the auditee.

Please direct any questions regarding this report to Jerry McMahan, Assistant Regional Inspector General for Audits, at (404) 730-2065 and refer to the final audit report number listed above in any related correspondence.

Attachment

cc: Milton Brown, NTIA Audit Liaison
Kathy Smith, NTIA Chief Counsel
Laura M. Pettus, NTIA PSIC Program Manager



UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

October 21, 2010

Ms. Elizabeth M. Harman
Assistant Administrator
Grant Programs Directorate
Federal Emergency Management Agency
500 C Street, SW
Washington, DC 20472-3635

Dear Ms. Harman:

Attached is a copy of our final audit report (OIG-11-002-A) regarding the Public Safety Interoperable Communications (PSIC) grant awarded to the California Emergency Management Agency (award number 2007-GS-H7-0008) by the National Telecommunications and Information Administration (NTIA).

Our original audit report has been sent to the recipient, who has until November 21, 2010, to submit comments and supporting documentation to the Department of Commerce. NTIA will conduct the audit resolution and follow-up in accordance with Department Administrative Order 213-5. A copy of the report will be posted on the Department of Commerce Office of Inspector General's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

If you have any questions regarding this report, please call Jerry McMahan, Assistant Regional Inspector General for Audits, at (404) 730-2065, and refer to the final audit report number above in any related correspondence.

Sincerely,

Ann C. Eilers
Principal Assistant Inspector General for
Audit and Evaluation

Enclosure

cc: Richard L. Skinner, DHS Inspector General
David Turner, DHS/FEMA Grant Programs Directorate
Bradley A. Shefka, DHS Audit Liaison
Penny McCormack, FEMA Audit Liaison
Gina Norton, FEMA Audit Liaison
Mildred Lloyd, DHS/FEMA Grant Programs Directorate Audit Liaison
Mike Sivi, DHS OIG Grants Management



Report In Brief

U.S. Department of Commerce Office of Inspector General

October 21, 2010



Why We Did this Review

On September 30, 2007, the National Telecommunications and Information Administration (NTIA) awarded a \$94,034,510 Public Safety Interoperable Communications (PSIC) grant to the State of California to enhance interoperable emergency communications. NTIA also required a minimum 20 percent matching share from nonfederal sources for the acquisition and deployment of communications equipment, and management and administration costs.

The original award period ran from October 1, 2007, to September 30, 2010. In November 2009, the President signed an act extending the award period to September 30, 2011.

CALEMA was designated as California's state administrative agency to apply for and administer PSIC funds. We audited costs claimed by CALEMA to determine whether the recipient complied with NTIA PSIC grant guidelines and the Department of Homeland Security's (DHS) award terms and conditions.

Background

The Digital Television and Public Safety Act of 2005 authorized NTIA, in consultation with the DHS, to implement the PSIC program—a \$1 billion one-time, formula-based matching grant program intended to enable public safety agencies to establish interoperable emergency communications systems using reallocated radio spectrum.

The Implementing Recommendations of the 9/11 Commission Act of 2007 requires the Commerce Inspector General to conduct financial audits, over 4 years, of a representative sample of at least 25 states or territories receiving PSIC grants.

National Telecommunications and Information Administration

California Public Safety Interoperable Communications Grant PSIC Award No. 2007-GS-H7-0008 (OIG-11-002-A)

What We Found

Our audit covered the award period of October 1, 2007, through June 30, 2009, during which time the California Emergency Management Agency (CALEMA) claimed total costs of \$3,273,405. In general, CALEMA appears to be on track to complete its investments before the end of the award, but we did discover several areas of concern. Specifically, we found the following:

- CALEMA has not provided proper documentation for almost \$600,000 of its nonfederal matching share, which could lead to a \$2.4 million reduction in federal funds allowed.
- CALEMA has been noncompliant with PSIC requirements in several areas, including not fulfilling PSIC reporting requirements, insufficiently monitoring subrecipients, allowing ineligible costs incurred by subrecipients, and claiming costs for vehicle repairs and other invalid expenditures. We questioned \$73,474 of the costs CALEMA claimed during the audit period.

What We Recommended

In our draft report, we made several recommendations to the NTIA Assistant Secretary for Communications and Information, in conjunction with the Federal Emergency Management Agency's Grant Programs Directorate, to correct deficiencies with CALEMA's reporting and compliance. CALEMA has taken certain actions to correct some of these deficiencies, but the agency should be directed to

- provide NTIA with a nonfederal matching share plan that demonstrates the correct matching amount is in place;
- provide actual nonfederal matching share expenditures in its next quarterly financial status report; and
- reduce its cost claim by the \$73,474 in questioned costs and refund the federal government \$567,544 in excess disbursements.

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INTRODUCTION

On September 30, 2007, the National Telecommunications and Information Administration (NTIA) awarded a Public Safety Interoperable Communications (PSIC) grant to the state of California to enhance interoperable emergency communications. The grant provided federal funding of \$94,034,510, of which \$61,612,835 required nonfederal matching contributions. Federal funds provided for acquisition and deployment of communications equipment, and management and administration (M&A) costs must be matched by nonfederal contributions of at least 20 percent of the total cost of those activities. Statewide planning, planning and coordination, and training costs do not require matching share. The \$61,612,835 provided for acquisition, deployment, and M&A represents 80 percent of the total cost of those activities, leaving a minimum nonfederal matching share requirement of \$15,403,209.

The award period runs from October 1, 2007, to September 30, 2011. On November 6, 2009, the President signed Public Law 111-96, which extended the PSIC program beyond its original expiration date of September 30, 2010. The new law extended the performance period of all PSIC grants through September 30, 2011, and allowed for additional extensions, through September 2012, on a case-by-case basis, if approved by the Assistant Secretary for Communications and Information.

The Governor of California designated the California Governor's Office of Homeland Security as California's state administrative agency to apply for and administer PSIC funds.¹ That office later transferred responsibility for administering the PSIC grant program to the California Emergency Management Agency (CALEMA). CALEMA prepared an investment justification, based on the NTIA *PSIC Program Guidance and Application Kit*, which detailed individual communications projects intended to (1) achieve meaningful and measureable improvements in interoperability, and (2) fill gaps identified in the statewide communications interoperability

Public Safety Interoperable Communications Program

The Digital Television and Public Safety Act of 2005 authorized NTIA, in consultation with the Department of Homeland Security (DHS), to implement the PSIC program—a \$1 billion, one-time, formula-based matching grant program intended to enable public safety agencies to establish interoperable emergency communications systems using reallocated radio spectrum.

NTIA signed a memorandum of understanding with DHS, under which DHS oversees and administers the PSIC program.

The Implementing Recommendations of the 9/11 Commission Act of 2007 requires the Commerce Inspector General to conduct financial audits, over 4 years, of a representative sample of at least 25 states or territories receiving PSIC grants. The California grant program is the largest of the 56 states and territories receiving awards.

¹ The PSIC program requires the governor of each state or territory to designate a state administrative agency to apply for and administer PSIC funds. Administrative agencies are required to pass through no less than 80 percent of the total award amount to local or tribal governments or authorized nongovernmental public safety agencies, unless the local entity opts, via written agreement, to have the state agency retain and spend the funds on its behalf.

plan. The investment justification had a total of eight investments and was approved by NTIA on May 22, 2008. Table 1 illustrates CALEMA's PSIC grant budget, including modifications approved by NTIA on June 30, 2010.

Table 1. Investment Justification and Funding

PSIC Investment	PSIC Funds Awarded	Nonfederal Match ^a	Total
Investment 1. State Agency Investments Including Statewide Initiatives	\$17,247,340	\$2,697,688	\$19,945,028
Investment 2. Los Angeles Regional Interoperable Communications System	22,278,788		22,278,788
Investment 3. Central California Statewide Interoperability Executive Committee/Fresno Urban Area Security Initiative Interoperable Communications Project	5,681,433	1,262,108	6,943,541
Investment 4. Northern Planning Area	2,989,605	429,076	3,418,681
Investment 5. Orange County and Concurrent County/City Interoperable Communications Development Plan	12,748,170	3,187,043	15,935,213
Investment 6. Bay Area Super Urban Area Security Initiative in Coordination with the Capitol/Bay Area Planning Area	14,941,977	3,735,494	18,677,471
Investment 7. Capital Public Safety Interoperable Communications Program	8,100,242	1,780,060	9,880,302
Investment 8. San Diego Urban Area and Imperial County Interoperability Improvements	9,532,101	2,183,025	11,715,126
Management and Administration	514,854	128,714	643,568
Total	\$94,034,510	\$15,403,208	\$109,437,718

Source: CALEMA's approved scope modification budget

^aBudgeted nonfederal match of \$15,403,208 appears to be \$1 less than the minimum required. This immaterial difference is due to rounding.

States were required to include a prescribed strategic technology reserve in their justifications. The strategic reserve is designed to pre-position, or secure in advance, interoperable communications equipment for immediate deployment in an emergency situation or major disaster. States were permitted to request a waiver from this requirement if they could demonstrate they already had such a reserve or that other PSIC project proposals represented a higher priority for public safety communications. CALEMA requested and received a waiver.

FINDINGS AND RECOMMENDATIONS

In May 2009, we initiated an audit of costs claimed by CALEMA to determine whether it had complied with NTIA PSIC grant guidelines and DHS award terms and conditions. The audit covered the award period of October 1, 2007, through June 30, 2009, during which time the recipient claimed total costs of \$3,273,405. As stated in appendix A, the objective of our audit was to determine whether CALEMA was using its grant funds in accordance with federal requirements. In particular, we assessed whether CALEMA (1) is on track to complete its interoperable communications investments by September 30, 2011; (2) met the minimum 20 percent match for acquiring and deploying interoperable communications equipment and for M&A costs; (3) claimed reasonable, allowable, and allocable costs under the award; and (4) complied with grant terms and conditions. The following sections detail our findings with respect to each audit objective.

I. Investments Are on Track for Completion Before End of Grant

CALEMA anticipates completing the eight investments by June 30, 2011, which is prior to the grant completion date of September 30, 2011. Our audit found nothing to indicate that any of the investments would not be completed on time.

II. Nonfederal Matching Share Commitments Appear Deficient

CALEMA is required to provide a minimum 20 percent matching share from nonfederal sources for the acquisition and deployment of interoperable communications equipment and for M&A. The match is required by the Digital Television Transition and Public Safety Act of 2005, Public Law 109-171, Section 3006; the *PSIC Program Guidance and Application Kit*; and the special award conditions. CALEMA's most recent budget includes \$15,403,208 in nonfederal matching share. However, CALEMA's submissions to the auditors provided for only \$14,809,612 in nonfederal matching share, some \$593,596 less than the approved budget. Based on the required matching share, a reduction of \$593,596 in matching share contributions would result in a corresponding reduction of almost \$2.4 million in allowable federal funds. CALEMA needs to identify and secure additional sources of nonfederal matching share in order to comply with PSIC grant requirements and avoid forfeiting a significant portion of PSIC funding.

CALEMA Response

Since the time of our audit, CALEMA has implemented an automated ledger system with a match-tracking option that allows CALEMA to run reports showing match obligated and match expended for each PSIC subgrantee. A report dated September 8, 2010, shows \$14,273,610 as obligated match. CALEMA's complete response to our draft report, excluding attachments, is included as appendix D.

OIG Comments

CALEMA's report of matching share contributions is less than the amount previously provided to us. Therefore, we have not changed our finding or recommendation.

Recommendation

We recommend the NTIA Assistant Secretary for Communications and Information, in conjunction with the Federal Emergency Management Agency's (FEMA's) Grant Programs Directorate, require CALEMA to provide NTIA with a nonfederal matching share plan that demonstrates the required \$15,403,208 in nonfederal matching share is in place.

III. Areas of Noncompliance with PSIC Requirements

We evaluated CALEMA's compliance with federal laws and regulations, grant terms and conditions, and PSIC program policy and guidelines. We noted instances of noncompliance in the areas of programmatic and financial reporting, subrecipient monitoring, and reimbursement for M&A costs. In addition, we found CALEMA had claimed questionable PSIC project costs. Our findings and specific recommendations are discussed below.

A. CALEMA Did Not Comply with Reporting Requirements

The *PSIC Program Guidance and Application Kit*, section VI, part C, page 33, states that a state or territory and its subrecipients will be responsible for providing updated obligation and expenditure information on a regular basis. Updated obligation and expenditure information must be provided to show progress made toward meeting strategic goals and objectives. CALEMA's biannual strategy implementation reports (BSIRs) accumulated all in-kind contributions received in the line item for indirect cost contributions. This treatment does not reflect the true nature of the in-kind contributions, which should have been reported in the appropriate categories (e.g., volunteer services, donated salaries, donated equipment, donated property), based on the type of contribution received.

In addition, as of June 30, 2009, CALEMA had expended \$3,268,615 in federal funds, but reported only \$4,790 of nonfederal match on its financial status report. CALEMA's claimed matching share contributions were understated because it did not report matching share expenses incurred by its subrecipients. We asked CALEMA for a summary of actual nonfederal expenditures, including subrecipient expenses, through June 30, 2009, and the agency provided a series of documents showing \$406,503 in nonfederal expenditures. However, CALEMA's records appear to be inaccurate, based on amounts reported directly to us by the subrecipients. After accumulating each of the subrecipients' nonfederal spending as reported to us, we computed actual nonfederal contributions to be \$1,749,655. The difference between the \$406,503 summarized by CALEMA and our calculated figure of \$1,749,655 occurred because (1) CALEMA's financial management system incorrectly records nonfederal match of subrecipients, and (2) CALEMA had told its subrecipients to report nonfederal match at the same rate they were expending federal funds, regardless of actual nonfederal contributions. CALEMA is currently updating its financial management system to accurately record and track nonfederal expenditures.

CALEMA Response

CALEMA stated that in July 2010 it submitted a BSIR showing updated PSIC expenditures. Subgrantees were educated by CALEMA on how to enter their match expenditures into the BSIR grants reporting tool so as to correctly reflect their obligated and expended match. In addition, CALEMA has updated its automated ledger system to record and track nonfederal matching expenditures.

OIG Comments

We concur with CALEMA's stated corrective actions. However, CALEMA still needs to provide actual nonfederal matching share expenditures in its next quarterly financial status report.

Recommendations

We recommend the NTIA Assistant Secretary for Communications and Information, in conjunction with FEMA's Grant Programs Directorate, require CALEMA to report total, actual nonfederal matching share expenditures in its next quarterly financial status report.

B. Inadequate Subrecipient Monitoring

Grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor activities to ensure compliance with applicable federal requirements and to ensure that performance goals are being achieved. (See Title 15, Code of Federal Regulations, § 24.40.) The regulation further requires grantees to monitor subrecipient performance under each program, function, or activity of the grant. Although the grant was awarded in September 2007, CALEMA officials told us that the agency did not monitor its subrecipients for more than 2 years from the grant's effective date, and only started subrecipient monitoring in January 2010. Basic monitoring tasks not performed during the first 2 years include visiting sites to verify subrecipient accomplishments, tracking goals and milestones, and reviewing subrecipient source documentation prior to approving requests for reimbursement.

In response to our draft report, CALEMA implemented adequate procedures for subrecipient monitoring. CALEMA developed and implemented a risk assessment program that allows for the monitoring of all grants during the grant award period through field and desk reviews. CALEMA states that it has completed seven PSIC monitoring activities during the third and fourth quarters of fiscal year 2010. In addition, CALEMA plans on performing four extended-scope PSIC reviews as well as a number of limited-scope reviews during fiscal year 2011. We concur with CALEMA's stated corrective actions.

C. CALEMA Allowed Management and Administrative Costs by Subrecipients

NTIA's *PSIC Program Guidance and Application Kit*, section VII, part D, states that M&A costs associated with acquisition, deployment, and training are eligible for reimbursement with PSIC funds, but only at the state administrative agency level. PSIC guidelines limit the amount of

M&A costs eligible for federal reimbursement to 3 percent of the total PSIC funding. The California Governor's Office of Homeland Security, however, had issued a directive that allowed PSIC subrecipients to receive federal reimbursement for M&A costs—up to 3 percent of the total amount of each subaward. This state directive is inconsistent with the PSIC guidelines that permit the use of federal funds for M&A purposes only at the state administrative agency level. As of June 30, 2009, a subrecipient claimed and received reimbursement for \$44,200 in M&A costs. Since the cost was incurred at the subrecipient level, it is ineligible for reimbursement with PSIC funds. In our draft report, we also questioned \$373 in travel expenses, but subsequently determined this amount to be allowable.

In response to our draft audit report, CALEMA stated that it requested and received reimbursement of \$44,200 of M&A costs from its subrecipient. CALEMA stated that it notified all subrecipients in writing that PSIC M&A costs are only eligible for federal reimbursement at the state level. We concur with CALEMA's corrective actions.

D. Questioned Costs

CALEMA claimed costs totaling \$3,273,405 on its June 30, 2009, financial status report. A summary of source and application of funds is provided in appendix B. We determined that \$73,474 of the costs claimed during that period were not allowable. Questioned costs include:

- Investment 1—\$24,895:
 - CALEMA—vehicle repairs (\$9,232) and tool kits (\$3,550),
 - Emergency Medical Services Authority—normal operation and maintenance costs (\$9,897), and
 - CALFIRE—unsupported expenditures (\$2,216);
- Investment 3—normal business operating expenses (office supplies, telephone services, financial management workshops, etc.) totaling (\$4,379); and
- Investment 5—PSIC-funded M&A claim (\$44,200) at the subrecipient level.

For additional detail on the results of our financial audit, see appendix C.

CALEMA Response

In our draft audit report, we questioned \$106,695 of costs claimed during the audit period. CALEMA provided the following response.

- Investment 1—CALEMA will reobligate \$12,782 to allowable PSIC activities.
- Investment 3—CALEMA provided additional documentation for unsupported expenditures and normal business operations.
- Investment 4—CALEMA supplied supporting documentation for \$28,255.

- Investment 5—CALEMA requested and received reimbursement of \$44,200 of M&A costs from its subrecipient.

OIG Comments

- Investment 1—We concur with CALEMA’s stated corrective actions.
- Investment 3—We reviewed CALEMA’s supporting documentation and determined \$4,966 is reasonable, allowable, and allocable. The remaining \$4,379 is unallowable because the PSIC grant program specifically does not allow normal business operating expenses.
- Investment 4—We reviewed CALEMA’s supporting documentation and determined it is reasonable, allowable, and allocable to the grant.
- Investment 5—We concur with CALEMA’s corrective actions.

Recommendation

We recommend the NTIA Assistant Secretary for Communications and Information, in conjunction with FEMA’s Grant Programs Directorate, require CALEMA to reduce its cost claim by the \$73,474 in questioned costs and refund the federal government \$567,544, as calculated in appendix C.

IV. Follow-Up on Prior Audit Recommendations

As part of our audit, we reviewed a February 2009 audit report dealing with the state of California’s management of State Homeland Security Program grants awarded from fiscal years 2004 through 2006. Although the PSIC program was not part of the audit, we reviewed the report and identified nine issues that could have a direct and material effect on the PSIC grant program. Four of the nine items cited by the prior auditors were also issues we discussed in this report; specifically, inadequate subrecipient monitoring, inaccurate financial reporting, insufficient documentation in support of subrecipient reimbursements, and inadequate documentation of costs incurred by the state. We did not find similar issues with the remaining five items identified by the prior auditors—reprogramming of grant funds without funding agency approval, questionable equipment purchases by subrecipients, subrecipients’ failure to follow required procurement practices, failure to ensure fair and open competition in communications system procurements, and significant cost growth in noncompetitive procurements.

SUMMARY RESULTS OF FINANCIAL AUDIT

The results of our interim cost audit for the period of October 1, 2007, through June 30, 2009, (detailed in appendix C) are summarized as follows:

Costs Claimed		\$3,273,405
Less: Questioned Costs		<u>73,474</u>
Costs Accepted		\$3,199,931
Accepted Costs Not Subject to Match		\$ 705,631
Accepted Costs Subject to Match	\$2,494,300	
Federal Share Ratio	<u>x 80%</u>	<u>1,995,440</u>
Federal Funds Earned		2,701,071
Federal Funds Disbursed		<u>3,268,615</u>
Excess Disbursements Due the Government		<u>\$ 567,544</u>

APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether CALEMA was using its grant funds in accordance with federal requirements. In particular, we assessed whether CALEMA (1) is on track to complete its interoperable communications investments by September 30, 2011; (2) met the minimum 20 percent match for acquiring and deploying interoperable communications equipment and for M&A of the grant; (3) claimed reasonable, allowable, and allocable costs under the award; and (4) complied with grant terms and conditions.

The audit scope included a review of costs claimed during the award period of October 1, 2007, through June 30, 2009. We conducted our audit fieldwork from May through August 2009, at CALEMA in Sacramento, California, and at subrecipient sites in Santa Ana, Los Angeles, San Diego, and San Francisco, California.

To meet our objectives we did the following:

- reviewed investment documentation and discussed each investment with agency officials;
- analyzed source documents related to the minimum 20 percent match for acquiring and deploying interoperable communications equipment and for M&A of the grant;
- traced costs claimed to source documentation;
- interviewed CALEMA officials and reviewed the state's OMB Circular No. A-133 audit report for the year ending June 30, 2007; and
- reviewed pertinent laws, regulations, and guidance (listed below) against CALEMA's PSIC activities and internal controls.

We evaluated CALEMA's compliance with federal laws and regulations applicable to the PSIC grant, including the following:

- Section 3006 of the Digital Television Transition and Public Safety Act of 2005, Public Law 109-171
- Call Home Act of 2006, Public Law 109-459
- Implementing Recommendations of the 9/11 Commission Act of 2007, Public Law 110-53
- Public Safety Interoperable Communications Grants, Public Law 111-96
- 15 Code of Federal Regulations, Part 24, Uniform Administrative Requirements for Grants and Agreements to State and Local Governments
- *PSIC Program Guidance and Application Kit*, August 16, 2007
- NTIA PSIC Grant Program Allowable Cost Matrix
- NTIA PSIC Grant Program Frequently Asked Questions
- OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*

- OMB Circular A-133, Compliance Supplement, CFDA 11.555
- Special Award Conditions
- Department of Commerce *Financial Assistance Standard Terms and Conditions*
- DHS, Office of Grant Operations, *Financial Management Guide*

We verified the validity and reliability of computer-processed data supplied by CALEMA by directly testing data against supporting documentation. Based on our tests, we concluded the computerized data were reliable for use in meeting our objectives.

We analyzed nonstatistical samples of CALEMA and subrecipient transactions, generally focusing on the highest dollar value transactions and line items. Since we did not attempt to extrapolate findings from sample analyses to all transactions, we believe our sampling methodology represented a reasonable basis for the conclusions and recommendations included in our report.

We obtained an understanding of the management controls of CALEMA and its subrecipients by interviewing with CALEMA and subrecipient officials, as well as examining policies and procedures, CALEMA's most recent audit report, and written assertions from CALEMA officials. Our report contains recommendations to address CALEMA's reporting of matching share, tracking of project costs, and monitoring of subrecipients.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed this audit under the authority of Implementing Recommendations of the 9/11 Commission Act of 2007; the Inspector General Act of 1978, as amended; and Department Organization Order 10-13, August 31, 2006.

APPENDIX B: SUMMARY OF SOURCE AND APPLICATION OF FUNDS

**CALIFORNIA EMERGENCY MANAGEMENT AGENCY
PUBLIC SAFETY INTEROPERABLE COMMUNICATIONS
GRANT NO. 2007-GS-H7-0008
OCTOBER 1, 2007, THROUGH JUNE 30, 2009**

	Approved <u>Budget</u> (a)	Receipts & <u>Expenses</u> (b)
<u>SOURCE OF FUNDS:</u>		
Federal	\$94,034,510	\$3,268,615
Nonfederal	<u>15,403,208</u>	<u>4,790</u>
Total	<u>\$109,437,718</u>	<u>\$3,273,405</u>

APPLICATION OF FUNDS:

Investment 1	\$19,945,028	\$673,360
Investment 2	22,278,788	0
Investment 3	6,943,541	174,119
Investment 4	3,418,681	733,984
Investment 5	15,935,213	1,691,942
Investment 6	18,677,471	0
Investment 7	9,880,302	0
Investment 8	11,715,126	0
M&A Costs	<u>643,568</u>	<u>0</u>
Total	<u>\$109,437,718</u>	<u>\$3,273,405</u>

Notes:

(a) Approved budget is for the period October 1, 2007, through September 30, 2011, based on California's approved budget and scope modification.

(b) The receipts and expenses are for the period of October 1, 2007, through June 30, 2009.

APPENDIX C: SUMMARY OF FINANCIAL/COMPLIANCE AUDIT

**CALIFORNIA EMERGENCY MANAGEMENT AGENCY
PUBLIC SAFETY INTEROPERABLE COMMUNICATIONS
GRANT NO. 2007-GS-H7-0008
OCTOBER 1, 2007, THROUGH JUNE 30, 2009**

<u>Description</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Results of Audit</u>	
			<u>Costs Questioned</u>	<u>Costs Accepted</u>
Investment 1	\$19,945,028	\$673,360	\$24,895(a)	\$648,465
Investment 2	22,278,788	0	0	0
Investment 3	6,943,541	174,119	4,379(b)	169,740
Investment 4	3,418,681	733,984	0	733,984
Investment 5	15,935,213	1,691,942	44,200(c)	1,647,742
Investment 6	18,677,471	0	0	0
Investment 7	9,880,302	0	0	0
Investment 8	11,715,126	0	0	0
M&A Costs	<u>643,568</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$109,437,718</u>	<u>\$3,273,405</u>	<u>\$73,474</u>	<u>\$3,199,931</u>
Costs Claimed			\$3,273,405(d)	
Less: Questioned Costs			<u>73,474</u>	
Costs Accepted			3,199,931	
Accepted Costs Not Subject to Match (e)			\$705,631	
Accepted Costs Subject to Match		\$2,494,300		
Federal Share Ratio		<u>x 80%</u>	<u>1,995,440</u>	
Federal Funds Earned			2,701,071	
Federal Funds Disbursed			<u>3,268,615</u>	
Excess Disbursements Due the Government			<u>\$567,544</u>	

Notes:

- a) Questioned costs include vehicle repair (\$9,232) and tool kits (\$3,550) claimed by CALEMA, normal operations and maintenance (\$9,897) claimed on behalf of the Emergency Medical Services Authority, and undocumented expenditures (\$2,216) claimed on behalf of CALFIRE. Questioned claims total \$24,895. These costs are not allowable, based on direction provided in NTIA's PSIC Grant Program Allowable Costs Matrix. Federal cost principles require allowable costs to be adequately documented.
- b) Questioned costs include normal business operating expenses \$4,379. Normal business operating expenses are not allowable, based on direction provided in NTIA's PSIC Grant Program Allowable Costs Matrix.

- c) Questioned costs involve management and administrative costs (\$44,200) claimed by a subrecipient, in violation of NTIA's *PSIC Program Guidance and Application Kit*.
- d) CALEMA reported total outlays of \$3,273,405 on its June 30, 2009, financial status report.
- e) Accepted costs not subject to the matching share requirement consist of \$705,631 in the planning and training category.

APPENDIX D: RECIPIENT RESPONSE

ARNOLD SCHWARZENEGGER
GOVERNOR

MATTHEW R. BETTENHAUSEN
SECRETARY



September 16, 2010

Jerry McMahan, Assistant Regional Inspector General for Audits
Office of Inspector General
United States Department of Commerce
401 W. Peachtree Street, N.W., Suite 2742
Atlanta, GA 30308

Dear Mr. McMahan:

The California Emergency Management Agency (Cal EMA) has received and reviewed the draft audit report, (DEN-19672) concerning Cal EMA's administration of the Public Safety Interoperable Communications (PSIC) grant, received from the National Telecommunications and Information Administration (NTIA) (award number 2007-GS-H7-008).

At Cal EMA we strive for excellence in all that we do and appreciate your timely, independent review of our administration of the PSIC funds provided to California and its partners. Your review is of the utmost importance to us, our grant recipients, and other agencies tasked with enhancing interoperable emergency communications in California. Our dedicated team of public servants is always open to learning how we can do a better job in administering our grants. In response to the audit, Cal EMA has implemented system improvements to address the recommendations. Our response is provided below:

Nonfederal Matching Share Commitments Appear Deficient

Recommendation

We recommend the NTIA assistant secretary for communications and information, in conjunction with Federal Emergency Management Agency's (FEMA) Grant Programs Directorate, require Cal EMA to provide NTIA with a nonfederal matching share plan that demonstrates the required \$15,403,208 in nonfederal matching share is in place.

Cal EMA Response

The nonfederal matching share commitments appeared deficient due to the fact that Cal EMA did not have an automated tracking mechanism in place to track the match. Although there was not an automated match tracking system, Cal EMA did require all PSIC sub grantees to complete an Excel spreadsheet that included a section for the required match. This Excel spreadsheet is the Financial Management Forms Workbook (FMFW).

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The FMFW has a Project Ledger tab that details sub grantee projects by tracking the amount obligated, already requested, and expended. The FMFW Project Ledger tab also has a column specifically for match, in which the total match required by the sub grantee is entered during the application process. By signing the FMFW, the sub grantee is assuming the responsibility of meeting the match requirement.

Since the PSIC audit, Cal EMA has implemented an automated match tracking option into their Automated Ledger System (ALS). This allows Cal EMA to run reports showing match obligated and match expended for each PSIC sub grantee. As of September 8, 2010, Cal EMA has collected \$5,421,578 of the required match for the PSIC grant. Cal EMA will monitor and ensure that the required nonfederal matching share is met prior to the grant completion date of September 30, 2011. (See Attachment A)

Cal EMA Did Not Comply with Reporting Requirements

Recommendations

We recommend the NTIA assistant secretary for communications and information, in conjunction with FEMA's Grant Programs Directorate, require Cal EMA to (1) submit accurate reports that properly account for its federal and nonfederal funding and budgeted expenditures within 30 days of the date of this report, (2) update its financial managements system to accurately record and track nonfederal matching share expenditures, and (3) report total, actual nonfederal matching share expenditures on its next quarterly financial status report.

Cal EMA Response

- 1) Cal EMA submitted the Biannual Strategy Implementation Report (BSIR) in July, showing PSIC expenditures. Sub grantees were educated by Cal EMA on how to enter their match expenditures into the BSIR Grants Reporting Tool so as to correctly reflect their obligated and expended match.
- 2) Cal EMA has updated its Automated Ledger System (ALS) to record and track nonfederal matching expenditures. Reports can now be run showing obligated and expended match amounts for all PSIC sub grantees.
- 3) Cal EMA will submit the total and actual nonfederal matching share expenditures on the next quarterly financial status report.

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Inadequate Subrecipient Monitoring

Recommendation

We recommend the NTIA assistant secretary for communications and information, in conjunction with FEMA's Grant Program Directorate, direct Cal EMA to provide evidence, within 30 days of the date of this report, that it has implemented adequate procedures for subrecipient monitoring.

Cal EMA Response

Cal EMA has developed and implemented a subrecipient risk assessment program that allows for the monitoring of all grants during the grant award period through either limited or extended field and/or desk reviews. This program will ensure that Cal EMA meets all subrecipient requirements for all of our federal awards. Copies of Cal EMA's Grants Monitoring Guide and the Monitoring Division's Operational Manual which describes the risk assessment and monitoring planning process are attached for review.

We are also providing a spreadsheet, which identifies the seven completed PSIC monitoring activities performed during the 3rd and 4th quarter of FY2009-2010. Furthermore, for FY2010-2011, Cal EMA plans on performing four extended scope PSIC reviews, as well as a number of limited scope reviews to be determined through random sampling of Cal EMA grants during the current fiscal year. (See Attachment B)

Cal EMA Allowed Management and Administrative (M&A) Costs by Subrecipients

Recommendation

We recommend the NTIA assistant secretary for communications and information in conjunction with FEMA's Grant Programs Directorate, direct Cal EMA to (1) reimburse the \$44,573 in PSIC funds related to the M&A costs incurred by the subrecipients and any additional subrecipient M&A costs claimed subsequent to our audit period, (2) notify all subrecipients in writing that M&A costs are only eligible for federal reimbursements at the state level, and (3) disregard the California Governor's Office of Homeland Security directive that allowed subrecipients to request PSIC reimbursement for M & A costs.

Cal EMA Response

The \$44,200 of M&A costs incurred by the subrecipient has been reimbursed. The remaining \$373 of M&A costs incurred will be reimbursed to Cal EMA. No other M&A costs were claimed subsequent to the audit period.

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The subrecipients have been notified in writing that M&A costs are only eligible for federal reimbursement at the state level. Furthermore, Cal EMA has subsequently corrected the situation by creating the PSIC Supplemental award for administration of the PSIC grant.

Questioned Costs

Cal EMA claimed costs totaling \$3,273,405 on its June 30, 2009 financial status report. A summary of source and application of funds is provided in appendix B. We determined that \$106,695 of the costs claimed during that period were not allowable. Questioned costs include:

- **Investment 1** - \$24,895:
 - Cal EMA – Vehicle repairs (\$9,232) and tool kits (\$3,550)
 - Emergency Medical Services Authority - Normal operation and maintenance costs (\$9,897)
 - CALFIRE – Unsupported expenditures (\$2,216);
- **Investment 3** - Unsupported expenditures (\$4,491), normal business operating expenses (office supplies, telephone services, financial management workshops, etc.) totaling (\$4,481) and a PSIC funded M&A claim (\$323) at the subrecipient level;
- **Investment 4** - Unsupported claims made by the Yurok Tribe (\$28,255); and
- **Investment 5** - PSIC – funded M&A claim (\$44,200) at the subrecipients level.

Recommendation

We recommend the NTIA assistant secretary for communications and information, in conjunction with FEMA's Grant Programs Directorate, require Cal EMA to reduce its costs claim by the \$106,695 in questioned costs and refund the federal government \$596,522, as calculated in appendix C.

Cal EMA Response

Investment 1: Cal EMA will reobligate \$12,782 to allowable PSIC activities.

Cal EMA will deobligate \$9,897 from the Emergency Medical Services Authority for the questioned costs due to unsupported PSIC expenditures.

Cal EMA will deobligate \$2,216 from Cal FIRE for the questioned costs of \$2,216 due to unsupported PSIC expenditures.

Investment 3: Cal EMA will deobligate \$1,485.47 due to unallowable PSIC activities. Based on a review of the supporting documentation provided, the remaining expenditure of \$7,859.95 is

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deemed as allowable PSIC activities. Documentation to support the expenditures for Investment 3 is attached for review. (See Attachment C)

Investment 4: The Yurok Tribe incurred allowable PSIC expenditures for a Mobile Communication/Incident Command Post and for mobile radios. Both of these expenditures are allowable under the PSIC guidelines. Supporting invoices for these purchases are attached. (See Attachment D)

Investment 5: Santa Ana reimbursed Cal EMA the \$44,200 of M&A costs in question.

On behalf of Cal EMA, and our dedicated team, we thank you and the Office of Inspector General, United States Department of Commerce, for the review of the Public Safety Interoperable Communications (PSIC) Grant Funds. We look forward to reviewing your final report and continuing our efforts to improve our effectiveness and customer service. If you have any additional questions or concerns, please feel free to contact my Chief of Staff, Helen Lopez at (916) 323-7615.

Sincerely,



MATTHEW R. BETTENHAUSEN
Secretary

Enclosures

cc (w/o encl.): Lawrence E. Strickling, Assistant Secretary for Communication and Information, NTIA
Elizabeth M Harman, Assistant Administrator Grants Program Directorate, FEMA