



NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Fourth Annual Assessment of the PSIC Grant Program

FINAL REPORT NO. OIG-13-016-A
FEBRUARY 22, 2013

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation

FOR PUBLIC RELEASE





February 22, 2013

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

FROM: Andrew Katsaros
Assistant Inspector General for Audit

SUBJECT: *Fourth Annual Assessment of the PSIC Grant Program*
Final Report No. OIG-13-016-A

Attached is our final report detailing the results of our fourth annual assessment of NTIA's management of the Public Safety Interoperable Communications (PSIC) grant program, as required by the Implementing Recommendations of the 9/11 Commission Act of 2007.

We previously reported the results of 9 PSIC financial audits; this report consolidates the results of 16 additional financial audits conducted in fiscal years 2011 and 2012. We conducted fieldwork at 10 PSIC locations and used the work of a contractor, Crowe Horwath LLP, for fieldwork at 6 locations.

Our objectives were to determine whether (1) costs incurred by recipients receiving PSIC funds from the Department of Commerce were allowable and in accordance with grant requirements; (2) recipients met matching share requirements; (3) equipment acquired by recipients had been tested and certified before deployment, operated effectively, and improved operability in the state; and (4) recipients were on schedule to complete communication investments by September 30, 2011, or with an approved extension, September 30, 2012.

We identified a total of \$190,317 in questioned costs and four common internal control weaknesses: (1) compliance with reporting requirements, (2) compliance with grant requirements, (3) subrecipient monitoring, and (4) cost-match monitoring.

On January 25, 2013, we received NTIA's response to our draft report, which accepted all of our recommendations. NTIA's response is included here as appendix B. The final report will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

In accordance with Department Administrative Order 213-5, please provide us with your detailed action plan within 60 days of the date of this memorandum. We appreciate the assistance and courtesies extended to us by your staff during the review. If you have any questions about this report, please contact me at (202) 482-7859 or Ken Stagner, Regional Inspector General for Audit, at (303) 312-7650.

Attachment



Report In Brief

FEBRUARY 22, 2013

Background

The Public Safety Interoperable Communications (PSIC) program is a nearly \$1 billion formula-based matching grant program. PSIC enables public safety agencies to establish interoperable emergency communication systems using reallocated radio spectrum.

NTIA, in consultation with the Department of Homeland Security, executes PSIC. NTIA awarded PSIC grants to all 50 states, 5 territories, and the District of Columbia in amounts ranging from \$692,000 to \$94.0 million.

Why We Did This Review

The Implementing Recommendations of the 9/11 Commission Act of 2007 require the Office of Inspector General to annually assess NTIA's management of PSIC and to transmit findings to the House Committee on Energy and Commerce and the Senate Committee on Commerce, Science, and Transportation. Also, Congress specified that 25 financial audits be conducted on the PSIC program. We previously reported the results of 9 PSIC financial audits. This report consolidates the results of the remaining 16 financial audits.

Our audit objectives were to determine whether (1) costs incurred by recipients of PSIC funds from the Department were allowable and in accordance with grant requirements; (2) recipients met matching share requirements; (3) equipment acquired by recipients had been tested and certified before deployment, operated effectively, and improved interoperability in the state; and (4) recipients were on schedule to complete communication investments by September 30, 2011, or with an approved extension, September 30, 2012.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Fourth Annual Assessment of the PSIC Grant Program

OIG-13-016-A

WHAT WE FOUND

NTIA Program Management. Overall, NTIA is providing effective oversight of PSIC grants. However, we identified instances where additional communication by NTIA to recipients, we could have clarified the unique requirements of this grant, resulting in greater recipient compliance. In addition, although NTIA faced many significant challenges in administering this grant, a higher level of monitoring by NTIA could have prevented many of the recipient noncompliances we found. In particular, the number of late report submissions and necessary approvals and authorizations could have been reduced with improved continuous trend analysis monitoring.

PSIC Recipient Audit Results. We identified two common areas of concern: (1) unallowable costs and (2) internal control weaknesses in the areas of (a) noncompliance with reporting requirements, (b) compliance with grant requirements, (c) subrecipient monitoring, and (d) cost-match monitoring.

WHAT WE RECOMMEND

We recommend that the Assistant Secretary for Communications and Information:

1. Pursue the recovery of questioned unallowable costs for each grant recipient and determine the most appropriate process to recover questioned costs in the future.
2. Require recipients to submit all necessary reports in conformance with grant terms and conditions.
3. Institute a routine follow-up process with recipients, to ensure that grant requirements are understood and met.
4. Strengthen existing requirements for grant recipients to perform subrecipient monitoring.
5. Calculate the impact of the unrealized cost match on the PSIC program and alert those recipients who have not met this match of their responsibilities under their grants.
6. Document the follow-up conducted with PSIC grant recipients on recommendations included in appendices to this report.

Our recommendations for internal control weaknesses, as well as other state recommendations, are included in the state appendices to this report.

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*COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934*

Introduction

The Public Safety Interoperable Communications (PSIC) program is a nearly \$1 billion formula-based matching grant program. The goals of the PSIC program, according to the National Telecommunications and Information Administration's (NTIA's) revised *PSIC Program Guidance and Application Kit*,¹ are to (1) achieve meaningful and measurable improvements in public safety and (2) fill interoperability gaps identified in statewide plans.

The Digital Television Transition and Public Safety Act of 2005 authorized the NTIA, in consultation with the Department of Homeland Security (DHS), to execute the PSIC grant program. PSIC enables public safety agencies to establish interoperable emergency communications systems using reallocated radio spectrum. NTIA awarded PSIC grants to all 50 states, 5 territories, and the District of Columbia in amounts ranging from \$692,000 to \$94.0 million.

The Implementing Recommendations of the 9/11 Commission Act of 2007 require the Department of Commerce Office of Inspector General (OIG) to annually assess NTIA's management of PSIC and to transmit findings to the House Committee on Energy and Commerce and the Senate Committee on Commerce, Science, and Transportation. The Act 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. We previously reported the results of 9 PSIC financial audits; 4 completed fieldwork in 2008, and 5 completed fieldwork in 2009.² This report is the final assessment of NTIA's management of the PSIC grant program and consolidates the results of the remaining 16 financial audits conducted in 2011.³ Our audit objectives were to determine whether (1) costs incurred by recipients of PSIC funds from the Department of Commerce were allowable and in accordance with grant requirements; (2) recipients met matching share requirements; (3) equipment acquired by recipients had been tested and certified before deployment, operated effectively, and improved interoperability in the state; and (4) recipients were on schedule to complete communication investments by September 30, 2011, or with an approved extension, September 30, 2012.

The 16 audits identified two areas of concern among most PSIC grant recipients: unallowable costs and weak internal controls over grant administration. The first part of this report contains an overview of the two areas of concern and addresses NTIA's management of the PSIC grant program. Subsequent parts of the report contain detailed information about the areas of concern, as well as additional nonsystemic findings, for individual states.

Table I shows the status of the 25 states selected for PSIC audits, including the year of OIG fieldwork, the PSIC grant amount, funds remaining to be drawn down, and percentage of funds remaining to be spent.

¹ National Telecommunications and Information Administration and Federal Emergency Management Agency, August 16, 2007. *Revised PSIC Program Guidance and Application Kit*, 2 [Online]. www.ntia.doc.gov/psic/PSICguidance_081607.pdf (accessed August 3, 2012).

² See appendix U: Prior PSIC Reports Issued by OIG.

³ We used the work of a contractor, Crowe Horwath LLP, for fieldwork at 6 locations: Arizona, Kansas, Kentucky, Michigan, South Carolina, and Virginia.

Table I: Status of States Selected by OIG for PSIC Audits

Year of OIG Fieldwork	State	PSIC Grant Amount	Funds Remaining to Be Drawn Down	% of Funds Remaining to Be Spent
2008	Pennsylvania	\$34,190,555	\$ 1,181	0.0
2008	Louisiana	19,672,287	118,060	0.6
2008	Arkansas	11,169,402	600,146	5.4
2008	Nevada	12,042,417	115,294	0.9
2009	Texas	65,070,452	69,440	0.1
2009	California	94,034,510	123,387	0.1
2009	Florida	42,910,692	714,891	1.7
2009	New York	60,734,783	120,371	0.2
2009	Massachusetts	21,191,988	1,683,549	8.0
2011	Colorado	14,336,638	0	0.0
2011	Oklahoma	11,684,183	136	0.0
2011	Kansas	10,655,125	0	0.0
2011	Ohio	29,377,337	157,682	0.5
2011	Illinois	36,414,263	2,711.99	0.0
2011	Kentucky	15,405,625	0	0.0
2011	Indiana	18,291,735	0	0.0
2011	Georgia	25,311,354	58,262	0.2
2011	Tennessee	17,540,752	267,850	1.5
2011	Iowa	10,935,974	77,960	0.7
2011	Arizona	17,713,050	85,207	0.5
2011	South Carolina	13,499,308	3,980	0.0
2011	Maryland	22,934,593	0	0.0
2011	District of Columbia	11,857,972	77	0.0
2011	Michigan	25,039,781	574,791	2.3
2011	Virginia	25,012,521	324,462	1.3

Source: NTIA, PSIC Drawdown Report as of 9/30/12

Findings and Recommendations

NTIA Program Management

Overall, NTIA is providing effective oversight of PSIC grants. However, using the results of our financial audits of the 25 PSIC recipients, we have identified specific recommendations that will further improve oversight procedures for this and future grant programs that NTIA may administer. Specifically, our audits identified instances where additional communication by NTIA to recipients could have clarified the unique requirements of this grant program, resulting in greater recipient compliance. In addition, although NTIA faced many significant challenges in administering this grant program, a higher level of monitoring by NTIA could have prevented many of the recipient noncompliances our audits found. In particular, the number of late report submissions and necessary approvals and authorizations could have been reduced with improved continuous trend analysis monitoring, which would have identified these problems early on among the recipients. We recommend that NTIA

- strengthen the federal program officers' monitoring of subrecipient reporting and compliance with grant requirements,
- verify source documentation for its current monitoring efforts,
- strengthen its monitoring tools' internal control capabilities,
- prepare recipient match documentation guidance for federal program officer use during site visits,
- work with recipients at risk of not meeting award progress and completion requirements and develop an action plan and alternative strategies for those awards that will not satisfy award terms, and
- incorporate continuous trend analysis activities into its award monitoring process.

PSIC Recipient Audit Results

During our audit of the 16 PSIC grant recipients, we identified two common areas of concern: (1) unallowable costs and (2) internal control weaknesses in the areas of (a) compliance with reporting requirements, (b) compliance with grant requirements, (c) subrecipient monitoring, and (d) cost-match monitoring.

Unallowable Costs

Of the transactions selected for testing, we identified \$190,317 in questioned costs for items that did not meet the *Public Safety Interoperable Communications Grant Program: Program*

*Management Handbook*⁴ requirements for 5 of the 16 recipients (see table 2). The PSIC handbook identifies types of costs that are not eligible for NTIA reimbursement, such as overhead and supplies. Generally, the recipients recorded costs that were unallowable or were not eligible for reimbursement because they were unaware of the requirements. Therefore, the PSIC grant program did not gain the expected benefit from the expenditure of these incurred costs, as agreed to by NTIA and the recipients in the grant agreement.

Table 2: Summary of Unallowable Costs by State

Recipient	Questioned Amount	Appendix
Tennessee Military Department Emergency Management Agency	\$ 13,262	D
Homeland Security and Emergency Management Agency, Washington, D.C.	39,242	H
Illinois Emergency Management Agency	131,834	I
Arizona Department of Homeland Security	4,978 ^a	N
Kentucky Office of Homeland Security	1,001 ^a	P
Total	\$190,317	

^a OMB Circular A-133 does not require grant recipients to report questioned costs less than \$10,000. Therefore, NTIA should determine whether returning these questioned costs is appropriate.

Internal Control Weaknesses

Our audit focused on the following areas: compliance with PSIC grant requirements, including reporting; financial and programmatic grant monitoring of the subrecipient; cost analysis; and compliance with state fund-matching requirements. We identified four common areas of internal control weaknesses: (a) compliance with reporting requirements, (b) compliance with grant requirements, (c) subrecipient monitoring, and (d) cost-match monitoring. Table 3 contains the control weaknesses identified for each state.

Reporting. Fourteen of the recipients did not submit accurate or timely financial or performance reports. Eleven recipients filed reports with inaccurate information, and eight recipients did not submit timely reports. The PSIC handbook and OMB policies require submission of financial and performance reports at specified times. Failure to submit timely and accurate reports prevents NTIA from receiving the necessary information to perform its oversight duties.

⁴ U.S. Department of Commerce, Telecommunications and Information Administration, and Federal Emergency Management Agency, October 2009. *Public Safety Interoperable Communications Grant Program: Program Management Handbook*. Washington, D.C.: Department of Commerce.

Table 3: Internal Control Weaknesses Identified for Each State

State	Reporting		Meeting Grant Requirements			Subrecipient Monitoring			Cost Match Monitoring		Report Part No.
	A	B	C	D	E	F	G	H	I	J	
Tennessee	X		X	X	X	X	X	X	X		D
Georgia	X	X	X				X				E
Indiana	X	X	X	X						X	F
Colorado			X	X							G
Washington, D.C.		X	X		X			X	X		H
Illinois	X		X	X	X			X	X		I
Maryland	X	X		X							J
Ohio	X		X	X		X				X	K
Iowa		X		X		X					L
Oklahoma		X	X	X			X				M
Arizona			X		X		X		X	X	N
Kansas	X		X	X		X	X	X	X		O
Kentucky	X	X	X				X	X	X		P
South Carolina	X		X		X	X	X	X			Q
Virginia	X	X	X			X	X	X		X	R
Michigan	X			X	X						S

Legend
A – inaccurate reporting; B – reports not submitted timely; C – expenditure occurred before National Environmental Policy Act approval; D – state did not pass through funds timely; E – other PSIC grant requirements not met; F – subrecipient reviews not performed; G – OMB Circular A-133 review not adequate; H – other monitoring issues; I – unallowable costs; J – cost matching at risk.

Compliance with grant requirements. All sixteen of the audited recipients did not comply with one or more of the PSIC grant requirements. PSIC grants contain specific requirements as a condition of grant performance, such as complying with requirements of the National Environmental Protection Act (NEPA), passing through funds within 60 days of receiving a signed Investment Justification, or filing timely After Action Reports (AARs). There are many reasons why the recipients did not perform the necessary actions required by grant requirements; the most cited causes by recipients were poorly understood guidance and rapidly changing guidance from government program management.

Subrecipient monitoring. Thirteen of the recipients did not perform adequate subrecipient monitoring. In accordance with applicable OMB guidance, recipients are responsible for monitoring the performance of their subrecipients, to include financial and grant condition compliance. Also, there was little or no on-site monitoring, review of subrecipient OMB A-133 audit reports, or inventory verification of PSIC program equipment. Noncompliant subrecipient monitoring means the recipients and the NTIA program manager cannot be sure that the PSIC grant program is accomplishing its objectives in a timely and cost-efficient manner. Additionally, the lack of adequate inventory controls allows a risk of theft or loss of the equipment purchased with PSIC funds.

Cost-match monitoring. Eight of the recipients did not comply with cost-match monitoring requirements. Four recipients were not contributing cost match at a pace consistent with program spending. In addition, five of the recipients recorded costs, such as supplies or overhead, that did not meet the PSIC program definition of allowable costs. PSIC grant requirements require cost matching to meet specific targets, and that only certain types of costs can be incurred. Many state and territory governments are currently experiencing budgetary constraints, which may make a large cost-match contribution at the end of the grant unrealistic. PSIC objectives may not be met completely if cost match is not available to the program.

Recommendations

We recommend that the Assistant Secretary for Communications and Information:

1. Pursue the return of questioned unallowable costs for each grant recipient and determine the most appropriate process to recover questioned costs in the future.
2. Require recipients to submit all necessary reports in conformance with grant terms and conditions.
3. Institute a routine follow-up process with recipients, to ensure that grant requirements are understood and met.
4. Strengthen existing requirements for grant recipients to perform subrecipient monitoring.
5. Calculate the impact of the unrealized cost match on the PSIC program and alert those recipients who have not met this match of their responsibilities under their grants.

6. Document the follow-up conducted with PSIC grant recipients on recommendations included in appendices to this report.

Our recommendations for the internal control weaknesses above, as well as other state recommendations, are included in the state appendices to this report.

Summary of Agency Response and OIG Comments

On January 25, 2013, we received NTIA's response to our draft report, which we include as appendix B of this report. NTIA did not dispute our findings. In addition, NTIA accepted all recommendations and had no comments, concerns, or suggestions regarding them.

Appendix A: Objectives, Scope, and Methodology

This report details our fourth annual assessment of NTIA's management of the PSIC program and audit of selected recipients for the fiscal year ended September 30, 2011. Our audit objectives were to determine whether (1) costs incurred by recipients receiving PSIC funds from the Department of Commerce were allowable and in accordance with grant requirements; (2) recipients were meeting matching share requirements; (3) equipment acquired by recipients was tested and certified before deployment, operated effectively, and improved interoperability in the state; and (4) recipients were on schedule to complete interoperable communications investments by September 30, 2011, or with an approved extension, by September 30, 2012. We used the audit results to determine whether NTIA grant program management is effective.

We conducted our fieldwork at 10 PSIC locations: Colorado, the District of Columbia, Georgia, Illinois, Indiana, Iowa, Maryland, Ohio, Oklahoma, and Tennessee. We used the work of a contractor, Crowe Horwath LLP, for fieldwork at an additional 6 locations: Arizona, Kansas, Kentucky, Michigan, South Carolina, and Virginia. We judgmentally selected recipients that had a high percentage of in-kind match. We elected this method because in-kind match can be difficult to track and assess, as evidenced by our previous reports.

We also evaluated compliance with federal laws and regulations applicable to PSIC grants, including

- Section 3006 of the Digital Television Transition and Public Safety Act of 2005, Public Law 109-171
- Implementing Recommendations of the 9/11 Commission Act of 2007, Public Law 110-53
- Public Safety Interoperable Communications Grants, Public Law 111-96
- NTIA's online guide, *Revised PSIC Program Guidance and Application Kit*, August 16, 2007
- NTIA's and the Federal Emergency Management Agency's (FEMA's) *PSIC Program Management Handbook*, October 2009

We obtained an understanding of the PSIC recipient controls by interviewing PSIC program officials and examining policies and procedures. To address our objectives, we

- conducted interviews with the State Administrative Agency (SAA) personnel to determine how PSIC funds and activities are being monitored,
- reviewed SAA monitoring policies and procedures to determine if they were adequate to ensure funds were spent and reported in accordance with program regulations,

- reviewed a nonstatistical sample of expenditures to assess whether expenses were allowable under the program, and
- determined whether state agencies were monitoring subrecipient control of PSIC assets.

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

We conducted our audits 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 the Implementing Recommendations of the 9/11 Commission Act of 2007; the Inspector General Act of 1978, as amended; and Department Organization Order 10-13.

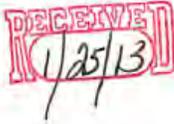
Contracted Audits

To fulfill our responsibilities under Government Auditing Standards, the Office of Inspector General monitored the work of our contractor for fieldwork at six locations: Arizona, Kansas, Kentucky, Michigan, South Carolina, and Virginia. We did the following:

- reviewed Crowe Horwath LLP's approach and planning of the audit;
- evaluated the qualifications and independence of the contract auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with Crowe Horwath concerning audit progress, findings, and recommendations;
- reviewed the audit reports prepared by Crowe Horwath to ensure compliance with Government Auditing Standards; and
- made minor adjustments to contractor-prepared documents, not affecting results, to match the style of this report

Crowe Horwath LLP is responsible for the findings contained in the auditor's reports on the PSIC recipients it audited and the conclusions. We do not express any opinion on the Crowe Horwath auditor's reports or on the conclusions expressed therein.

Appendix B: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Communications
and Information
Washington, D.C. 20230

JAN 25 2013

MEMORANDUM TO: Todd J. Zinser
Inspector General

FROM: Lawrence E. Strickling 
Assistant Secretary for Communications
and Information

SUBJECT: Draft Audit Report
Fourth Annual Assessment of the Public Safety
Interoperable Communications (PSIC) Grant Program

In accordance with Department Administrative Order 213-5, and as requested in your memorandum of December 11, 2012 transmitting the Office of Inspector General's (OIG) Draft Audit Report, I am pleased to submit NTIA's response to the draft report. The PSIC Grant Program ended on September 30, 2012, and recipients are now in the close-out process. NTIA is pleased that during the fourth annual assessment of the program the OIG found that "NTIA is providing effective oversight of PSIC grants." We appreciate the OIG's advice on ways to further improve oversight procedures and monitoring, and we will apply it to existing and future grant programs. The following describes the actions NTIA proposes to take in response to the above-referenced audit report.

Attachment

NTIA's AUDIT ACTION PLAN

AUDIT REPORT TITLE: Fourth Annual Assessment of the Public Safety Interoperable Communications Grant Program

AUDIT REPORT DATE: December 11, 2012

AUDITED ENTITY: National Telecommunications and Information Administration (NTIA)

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information pursue the return of questioned unallowable costs for each grant recipient and determine the most appropriate process to pursue the return of questioned costs.*

Actions Taken or Planned: NTIA will work closely with the Federal Emergency Management Agency (FEMA) Grant Programs Directorate (GPD) to review the questioned costs in the amount of \$190,317 that impact five grant recipients. NTIA and FEMA will work with the grant recipients to effectuate the return of any unallowable funds.

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information require recipients submit all necessary reports in conformance with grant terms and conditions.*

Actions Taken or Planned: The PSIC Grant Program ended September 30, 2012, and recipients are now in the close-out process. NTIA and DHS are satisfied that the PSIC recipients have submitted all necessary reports for the grants. NTIA will continue to administer rigorous compliance procedures for our existing and future grant programs.

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information institute a routine follow-up process with recipients to ensure the grant requirements are understood and met.*

Actions Taken or Planned: The PSIC Grant Program ended September 30, 2012, and recipients are now in the close-out process. NTIA will continue to administer rigorous communications and technical assistance plans that address this recommendation for our existing and for future grant programs.

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information strengthen existing requirements for grant recipients to perform subrecipient monitoring.*

Actions Taken or Planned: The PSIC Grant Program ended September 30, 2012, and recipients are now in the close-out process. NTIA will implement this recommendation for future grant programs as we have for existing NTIA programs.

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information calculate the impact of the unrealized cost match on the PSIC program and alert those recipients who have not met this match of their responsibilities under their grants.*

Actions Taken or Planned: NTIA will work closely with the FEMA GPD during the grant close-out process to ensure that all grant recipients satisfy their minimum cost sharing requirement of the award. If any recipients are not able to meet their cost share requirements, we will seek recovery of any unmatched federal funds.

OIG Recommendation: *We recommend that the Assistant Secretary for Communications and Information document the follow-up conducted with PSIC grant recipients on recommendations included in appendices to this report.*

Actions Taken or Planned: NTIA and the FEMA GPD will review each of the 16 individual audits included in the report appendices. NTIA will work with the FEMA GPD to address any findings relevant to the close-out of each grant. For those findings that are related to grantee performance during the period of the award, NTIA and FEMA will take those findings under consideration for future grants with these recipients.

OIG Concurrence:

Date:

Appendix C: PSIC Drawdowns

Table 4: Recipients Not Requesting Extensions to September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Mississippi	\$ 10,989,345	\$ 10,989,345	\$ 0	100.00
South Dakota	6,549,691	6,549,691	0	100.00
Virgin Islands	856,907	856,904	3	100.00
Colorado	14,336,638	14,336,638	0	100.00
Rhode Island	7,363,879	7,363,879	0	100.00
West Virginia	8,422,844	8,422,844	0	100.00
Kansas	10,655,125	10,655,125	0	100.00
Ohio	29,377,337	29,219,655	157,682	99.46
<i>Louisiana</i>	<i>19,672,287</i>	<i>19,554,227</i>	<i>118,060</i>	<i>99.40</i>
North Dakota	7,003,994	7,003,994	0	100.00
Indiana	18,291,735	18,291,735	0	100.00
Delaware	8,196,842	8,196,809	33	99.99
American Samoa	667,844	667,844	0	100.00
Tennessee	17,540,752	17,272,902	267,850	98.47
Northern Mariana Islands	687,516	687,516	0	100.00
Total	\$160,612,736	\$160,069,108	\$543,628	99.66

Source: NTIA; PSIC Drawdown Report as of 9/30/12

Bold – states audited for this report; *italic* – states previously audited and reported in other DOC OIG audit reports, see appendix U.

Table 5: Recipients Requesting Extensions to September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
New Mexico	\$ 8,288,725	\$ 8,288,725	\$ 0	100.00
Alaska	7,250,345	7,250,345	0	100.00
Oklahoma	11,684,183	11,684,047	136	99.99
<i>Pennsylvania</i>	<i>34,190,555</i>	<i>34,189,374</i>	<i>1,181</i>	<i>99.99</i>
<i>Texas</i>	<i>65,070,452</i>	<i>65,001,012</i>	<i>69,440</i>	<i>99.89</i>
Hawaii	8,069,879	8,069,879	0	100.00
Illinois	36,414,263	36,411,551	2,712	99.99
Kentucky	15,405,625	15,405,625	0	100.00
Puerto Rico	9,590,025	9,590,025	0	100.00
North Carolina	22,130,199	22,078,265	51,934	99.77
Georgia	25,311,354	25,252,732	58,622	99.77
<i>California</i>	<i>94,034,510</i>	<i>93,911,123</i>	<i>123,387</i>	<i>99.87</i>
Vermont	4,476,761	4,476,761	0	100.00
Idaho	7,289,795	7,289,795	0	100.00
<i>Arkansas</i>	<i>11,169,402</i>	<i>10,569,256</i>	<i>600,146</i>	<i>94.63</i>
Iowa	10,935,974	10,858,014	77,960	99.29
Maine	7,567,579	7,567,579	0	100.00
Arizona	17,713,050	17,627,843	85,207	99.52
South Carolina	13,499,308	13,495,328	3,980	99.97
Utah	10,353,261	10,216,291	136,970	98.68
Maryland	22,934,593	22,934,593	0	100.00
District of Columbia	11,857,972	11,857,895	77	99.99
Oregon	12,182,532	12,182,532	0	100.00
Missouri	17,466,074	17,387,337	78,738	99.55
<i>Nevada</i>	<i>12,042,417</i>	<i>11,927,123</i>	<i>115,294</i>	<i>99.04</i>
Michigan	25,039,781	24,464,990	574,791	97.70
<i>Florida</i>	<i>42,910,691.88</i>	<i>42,195,801</i>	<i>714,891</i>	<i>98.33</i>
Minnesota	14,262,071	14,255,032	7,039	99.95
Washington	19,180,347	19,142,770	37,577	99.80
Montana	6,549,685	6,305,433	244,252	96.27
Alabama	13,585,399	13,585,399	0	100.00
Virginia	25,012,521	24,688,059	324,462	98.70
Wisconsin	15,367,216	15,366,359	857	99.99
Guam	2,600,678	2,498,655	102,023	96.08
Wyoming	5,952,187	5,601,674	350,513	94.11
Nebraska	8,582,108	7,790,510	791,598	90.78
New Jersey	30,806,646	30,805,138	1,508	99.99
<i>New York</i>	<i>60,734,783</i>	<i>60,614,412</i>	<i>120,371</i>	<i>99.80</i>
Connecticut	12,999,879	12,971,183	28,696	99.78
<i>Massachusetts</i>	<i>21,191,988</i>	<i>19,508,439</i>	<i>1,683,549</i>	<i>92.06</i>
New Hampshire	5,966,760	4,451,929	1,514,831	74.61
Total	\$807,671,574	\$799,768,833	\$7,902,742	99.02

Source: NTIA; PSIC Drawdown Report as of 9/30/12

Bold – states audited for this report; *italic* – states previously audited and reported in other DOC OIG audit reports. See appendix U.

Appendix D: Tennessee Military Department Emergency Management Agency

As part of its responsibility as the SAA the Tennessee Military Department Emergency Management Agency (TEMA) administers various projects approved in its PSIC grant, as identified in its Investment Justification (IJ). Table 6 identifies TEMA's submitted and approved investments.

Table 6: TEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Tennessee Valley Regional Communication System	\$14,000,000	\$2,780,000	\$16,780,000
2. LETS Talk Linked Emergency Telecommunication System	412,007	82,402	494,409
3. Strategic reserve	1,480,012	231,700	1,711,712
4. Obion County	285,600	71,400	357,000
5. P-25 master switch	275,000	55,000	330,000
6. Portable radio towers and cache of radios	567,150	112,000	679,150
State match	–	977,676	977,676
Statewide planning	26,234	–	26,234
Management & Administration (M&A)	493,788	100,000	593,788
Total	\$17,539,791	\$4,410,178	\$21,949,969

We analyzed TEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, TEMA had expended a majority of its PSIC funds. TEMA had \$267,850 in PSIC funds remaining and had drawn down 98 percent of its PSIC grant funds. Table 7 shows the status of TEMA's PSIC grant as of September 30, 2012.

Table 7: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Tennessee	\$17,540,752	\$17,272,902	\$267,850	98.47 ⁵
Source: NTIA				

Findings and Recommendations

Unallowable Costs

We reviewed a sample of costs and identified \$13,262 of TEMA PSIC funds that were used for unallowable expenses, including \$5,341 of overhead allocation, \$5,438 of supply costs, and \$2,483 of indirect costs. The PSIC handbook lists office supplies as unallowable direct and indirect costs. TEMA explained that the allocation of overhead was in error and had been

⁵ The differences in dollar amounts between table 6 and table 7 represent changes that occurred from the time the budget was identified at the beginning of the program and the actual costs as a result of fund reprogramming as the grant progressed.

corrected. However, TEMA was unaware that office supplies were an unallowable cost. TEMA to NTIA.

Reporting

TEMA did not include or accurately record all nonfederal matching amounts in its financial system. As of March 31, 2011, TEMA's reported expended match was \$2,652,389, or 16 percent of federal expenditures. However, if TEMA were to accurately include all matching amounts, TEMA would have met the required March 31, 2011 matching amount. The match is required and defined 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. According to FEMA Information Bulletin 268, dated October 22, 2007, the matching requirement can be identified and allocated at either the investment level or at the total PSIC grant level; therefore, individual investments can be undermatched or overmatched according to needs. TEMA did not accurately track its fiscal matching on an ongoing basis, which resulted in understating match amounts. TEMA is required to provide a 20 percent matching share from nonfederal sources for acquisition and deployment of communications equipment, as well as management and administration costs. For example, TEMA excluded an in-kind match of \$1,500,000 from the Department of Correction and another of \$54,303 from the city of Chattanooga. Additionally, TEMA miscoded \$55,679 of Chattanooga's match in the financial system as federal instead of nonfederal. With these additional amounts, TEMA did meet the required March 31, 2011, matching amount but did not know they had met the grant requirement. Therefore, TEMA should provide better financial monitoring to ensure that matching amounts are recorded and coded correctly in the financial system.

Timely Compliance with Grant Requirements

TEMA did not have adequate policies and procedures to identify and meet all PSIC grant requirements in a timely manner.

TEMA did not meet NEPA requirements before expending grant funds. The NEPA review process helps evaluate a project's impact on the environment, historic properties, and threatened or endangered species. A majority of the subprojects identified in TEMA's IJ I were completed before receipt of NTIA's Finding of No Significant Impact (FONSI) approvals. Of the 26 projects we tested, 21 expended funds and were completed before receiving NEPA approval. The PSIC handbook states that "environmental compliance must occur before the expenditure of grant funds takes place." TEMA explained that the NEPA requirement was a nontraditional requirement. The SAA stated that other grants monitored by the state have exclusions, which do not require NEPA approval before fund expenditure. TEMA did eventually receive NEPA approval in November 2009 and January 2010. However, TEMA violated the grant requirements for as long as 4 months. TEMA should establish policies and procedures to identify all grant requirements at the beginning of the grant.

TEMA did not file timely After Action Reports. TEMA submitted three After Action Reports (AARs) late. AARs document the results of exercises conducted using PSIC grant funds and include

recommendations and improvements. The PSIC handbook states that AARs “must be submitted to DHS within 60 days following completion of the exercise.” TEMA conducted three exercises with one in February 2010, one in March 2010, and one in April of 2010; however, two AARs were not completed and submitted until October 2010, 4 and 6 months late, respectively. Without timely reporting, DHS does not have accurate information to monitor the progress of the PSIC projects. We recommend that TEMA develop internal controls to identify and meet all grant requirements timely.

TEMA did not pass through funds within the 60-day time frame. TEMA did not pass through funds within 60 days of receiving the IJ approval. According to the PSIC handbook, “states [are] required to pass through 80 percent of their PSIC allocation to local or tribal governments and to pass through those funds within 60 days of the IJ approval.” TEMA received its IJ approval in December 2007 but was unable to obtain signed contracts from its subrecipients to distribute the funds within the 60-day window. TEMA did not receive some signed agreements from subrecipients until September 2008 and others as late as February 2009, which exceeded the 60-day window by 7 to 13 months. While the funds were ultimately passed through to the subrecipients, TEMA was not compliant with PSIC grant requirements during that time. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Subrecipient Monitoring

TEMA did not adequately monitor subrecipients in accordance with federal requirements and internal policies and procedures. TEMA is required to monitor the subrecipient’s progress on-site, reviewing OMB Circular A-133 audits and ensuring maintenance of equipment inventory records.

TEMA did not adequately document reviews of subrecipients. TEMA did not prepare or maintain documentation of its on-site reviews of subrecipients. The *PSIC Program Guidance and Application Kit* states that “SAA monitoring will be accomplished through a combination of office-based and on-site monitoring visits.” TEMA informed us that the on-site and desk reviews were performed; however, written documentation was not always prepared. Without adequate documentation of reviews, TEMA cannot ensure that these activities were performed. TEMA should develop and maintain documentation of reviews to support the subrecipient monitoring performed.

TEMA did not review A-133 reports to ensure subrecipients properly coded PSIC funds. TEMA did not report PSIC expenditures correctly for 2009 or 2010. The PSIC handbook states that “in accordance with OMB Circular A-133, grantees and subrecipients that expend \$500,000 or more in federal funds in a fiscal year are required to submit an organization-wide financial and compliance audit.” Instead of coding PSIC expenditures on the Schedule of Expenditures of

Federal Awards (SEFA) to Catalog of Federal Domestic Assistance number 11.555, the TEMA funds were coded to number 97.124, which is for DHS' Interoperable Communications and Training Project. As a result, expenditures for the PSIC grant were underreported on the TEMA A-133 report for FY 2009 and FY 2010, and DHS' Interoperable Communications and Training Project expenditures were overreported for FY 2009 and FY 2010. TEMA should develop internal controls to ensure that all amounts included on the SEFA are accurately reported, including coding expenditures to the correct grant.

TEMA did not adequately address equipment-security issues. We identified equipment purchased with PSIC funds housed in a facility that did not have restricted access or a security system. Regulations require a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property. Although the facility was manned by a guard, the individual was not at their post during our inspection. Without adequate security measures in place, there is a higher risk of theft or abuse of the property. We recommend that TEMA improve its physical security measures over PSIC property.

Appendix E: Georgia Emergency Management Agency

As part of its responsibility as the SAA, the Georgia Emergency Management Agency (GEMA) administers various projects approved in its PSIC grant, as identified in its IJ. Table 8 identifies GEMA's submitted and approved investments.

Table 8: GEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Buildout of Georgia Interoperability Network	\$ 1,195,482	\$ 298,871	\$ 1,494,353
2.- Enhancement of Regional Radio System	19,607,187	4,901,797	24,508,984
3. Delivery of Training and Exercises	523,450	–	523,450
4. Establishment of State Strategic	1,960,327	490,082	2,450,409
5. Statewide Interoperable Communication	1,265,568	–	1,265,568
M&A	759,340	189,835	949,175
Total	\$ 25,311,354	\$5,880,585	\$31,191,939

We analyzed GEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, GEMA had \$58,622 in PSIC funds remaining, having expended 99 percent of its grant funds. Table 9 shows the status of GEMA's PSIC grant as of September 30, 2012.

Table 9: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Georgia	\$25,311,354	\$25,252,732	\$58,622	99.77
Source: NTIA				

Findings and Recommendations

Reporting

GEMA did not report match expenditures and submitted six financial reports late. The SAA is required to track and report on the Biannual Strategy Implementation Report (BSIR) the 20 percent match requirement for each project that receives PSIC funds. Match expenditures are not captured in GEMA's database, which GEMA used to prepare the Financial Status Reports (FSR). As a result, GEMA did not report match amounts. By not capturing matching expenditures in its database, GEMA is unable to correctly report the match amount and cannot adequately monitor the match amount. Also, late or incomplete reports do not allow for timely and proper monitoring. We recommend that GEMA improve internal controls to ensure that all reports produced are accurate and complete and comply with grant requirements.

Compliance with Grant Requirements

GEMA did not receive NEPA approvals before commencing PSIC projects. The PSIC handbook states that “environmental compliance must occur before the expenditure of grant funds takes place.” Two of GEMA’s five construction projects had not received NEPA approval as of August 2011. Additionally, one of these two unapproved projects, the Buildout of Georgia Interoperability Network, was complete before receiving the approval. The NEPA review process helps evaluate potential impacts of projects on the environment, historic properties, and threatened or endangered species. Without receiving NEPA approval before expenditure, recipients cannot ensure that planned projects will not have an environmental impact. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Subrecipient Monitoring

GEMA did not monitor subrecipient compliance with A-133 reporting. The PSIC handbook requires recipients and subrecipients to follow OMB Circular A-133 requirements, which include proper SEFA reporting. The Director of Audits and Accounts stated that GEMA did not receive A-133 reports regularly from subrecipients. GEMA’s subrecipient agreements require the subrecipient to comply with A-133 requirements. However, GEMA does not have policies and procedures in place to ensure compliance. Two subrecipients and the state of Georgia failed to correctly code and report PSIC expenditures on the SEFA—one of the three did not report PSIC expenditures correctly for 3 years. GEMA cannot ensure its subrecipients are meeting grant requirements without proper monitoring. Therefore, we recommend GEMA develop and implement internal controls to ensure that it collects and reviews applicable A-133 reports.

Appendix F: Indiana Department of Homeland Security

As part of its responsibility as the SAA, Indiana Department of Homeland Security (IDHS) administers various projects approved as part of its PSIC grant, as identified in its IJ. Table 10 identifies IDHS submitted and approved investments.

Table 10: IDHS' Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1 - Enhance current and future system infrastructure	\$ 4,835,153	\$ 213,408	\$5,048,561
2 - Increase operational capabilities	11,633,549	4,065,300	\$15,698,849
3 - Strategic technology reserve	858,407	–	\$858,407
State match	-	105,375	\$105,375
Statewide planning	665,628	–	\$665,628
M&A	298,998	–	\$298,998
Total	\$18,291,735	\$4,384,083	\$22,675,818

We analyzed IDHS' progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, IDHS had expended 100 percent of its PSIC grant funds. Table 11 shows the status of IDHS' PSIC grant as of September 30, 2012.

Table 11: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Indiana	\$18,291,735	\$18,291,735	\$0	100.00
Source: NTIA				

Findings and Recommendations

Reporting

IDHS does not track PSIC expenditures in its financial system by the BSIR cost category. PSIC recipients are required to report detailed expenditure data by BSIR cost category. Instead, IDHS classified all expenditures as Acquisitions. Because expenditures were not tracked by the required cost categories, the recipient was at risk for exceeding spending limits established for different individual cost categories. Without accurate, detailed expenditure information NTIA is not able to adequately understand and determine the current status of the recipient's financial progress.

Additionally, IDHS did not file three FSRs within the required 30-day time period. Obligations and expenditures must be reported through the FSR, which is due within 30 days of the end of each calendar quarter. A report must be submitted for every quarter the award is active, including partial calendar quarters, as well as for periods where no grant activity occurs. Fund

drawdowns can be withheld if these reports are delinquent. IDHS should develop procedures to ensure that all reports required by the PSIC grant are accurate, complete, and timely.

Compliance with Grant Requirements

IDHS did not comply with NEPA requirements timely. The NEPA review process helps evaluate a project's impact on the environment, historic properties, and threatened or endangered species. All of the subprojects identified in IDHS IJs expended funds prior to receiving NEPA FONSI approval. The PSIC handbook requires that compliance occurs before the expenditure of grant funds takes place. IDHS explained that the NEPA requirement was "a non-traditional requirement." The SAA stated other grants monitored by the state have "category exclusions" that don't require NEPA approval prior to fund expenditure. While IDHS eventually received NEPA approval, IDHS was in violation of grant requirements during the period of time that the projects proceeded without NEPA approval. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

IDHS did not pass through funds within the 60-day time frame. IDHS did not pass through funds within 60 days of receiving IJ approval. The PSIC handbook requires states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of IJ approval. IDHS received its IJ approval in September 2007. However, it did not receive signed agreements from its subrecipients so it could distribute the funds until October 2008, 10 months after the 60-day window. IDHS stated that it was unable to obtain the signed contracts from subrecipients within the 60-day window. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Cost-Match Monitoring

IDHS' matching amount contained items that did not meet PSIC grant requirements. PSIC grant requirements require recipients to provide matching funds; however, the grant requirements state that matching funds must be in addition to, and therefore supplement, existing funds that have been used for the same purpose. The budgeted match provided by IDHS consisted of costs for the maintenance of the interoperable communications system. The cost of this

contract had previously been paid for by the state of Indiana through local funds. As a result, a majority of the costs claimed as match by IDHS are unallowable. In response to our finding, IDHS identified additional projects to meet the matching requirement. We recommend that IDHS request formal approval from FEMA and NTIA for the new matching projects.

Appendix G: Colorado Governor's Office of Homeland Security

As part of its responsibility as the SAA, the Colorado Governor's Office of Homeland Security (GOHS) administers various projects approved in its PSIC grant, as identified in its IJ. Table 12 identifies GOHS' submitted and approved investments.

Table 12: GOHS' Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Digital Trunked Radio System (DTRS) statewide infrastructure – Backup	\$ 942,104	\$1,609,492	\$ 2,551,595
2. - DTRS statewide infrastructure – Development/Enhancement	3,015,802	377,624	3,393,426
3. Statewide system of System non-DTR infrastructure equipment	1,718,916	249,669	1,968,585
4. Colorado All Hazards Region's end user communication	5,502,318	1,593,451	7,095,770
5. Colorado's statewide mobile communications suite	1,110,352	–	\$1,110,352
6. Interoperability planning, training, and exercise for Colorado	340,300	–	\$340,300
7. DTRS end user equipment	1,018,267	–	1,018,267
8. Technical training, planning, and coordination	286,479	–	286,479
M&A	402,100	–	402,100
Total	\$14,336,638	\$3,830,236	\$18,166,874

We analyzed GOHS' progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, GOHS had expended 100 percent of its PSIC grant funds. Table 13 shows the status of GOHS' PSIC grant funds as of September 30, 2012.

Table 13: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Colorado	\$14,336,638	\$14,336,638	\$0	100.00

Source: NTIA

Findings and Recommendations

Compliance with Grant Requirements

GOHS did not ensure that (1) NEPA requirements were met before expenditure of grant funds and (2) PSIC funds were passed through to subrecipients within the 60-day window required by the grant requirements.

GOHS did not meet NEPA requirements before expending grant funds. For example, GOHS did not obtain NEPA approval before commencing construction on the Holly Tower. The PSIC handbook requires environmental compliance to occur before the expenditure of grant funds. To comply with NEPA, GOHS must provide information on the project's environmental impact before expending funds. GOHS stated that missing the NEPA requirement was an oversight. According to GOHS, the NEPA requirement was a nontraditional requirement; other awards have exclusions, which remove the requirement for NEPA approval. GOHS ultimately received NEPA approval only after changes to the initial Holly Tower plan were made to meet environmental standards. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

GOHS did not pass through funds within the 60-day time frame. GOHS did not pass through funds within the 60 days of IJ approval. The PSIC handbook requires states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of the IJ approval. GOHS received its IJ approval in May 2008. However, GOHS did not receive a signed memorandum of understanding from Arapahoe County, its largest subrecipient, until September 2008, one month after the 60-day deadline. GOHS was unable to obtain signed contracts from its subrecipients within the 60-day window, so GOHS was ultimately not in compliance with grant requirements for this one-month period. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Appendix H: Washington, D.C., Homeland Security and Emergency Management Agency

As part of its responsibility as the SAA, the Homeland Security and Emergency Management Agency (HSEMA) administers various projects approved in its PSIC grant, as identified in its IJ. Table 14 identifies HSEMA's submitted and approved investments.

Table 14: HSEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Interagency communication standard operating procedures	\$ 4,134,197	\$2,626,305	\$ 6,760,502
2. Data exchange hub and National Region fiber optic	1,802,026	–	1,802,026
3. Hospital microwave interoperable network	849,818	–	849,818
4. Video interoperability for public safety	4,544,362	–	4,544,362
Statewide planning	527,569	–	527,569
Total	\$11,857,972	\$2,626,305	\$14,484,277

We analyzed HSEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, HSEMA had spent a majority of its PSIC funds. HSEMA had \$77 in PSIC funds remaining to be expended. Table 15 shows the status of the four investments as of September 30, 2012.

Table 15: HSEMA Funds as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
District of Columbia	\$11,857,972	\$11,857,895	\$77	99.99

Source: NTIA

Findings and Recommendations

Unallowable Costs

HSEMA recorded \$39,242 in district-wide planning costs in February 2009, well after the December 3, 2007 deadline. The grant required that district-wide planning costs be incurred during the period of April 1–December 3, 2007. Therefore, HSEMA used grant funds for an unallowable purpose. Although past the original December 3, 2007 deadline, HSEMA has requested permission from NTIA to transfer \$39,242 to a different cost category. We recommend that HSEMA continue to work with NTIA to obtain a transfer of these costs.

Reporting

HSEMA did not file the June 2011 BSIR until September 2011, almost two months late. The report is due within 30 days of the end of each six month reporting period. The BSIR reports on total expenditures for all grants and provides a standardized format for reporting financial data. Without timely BSIR reporting, NTIA and other stakeholders cannot adequately monitor HSEMA's financial progress on the PSIC grant. We recommend that HSEMA improve controls for reporting to ensure that all reports are accurate and are submitted timely.

Compliance with Grant Requirements

HSEMA did not meet NEPA requirements before expending grant funds. HSEMA did not receive NEPA approvals before commencing PSIC projects. The PSIC handbook requires environmental compliance before the expenditure of grant funds takes place. The NEPA review process helps evaluate potential effects of projects on the environment, historic properties, and threatened or endangered species. However, all five of the transactions we selected for testwork did not receive the necessary NEPA approval before expenditure of funds. For one project, NEPA approval was not received until almost 2 years after funds had been expended. Therefore, recipients cannot ensure that planned projects will not have an environmental impact. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

HSEMA did not provide exercise activities/training. During the inspection of equipment purchased for PSIC, two HSEMA staff members were not proficient in the use of the software and equipment. PSIC grant requirements require that public safety agencies understand how to use the interoperable communications equipment, both technically and operationally, and that exercises and drills take place to ensure familiarity with the communications system. Exercises implemented with PSIC grant funds should be performance-based and directly related to the grant activities and the interoperable communications system. Without proper training and drills, equipment users may not be able to properly operate equipment in an emergency. We recommend that HSEMA provide additional training to staff members responsible for operating the PSIC equipment.

Subrecipient Monitoring

During our inspection of PSIC inventory controlled by subrecipients, we noted that property items did not have an asset tag number or barcode on each item. Federal regulations require recipients to maintain property records that include a description of the property, a serial number, or some other unique identification number. The property items have a sticker identifying the equipment as "DHS funded equipment," but no unique number for tracking

information was included. Without an identification number, equipment cannot be properly tracked or recorded in the property system. We recommend that HSEMA develop an asset-tracking system that complies with federal regulations.

Appendix I: Illinois Emergency Management Agency

As part of its responsibility as the SAA, the Illinois Emergency Management Agency (IEMA) administers various projects approved in its PSIC grant, as identified in its IJ. Table 16 identifies IEMA's submitted and approved investments.

Table 16: IEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Expansion of 700/800 MHz interoperability platform	\$34,727,979	\$9,122,859	\$43,850,838
2. Procurement of STARCOM21 equipment to support 700	1,186,212	363,079	1,549,291
3. Enhancement of state ITECS and unified command system	499,991	125,000	624,991
State match	–	2,000,000	2,000,000
M&A	81	–	81
Total	\$36,414,263	\$11,610,938	\$48,025,201

We analyzed IEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, IEMA had expended a majority of its PSIC funds. IEMA had expended 99 percent of its PSIC funds and had \$2,712 in remaining funds. Table 17 shows the status of IEMA's PSIC grant as of September 30, 2012.

Table 17: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Illinois	\$36,414,263	\$36,411,551	\$2,712	99.99
Source: NTIA				

Findings and Recommendations

Unallowable Costs

During our review, we identified \$131,834 of statewide planning cost incurred after December 3, 2007. The PSIC handbook required statewide costs to be incurred during the period of April 1, 2007, through December 3, 2007. IEMA, however, recorded statewide planning costs as late as September 2010, 3 years after the 2007 deadline. The SAA believed that statewide planning costs were allowable grant expenses regardless of the time they occurred. Although past the original December 3, 2007 deadline, IEMA requested permission to transfer the \$131,834 to a different cost category. IEMA received NTIA approval in November 2011. We have no additional recommendations for this issue at this time as IEMA received permission from NTIA.

Reporting

We noted that the nonfederal match amount on IEMA's June 2011 FSR was underreported by \$639,085. FSR requires the recipient to report the total outlays for both the recipient share

and the federal share of funds. However, IEMA reported only the minimum amount required by the PSIC grant rather than the actual amount incurred. This resulted in the FSR being understated by \$639,085. In addition, the state did not code expenditures for the PSIC grant for 2008 on the SEFA. Therefore, expenditures are not properly reported on the A-133 report. Without accurate reporting, NTIA and FEMA cannot adequately monitor grant progress. We recommend that IEMA develop policies and procedures to ensure that data reflected in financial reports are complete and accurate.

Compliance with Grant Requirements

IEMA did not have adequate policies and procedures to identify and meet all PSIC grant requirements timely.

IEMA did not meet NEPA requirements before expending grant funds. Four of the six projects selected for testing incurred expenditures before receiving NEPA FONSI approval. The PSIC handbook states, "Environmental compliance must occur before the expenditure of grant funds takes place." In accordance with the SAA, other grants monitored by the state have exclusions, which do not require NEPA approval. IEMA explained that the NEPA requirement was a nontraditional requirement. While IEMA eventually received NEPA approval in June 2010, it did not comply with grant terms timely. One project was noncompliant for almost 2 years before receiving NEPA approval. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

IEMA did not pass through funds within the 60-day time frame. IEMA did not pass through funds within 60 days of receiving IJ approval. The PSIC handbook requires states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of the IJ approval. IEMA received their IJ approval in December 2007. We reviewed IJ 1 and noted that all 15 projects identified in the IJ did not have signed memorandums of understanding (MOUs) within 60 days. The dates for the signed MOUs ranged from April 2008 to May 2011, which exceeded the 60-day window by a few months to over 3 years. IEMA claimed it was unable to obtain signed contracts from its subrecipients within 60 days, so funds were not available to subrecipients in the time frame stated in the grant requirements. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

IEMA did not complete AARs within 60 days. IEMA submitted all AARs late. AARs document the results of exercises, which include recommendations and improvements that were conducted using the PSIC grant funds. In accordance with the PSIC handbook, AARs, “must be submitted to DHS within 60 days following completion of the exercise.” IEMA conducted one exercise every month from March through June of 2009. However, the AARs were not completed and submitted until August and September 2009. Without timely reporting, stakeholders do not have accurate information to monitor the progress of the PSIC projects. IEMA should develop policies and procedures to identify and meet all grant requirements, including deadlines for filing reports.

Subrecipient Monitoring

IEMA’s grant manual and subrecipient agreements did not have a provision related to supplanting. PSIC grant requirements state that grant funds cannot be used to supplant, or replace, any other funds that have been budgeted or funded for the same purpose. Without stated provisions on supplanting, IEMA cannot ensure that subrecipients are aware of that requirement and comply. We recommend IEMA establish a policy and procedure for monitoring subrecipient compliance with supplanting guidance.

Appendix J: Maryland Emergency Management Agency

As part of its responsibility as the SAA, Maryland Emergency Management Agency (MEMA) administers various projects approved in its PSIC grant, as identified in its IJ. Table 18 identifies MEMA's submitted and approved investments.

Table 18: MEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. State and local communications partnership: Tower	\$ 8,200,000	\$1,852,500	\$10,052,500
2. CMARC, MESIN, IPIX, PSINET, 700 MHz system upgrade	9,032,611	1,743,465	10,776,076
3. State Interoperability Executive Committee (SIEC)	800,000	–	800,000
4. Data Exchange Hub and National Capital Region	4,700,000	1,034,824	5,734,824
M&A	201,982	52,122	254,104
Total	\$22,934,593	\$4,682,911	\$27,617,504

We analyzed MEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, MEMA had expended 100 percent of its PSIC funds. Table 19 below shows the status of MEMA's PSIC grant as of September 30, 2012.

Table 19: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Maryland	\$22,934,593	\$22,934,593	\$0	100.00
Source: NTIA				

Findings and Recommendations

Reporting

MEMA did not file required financial reports timely or accurately. Although the June BSIR report is due 30 days after the end of the period, MEMA filed the report in December 2011. In total, MEMA filed four FSRs after the 30-day deadline. The June 30, 2011, BSIR had also not been filed at the time of our fieldwork in September 2011. Without timely reporting, NTIA and DHS cannot monitor grant progress. We recommend that MEMA develop policies and procedures to ensure that all financial reports are submitted timely.

Compliance with Grant Requirements

MEMA did not pass through all funds within 60 days of receiving the IJ approval. PSIC guidance requires states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of the IJ approval. MEMA received their IJ approval in June 2006 but did not receive signed agreements from 6 of its 26 subrecipients until after the 60-day window. As a result, MEMA did not pass through funds according to the time frame established in the grant agreement. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Cost-Match Monitoring

MEMA is not updating its match amounts on the BSIR. Each public safety agency receiving PSIC funds is required to meet and document the 20 percent statutory match requirement for each project. MEMA plans to update the match amount once the grant is completed; however, this does not comply with reporting requirements, and the match amount reported on the BSIR is understated. NTIA and DHS cannot adequately monitor grant progress without accurate and timely information. We recommend that MEMA improve internal controls over reporting to ensure that reports are submitted accurately and timely.

Appendix K: Ohio Emergency Management Agency

As part of its responsibility as the SAA, the Ohio Emergency Management Agency (OEMA) administers various projects approved in its PSIC grant, as identified in its IJ. Table 20 identifies OEMA's submitted and approved investments.

Table 20: OEMA's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Interoperable communications vehicle enhancement	\$ 176,000	\$ 44,000	\$ 220,000
2. Expansion/upgrade to existing MARCS Interoperable 800	5,337,753	1,334,439	6,672,192
3. Northwest Ohio Regional Radio Project	11,506,37	2,876,592	14,382,96
4. Henry County (Rural northwest, Ohio Incident Command	383,220	95,805	479,025
5. Stark Count and Canton City 800 MHz Radio System Command	2,704,000	676,000	3,380,000
6. Delaware County, City of Dublin, City of Worthington	1,529,000	382,250	1,911,250
7. Lake County Interoperable Communication Project	3,919,910	979,978	4,899,888
8. Cuyahoga multiagency radio communication system	2,852,250	713,063	3,565,313
9. Meigs County incident command enhancement System	50,400	12,600	63,000
10. Carroll County incident command	778,433	194,608	973,041
M&A	140,000	35,000	175,000
Total	\$29,377,33	\$7,344,335	\$36,721,672

We analyzed OEMA's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, OEMA had expended a majority of its PSIC funds. OEMA had drawn down 99 percent of its PSIC funds and had \$157,682 remaining. Table 21 shows the status of OEMA's PSIC funds as of September 30, 2012.

Table 21: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Ohio	\$29,377,337	\$29,219,655	\$157,682	99.46
Source: NTIA				

Findings and Recommendations

Reporting

OEMA's financial report data were not consistent. The PSIC grant required submission of quarterly FSRs detailing total outlays for each quarter. Additionally, BSIRs are required each January and July for the previous 6 months' activities. For the period ending June 30, 2011, OEMA reported total expenditures in the FSR of \$26,907,064, which matched its general ledger. However, for the same time period, OEMA reported total expenditures in its BSIR of \$29,224,594, a difference of \$2,317,530 (calculated). According to the SAA, the state of Ohio does not process invoices received within the last 3 weeks of its fiscal year end, June 30, until after the beginning of the new fiscal year. The FSR for the period ending June 30, 2011, was completed using total expenditures from the general ledger before processing year-end invoices, while the BSIR was prepared for the period ending June 30, 2011, was completed using total expenditures from the SAA's tracking spreadsheet, which included year-end invoices. This resulted in the tracking spreadsheet including approximately \$2,317,530 in expenditures that were not yet included in the general ledger until July 2011. Inaccurate or inconsistent financial reporting by the SAA does not provide the federal government an accurate representation of the recipient's progress in completing the grant. We recommend that OEMA develop policies and procedures to ensure that all financial reports are accurate.

Compliance with Grant Requirements

OEMA did not have adequate policies and procedures to identify and meet all PSIC grant requirements timely.

OEMA did not meet NEPA requirements before expending grant funds. A majority of OEMA's projects incurred expenditures before receiving NEPA FONSI approval. The PSIC handbook states, "Environmental compliance must occur before the expenditure of grant funds takes place." OEMA explained that the NEPA requirement was a nontraditional requirement. According to the SAA, other grants monitored by the state have category exclusions, which do not require NEPA approval. The NEPA review process helps evaluate a project's potential impact on the environment, historic properties, and threatened or endangered species. While OEMA eventually received NEPA approval in for all projects, it did not comply with grant terms timely. Six of the 10 projects had incurred expenditures before receiving NEPA approval. OEMA should establish policies and procedure to identify and meet all grant requirements at the beginning of the grant.

OEMA did not pass through funds within the 60-day time frame. OEMA did not pass through funds within 60 days of the IJ approval. In accordance with the PSIC handbook, "States [are] required to pass through 80 percent of their PSIC allocation to local or tribal governments and to pass through those funds within 60 days of the IJ approval." OEMA stated that it was unable to obtain signed contracts from its subrecipients within the 60-day window. OEMA received its IJ approval in September 2007. However, OEMA received signed agreements from all subrecipients in May 2008 through September 2008, which exceeded the 60-day window by 6 to 10 months. Therefore, funds were not made available to subrecipients in the time frame

established by the PSIC handbook. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Subrecipient Monitoring

OEMA did not monitor subrecipients in accordance with federal requirements. The PSIC Application Kit requires SAA monitoring through a combination of office-based and on-site monitoring visits and even provides tools for monitoring. OEMA did not prepare or maintain documentation of its on-site and desk reviews of subrecipients. OEMA stated that the on-site reviews and desk reviews were performed but that written documentation was not always prepared. Without adequate documentation of on-site and desk reviews, no assurance exists that the reviews were adequate or performed timely. We recommend that OEMA develop and maintain documentation of its on-site visits to subrecipients.

Cost-Match Monitoring

OEMA did not provide sufficient matching to the federal funds it was provided. The PSIC grant requires states to provide at least 20 percent match of federal funds received by the state. The *DHS Financial Management Guide* states, “matching funds must be in addition to, and therefore supplement, funds that would otherwise be made available for the slated purpose.” A majority of the original match provided by OEMA were costs for the maintenance of Ohio’s interoperable communications system. However, before the PSIC grant, the cost of this contract had been paid for by the state of Ohio through local funds. OEMA is working with FEMA on an extension to the grant, to allow additional time to gather documentation showing compliance, or implement additional projects necessary for compliance, with the matching requirement. The cost of the maintenance contract is unallowable as a match because it was paid for with state/local funds and was not an additional or supplemental expenses. As of January 2012, OEMA has not identified sufficient matching expenditures to comply with PSIC’s 20 percent matching requirement. We recommend OEMA work with FEMA and NTIA to resolve the matching issue to FEMA and NTIA’s satisfaction.

Appendix L: Iowa Homeland Security and Emergency Management Division

As part of its responsibility as the SAA, the Iowa Homeland Security and Emergency Management Division (HSEMD) administers various projects approved in its PSIC grant, as identified in its IJ. Table 22 identifies HSEMD's submitted and approved investments.

Table 22: HSEMD's Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Strategic technology reserve	\$ 1,083,578	\$ 270,895	\$ 1,354,473
2. Statewide Interoperable Communication plan	1,890,200	–	1,890,200
3. Hardin County	374,056	93,515	467,571
4. Central Iowa Interoperability Improvement Project	1,600,000	400,000	2,000,000
5. Johnson County/ Scott County	4,628,422	1,157,106	5,785,528
6. Linn County	324,838	81,210	406,048
7. Plymouth County	30,320	7,580	37,900
8. Polk County Regional Communication System	182,450	–	182,450
9. Story County emergency communications	358,400	89,600	448,000
10. Woodbury County-Security Institute	300,000	75,000	375,000
M&A	163,710	40,925	204,635
Total	\$10,935,974	\$ 2,215,831	\$13,151,805

We analyzed HSEMD's progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, Iowa had expended a majority of its PSIC funds. Iowa had expended 99 percent of its PSIC funds and had \$77,960 in PSIC funds remaining. Table 23 shows the status of HSEMD's PSIC grant as of September 30, 2012.

Table 23: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Iowa	\$10,935,974	\$ 10,858,014	\$ 77,960	99.29
Source: NTIA				

Findings and Recommendations

Reporting

HSEMD did not submit all financial reports timely. The PSIC handbook requires FSRs on obligations and expenditures to be submitted within 30 days after the end of each quarter. However, HSEMD submitted two FSR reports 3 days late, the periods ending September 30, 2009, and December 31, 2010. Without timely reporting, stakeholders do not have accurate information to monitor the progress of the PSIC projects. We recommend HSEMD develop policies and procedures to ensure that all grant requirements are met, including reporting deadlines.

Compliance with Grant Requirements

HSEMD did not pass through funds within 60 days of the IJ approval. The PSIC handbook requires states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of IJ approval. HSEMD's SAA received its IJ approval in December 2008. However, HSEMD did not receive signed agreements from subrecipients until after the 60-day window. One subrecipient agreement was not signed until June 2011, almost 2½ years after the IJ was approved. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Subrecipient Monitoring

HSEMD did not conduct adequate monitoring of its subrecipients. The *PSIC Application Kit* states, "SAA monitoring will be accomplished through a combination of office-based and on-site monitoring visits." Additionally, the PSIC handbook states, "the SAA should be familiar with, and periodically monitor, its subrecipients' financial operations, records, systems and procedures." HSEMD performed two site visits and three closeout reports for its eight subrecipients during the PSIC grant period of performance. However, a majority of HSEMD's subrecipient monitoring occurred at closeout which precluded HSEMD from making or recommending any improvements to the subrecipient's performance. Without adequate and timely on-site monitoring and desk reviews, HSEMD cannot ensure that subrecipients are complying with grant requirements. We recommend that HSEMD provide timely monitoring of ongoing subrecipients.

Appendix M: Oklahoma Office of Homeland Security

As part of its responsibility as the SAA, the Oklahoma Office of Homeland Security (OKOHS) administers various projects approved in its PSIC grant, as identified in its IJ. Table 24 identifies OKOHS' submitted and approved investments.

Table 24: OKOHS' Submitted and Approved Investments

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (Budgeted)	Total
1. Strategic technology reserve	\$ 1,274,923	\$ 200,000	\$ 1,474,923
2. Statewide Interoperability Communication Project	10,318,452	4,300,000	14,618,452
M&A	90,808	87,500	178,308
Total	\$11,684,183	\$4,587,500	\$16,271,683

We analyzed OKOHS' progress toward completing the approved investments within the remaining grant period. As of September 30, 2012, OKOHS had expended a majority of its PSIC funds. OKOHS had expended 99.99 percent of its PSIC funds and had \$136 in PSIC funds remaining. OKOHS stated that it would complete the two approved investments by the extension date of September 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by June 30, 2012. Table 25 shows the status of the OKOHS' PSIC grant as of September 30, 2012.

Table 25: PSIC Funds Remaining as of September 30, 2012

State	Amount	Drawdowns to Date	Remaining to Be Drawn Down	Percent Drawn Down
Oklahoma	\$11,684,183	\$ 11,684,047	\$ 136	99.99

Source: NTIA

Findings and Recommendations

Reporting

OKOHS did not submit all financial reports timely. The PSIC handbook requires FSRs on obligations and expenditures to be submitted 30 days after the end of each quarter. However, OKOHS submitted its December 2009 FSR 3 days late. Without timely reporting, stakeholders do not have accurate information to monitor the progress of the PSIC projects. We recommend that OKOHS improve internal controls to ensure that reports are submitted accurately and timely.

Compliance with Grant Requirements

OKOHS did not have adequate policies and procedures to identify and meet all PSIC grant requirements timely.

OKOHS did not meet NEPA requirements before expending grant funds. OKOHS expended funds for projects before receipt of NTIA's NEPA approvals. The PSIC handbook states, "Environmental compliance must occur before the expenditure of grant funds takes place." OKOHS explained that the NEPA requirement was a nontraditional requirement. The SAA stated that other grants monitored by the state have "category exclusions" that don't require NEPA approval before fund expenditure. The NEPA review process helps evaluate a project's potential impact on the environment, historic properties, and threatened or endangered species. While OKOHS eventually received NEPA approval in August 2010, it was not in compliance for 20 months. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

OKOHS did not pass through funds to subrecipients within the time frame of the PSIC grant requirements. OKOHS did not pass through funds within 60 days of IJ approval. The PSIC handbook required states to pass through 80 percent of their PSIC allocation to local or tribal governments within 60 days of IJ approval. OKOHS stated it was unable to obtain signed contracts from subrecipients within 60 days. OKOHS did not receive signed agreements from its 15 subrecipients until more than 60 days past its IJ approval. Many other PSIC recipients have been identified with this same noncompliance and have cited the unique requirements of this grant as the cause. The confusion about the unique grant requirements among the recipients can be efficiently and effectively remedied by NTIA who is responsible for monitoring recipient compliance with all grant requirements. Therefore, we recommend NTIA establish policies and procedures for grant management controls that ensure recipient compliance with, and understanding of, the grant requirements. In addition, an appropriate corrective action plan should be developed by recipients to ensure compliance before further grant/project progress is allowed to proceed.

Subrecipient Monitoring

OKOHS did not review subrecipient A-133 reports for findings that may impact the PSIC grant or to ensure that PSIC expenditures were coded properly. Part of an adequate monitoring system includes the review of audit reports received by subrecipients for any items that may impact the grant. Additionally, the PSIC handbook states, "Recipients are also responsible for ensuring that subrecipient audit reports, when applicable, are submitted...and for resolving any audit findings." OKOHS did not have adequate policies and procedures to identify and monitor subrecipients that met the OMB Circular A-133 reporting requirements. At the time of our

audit, OKOHS had received five reports from three subrecipients. However, OKOHS had not reviewed the five reports for findings that may impact the ability of subrecipients to manage their awards. Additionally, OKOHS did not know if any additional subrecipients met the A-133 reporting requirements. We recommend that OKOHS develop policies and procedures to ensure that A-133 reports are received and reviewed for applicable subrecipients.



Arizona Department of Homeland Security – PSIC Performance Audit

April 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Submitted by:

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April 19, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Re: Arizona Department of Homeland Security – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit on the Arizona Department of Homeland Security (AZDOHS) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, findings and recommendations.

AZDOHS's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements or material non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is immaterial to the performance audit objectives.

During the course of our work we noted 8 findings relating to subrecipient monitoring, matching, allowable costs and cash management. These findings are detailed further in the attached report.

Crowe Horwath LLP

Cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader



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Executive Summary

Overview

Our performance audit scope included PSIC grant activity administered by the Arizona Department of Homeland Security (AZDOHS) from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with conducting interviews of AZDOHS staff having direct knowledge of PSIC grant. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of Arizona's SAA, AZDOHS. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

AZDOHS's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or material non-compliance may not be detected exists, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect error or fraud that is immaterial to the performance audit objectives.

Results

The following provides a summary of the findings and recommendations reported within this document.

Allowable Costs

- **M&A Costs** - Four out of four M&A transactions selected for testing (totaling to \$4,978) included costs that were unallowable under the PSIC grant regulations. We recommend that AZDOHS implement a review process in place to analyze costs against the PSIC Grant Allowable Cost Matrix to ensure that only allowable costs, as listed in the Matrix, are charged to the PSIC grant.
- **Time Studies** - There was no underlying support to corroborate allocation of employee time to the PSIC grant. Additionally, not all grants managed by AZDOHS have an administration portion. Therefore, payroll and non-payroll costs were only charged to grants that have an administration allowance which result in costs being charged to the PSIC grant that are not benefiting the PSIC grant and thus could be deemed unallowable. Since documentation could not be provided to support the allocation of administrative costs to the PSIC grant, questioned costs would range from \$0 up to the amount of administrative expenses charged to the grant of \$531,391 through September 30, 2011. We recommend that AZDOHS update its procedures to incorporate a process of preparing times studies on a regular basis.

- Reimbursement Review Checklist - One out of 12 subrecipient invoices selected for testing did not have a reimbursement review checklist. The reimbursement review checklist is the control used by AZDOHS to document their review of subrecipient invoices. Therefore, the aforementioned reimbursement, in the amount of \$3,492, did not have proper documentation to support that it was reviewed by AZDOHS. We recommend that AZDOHS implement a process to ensure that a reimbursement review checklist is completed and the completion of this checklist is verified prior to issuing a payment to the subrecipient.

Matching

- Grant Agreements - During our review of subrecipient grant agreements, we noted that four out of six subrecipient grant agreements selected for testing did not include the required match percentage for that subrecipient. Additionally, the agreements did not explicitly notify the subrecipients that there was a matching requirement. We recommend that AZDOHS ensure that all grant agreements with subrecipients contain the required federal requirements including any amount that the subrecipient is required to match.
- Matching Funds - During our review of the subrecipient monitoring procedures of AZDOHS, it was noted that AZDOHS did not verify that monies used by subrecipients to meet the match requirement were coming from non-federal sources. We recommend that AZDOHS, as part of their on-site monitoring of subrecipients test to ensure that matching funds are not coming from other federal sources.

Subrecipient Monitoring

- Audit Report Review - We noted that one of the three sampled subrecipients' audit reports contained audit findings for the years 2008 and 2009. These findings were not directly related to the PSIC grant, however, there was no documentation in the file to support that these findings were analyzed to determine if they could have an impact on the PSIC grant. AZDOHS should update its Audit Review Checklist to ensure that the review of all findings as well as the impact of those findings on the PSIC grant is documented.

Cash Management

- Cash Advances - It was noted during our cash management testing that the PSIC cash account held balances ranging from \$1 to \$3,000. We recommend that AZDOHS update its procedures to incorporate a process whereby the drawdowns and payments to the subrecipients are reconciled. Further, this tracking mechanism should calculate interest on the funds in situations where there is an advance drawdown resulting in excess funds. This will help to ensure that receipt and disbursement of Federal money is properly managed by complying with the Cash Management Investment Act (CMIA).
- Internal Deposit Slips - During our cash management testing, we noted that for 6 out of 8 drawdowns selected for testing, AZDOHS did not complete an approved internal deposit slip prior to completing drawdowns from FEMA. The internal deposit slips were completed and approved a day or two after AZDOHS had requested a drawdown from the federal government. AZDOHS should enforce the written policy and ensure that internal documentation is completed and approved prior to completing federal drawdowns.

More details on the findings can be found in the Findings and Recommendations section of this report

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

AZDOHS serves as the SAA for the State of Arizona. AZDOHS works with state and local governments, federal agencies and voluntary organizations to provide strategic direction and access to resources that will enable all of the state's homeland security stakeholders to achieve their collective goals.

As part of AZDOHS's responsibility as the SAA, AZDOHS administers various projects approved as part of the PSIC grant application process. The table below identifies AZDOHS's submitted and approved Investments. Each State is required to make provision for a strategic technology reserve which is also approved in the Investments noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. Enhancing Regional 700/800 MHZ Systems	\$ 13,226,809	\$ 9,862,453	\$ 23,089,262
2. Update Statewide Microwave Backbone	2,258,000	564,500	2,822,500
3. Augmenting the State's Strategic Tech. Reserve	1,371,850	342,963	1,714,813
Statewide Planning	325,000	-	325,000
M&A	531,391	132,848	664,239
Total	\$ 17,713,050	\$ 10,902,764	\$ 28,615,814

As part of our work we analyzed AZDOHS's progress toward completing the approved investments within the remaining grant period. As of September 30, 2011, AZDOHS had \$2,525,030 in PSIC funds remaining to be expended. AZDOHS stated they will complete the seven approved investments by the extension date of September 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by September 30, 2012. The table below shows the status of the seven investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded	PSIC Funds Expended	PSIC Funds Remaining
1. Enhancing Regional 700/800 MHZ Systems	\$ 13,226,809	\$ 10,887,622	\$ 2,339,187
2. Update Statewide Microwave Backbone	2,258,000	2,143,307	114,693
3. Augmenting the State's Strategic Tech. Reserve	1,371,850	1,360,147	11,703
Statewide Planning	325,000	265,553	59,447
M&A	531,391	531,391	-
Total	\$ 17,713,050	\$ 15,188,020	\$ 2,525,030

Objectives, Scope and Methodology

In general, the objective of our performance audit is to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we will determine whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012.

This performance audit consisted of field work at the State of Arizona's SAA, AZDOHS. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit tests to be performed, we considered the following documents as they are applicable to AZDOHS and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007.
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009.
- c. FEMA Information Bulletin No. 268, October 19, 2007.
- d. Office of Grant Operations Financial Management Guide January 2006.
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24).
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555*.
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007*.
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- k. Latest approved State Communication Interoperability Plan (SCIP).
- l. Original signed Grant agreement and Amendments.
- m. Approved Investment Justifications and Clarifications.
- n. State Feedback Forms.
- o. Organizational Chart.
- p. Written policies and procedures.

We reviewed key controls that had a direct and material effect on AZDOHS's ability to comply with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls over:

- Activities Allowed or Unallowed
- Allowable Costs
- Cash Management
- Equipment and Property Management
- Matching
- Period of Availability
- Procurement, Suspension, and Debarment
- Reporting
- Subrecipient Monitoring

We assessed the risk associated with each of the compliance areas noted above and tested controls and compliance with these requirements based on nonstatistical samples of AZDOHS transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsibility for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by AZDOHS to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

In addition, we tested the validity and reliability of computer-processed data supplied by AZDOHS by directly testing data against supporting documentation. Based on our tests, we concluded the computerized data were reliable for use in meeting our objective.

Findings and Recommendations

1. Allowable Costs

M&A Costs

Four out of four M&A transactions selected for testing included costs that were unallowable (totaling \$4,978) under the PSIC grant regulations. Three of the indirect costs related to the purchase of office supplies and one related to the purchase of computers.

Per the PSIC Grant Allowable Cost Matrix, M&A allowable costs were restricted to Hiring of full- or part-time staff/contractors/consultants for compliance with reporting, monitoring, and audit requirements and associated travel and meeting expenses, overtime and backfill costs associated with PSIC, travel and meeting related expenses.

AZDOHS did not have written procedures to ensure that only allowed costs were charged to the PSIC grant.

As a result of these charges, the PSIC grant was over charged by \$4,978 of unallowable costs that could result in disallowance of such costs and recovery of disallowed costs by the Grantor.

Recommendation

We recommend that AZDOHS implement a review process to analyze costs against the PSIC Grant Allowable Cost Matrix to ensure that only allowable costs as listed in the Matrix are charged to the PSIC grant. We also recommend that AZDOHS discuss these costs with the appropriate federal agency to determine an ultimate disposition.

Time Studies

There was no underlying support to support the allocation of employee time to the PSIC grant in accordance with federal guidelines. Additionally, not all grants managed by AZDOHS have an administration portion. Therefore, payroll and non-payroll costs were only charged to grants that have an administration allowance. Therefore, hours incurred by employees on grants that do not have an administrative allowance are charged to other grants that have an administrative allowance including the PSIC grant.

OMB Circular A-87 (Cost Principles for State, Local and Tribal governments), Attachment B (Selected Items of Costs) states:

"8. Compensation for Personal Services

- (3) Is determined and supported as provided in subsection h.
 - h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which

meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.

- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity, for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee."

Since documentation could not be provided to support the allocation of administrative costs to the PSIC grant, questioned costs would range from \$0 up to the amount of administrative expenses charged to the grant of \$531,391 through September 30, 2011.

Recommendation

We recommend that AZDOHS update its procedures to incorporate a process of preparing times studies on a regular basis in order to determine the proper allocation percentage to the PSIC and other grants. Further, the process should also incorporate a review procedure whereby the time studies are reviewed and approved by authorized personnel other than the preparer.

Reimbursement Review Checklist

One out of 12 subrecipient invoices selected for testing did not have reimbursement review checklist to support the reimbursement by AZDOHS.

OMB Circular A-133;Subpart C.300 ("Auditee Responsibilities") states,

"The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

AZDOHS did not implement internal control procedures to ensure that each reimbursement request was supported by adequate documentation including documentation to show that the reimbursement request was reviewed and approved by authorized signatories.

Lack of documentation to support a review of a subrecipient invoice could result in unallowable costs submitted by the subrecipient being paid by AZDOHS. The payment of these costs by AZDOHS could result in questioned costs, which could lead to disallowance under the PSIC grant requiring AZDOHS to reimburse the amount of disallowance to the Federal government.

Recommendation

We recommend that AZDOHS implement a process whereby the sub-grantee files are audit-ready at any given time. This would mean AZDOHS should have a review process in place to ensure that each of the sub-grantee files are in order to ensure that adequate documentation exists in those files. PSIC Grant Management Handbook (Tool 10 - PSIC Audit Compliance Checklist) provides a comprehensive list of

statutory, financial, and programmatic requirements that should be fulfilled in order to be compliant with the PSIC Grant Program.

2. Matching

Grant Agreements

During our review of subrecipient grant agreements, we noted that four out of six subrecipient grant agreements selected for testing did not include the required match amount or percentage for that subrecipient. Additionally, the agreements did not explicitly notify the subrecipients that there was a Matching requirement.

OMB Circular A-133; Subpart D--Federal Agencies and Pass-Through Entities Section 400 Responsibilities states:

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
 - (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

Per inquiry with the grant director, the subgrantee agreements, prior to 2009, did not include the Match amount or percentage as AZDOHS was not aware of the requirements. During our procedures, we did note that grant agreements initiated after 2009 had a specific section for the match amount and referenced the matching requirements.

Recommendation

We recommend that AZDOHS ensure that all grant agreements with subrecipients contain the required federal requirements including any grant amount that the subrecipient is required to match.

Matching Funds

During our review of the subrecipient monitoring procedures of AZDOHS, it was noted that AZDOHS does not verify that monies used by subrecipients to meet the match requirement were coming from non-Federal sources.

OMB Circular A-102 states that matching amounts are not to be paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching. Furthermore, OMB Circular A-133 states "that pass through entities shall 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".

Not performing on-site procedures to ensure that matching funds were being paid from an allowable source could result in an allowable source being used to fund the match and thus result in a portion of the match being unallowed and result in the grant program not meeting the matching requirement.

Recommendation

We recommend that AZDOHS, as part of their on-site monitoring of subrecipients test to ensure that matching funds are not coming from other federal sources. This can be accomplished by obtaining a general ledger that details both Federal and non-Federal funds. AZDOHS could then review the ledger to ensure that only non-federal funds are being used as matching funds on the PSIC grant project.

3. Subrecipient Monitoring

Audit Report Review

AZDOHS did not monitor subrecipients in accordance with federal requirements. We noted that one of the three sampled subrecipients' audit reports contained audit findings for the years 2008 and 2009. These findings were not directly related to the PSIC grant, however, there was no documentation in the file to support that these findings were analyzed to determine if there was an impact on the PSIC grant.

OMB A-133, subpart D (Federal Agencies and Pass-through Entities); §____.400. (Responsibilities) d. (Pass-through entity responsibilities) states: "A pass-through entity shall perform the following for the Federal awards it makes: (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

Per AZDOHS, since the findings did not relate to PSIC grant, no follow up action was performed. In addition, the audit review checklist that AZDOHS used to review audit reports did not include a section to analyze findings not directly on the PSIC program to determine if they could have an impact on the PSIC grant program.

Recommendation

AZDOHS should update the Audit Review Checklist to ensure that the review of all findings as well as the impact of those findings on the PSIC grant is documented. Based on discussions with AZDOHS Management they agreed to the recommendation of updating the Audit Review Checklist to ensure that the review of all findings, as well as the impact of those findings on the PSIC grant is documented.

4. Cash Management

Cash Advances

It was noted during our cash management testing that the PSIC cash account held balances ranging from \$1 to \$3,000 for up to two weeks after the drawdown from the federal government. Per the PSIC Program Management Handbook, "PSIC grantees may elect to drawdown funds up to 30 days prior to expenditure or disbursement; however, grantees should drawdown funds as close to expenditure as possible to comply with the Cash Management Improvement Act (CMIA). CMIA requires that programs remain interest-neutral (i.e., no interest will be gained or lost by either Federal or State governments as a result of a Federal grant program). Interest is due to the State if it must use its own funds for program purposes (because the Federal government has not released funding). Interest is due to the Federal government if the State has held grant funds in an interest-bearing account prior to disbursement for program purposes, and has accrued interest as a result of this action."

During discussion with AZDOHS, we noted that payments to subrecipients were not always on a reimbursement basis. This is evident by the fact that balances existed in the grant cash account. Further, it was noted that AZDOHS does not have procedures in place to ensure that the drawdown of funds from the federal government comply with CMIA.

This could lead to instances where AZDOHS draws down money in advance, resulting in an interest liability on the funds held.

Recommendation

We recommend that AZDOHS update its procedures to incorporate a process whereby the drawdowns and payments to the subrecipients are reconciled to ensure that all amounts of the drawdown are properly paid to subrecipients. Further, this tracking mechanism should calculate interest on the funds in situations where there is an advance drawdown. This will help to ensure that receipt and disbursement of Federal money is managed in compliance with CMIA.

Support for Federal Drawdowns

AZDOHS did not follow its written procedures regarding the documentation necessary in order to drawdown federal funds. Per AZDOHS's drawdown procedures for Homeland Security agency, a deposit slip was required to be completed and sent to the Accounting Manager for approval prior to the request for funds issuance. After approval is obtained, the staff Accountant will then request the funds from the federal payment system. During our cash management testing, we noted that for 6 out of 8 drawdowns selected for testing, AZDOHS did not complete an approved internal deposit slip prior to completing drawdowns from the federal government. The internal deposit slips were completed and approved a day or two after AZDOHS had requested a drawdown from the federal government.

Per AZDOHS, the reason that internal deposit slips were completed after the drawdown was that they consisted of several drawdowns from different grants and the final approval was done prior to all drawdowns but after PSIC drawdown was reviewed. Not completing the internal deposit slip prior to the drawdown increases the likelihood that the amount of the drawdown differs from the approved amount.

Recommendation

AZDOHS should enforce its written policy and ensure that internal documentation is completed and approved prior to completing federal drawdown requests.

Other Matters

National Environmental Policy Act (NEPA)

The PSIC Program Guidance and Application Kit, August 2007, required grantees to comply with the terms of NEPA prior to expenditure of grant funds. We tested eight projects within AZDOHS's three approved Investment Justifications and noted six projects (75%) had incurred expenditures prior to NEPA approval. The first expenditures under the projects ranged from 43 days to 369 days prior to obtaining NEPA approval for the specific projects. Because AZDOHS obtained NEPA approval once requested by NTIA, there is no remedial action that can be taken by AZDOHS. Accordingly, we make no recommendation at this time.

Appendix O: Kansas Highway Patrol



Kansas Highway Patrol – PSIC Performance Audit

April 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Submitted by:

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April 16, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Re: Kansas Highway Patrol – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit on the Kansas Highway Patrol (KHP) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, findings and recommendations.

KHP's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements or material non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is immaterial to the performance audit objectives.

During the course of our work we noted findings relating to a lack of subrecipient monitoring, accurate reporting and managerial review, subrecipient grant agreements and reimbursement controls. These findings are detailed further in the attached report.

Crowe Horwath LLP

cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader

Summary

Our performance audit scope included PSIC grant activity administered by the Kansas Highway Patrol (KHP) from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with interviews of KHP staff having direct knowledge of PSIC grant activities and observations made to support our results, findings and recommendations. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of Kansas's State Administering Agency (SAA) SAA, KHP. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

KHP's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or material non-compliance may not be detected exists, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect error or fraud that is immaterial to the performance audit objectives.

Results

The following provides a summary of the findings and recommendations reported within this document.

- We noted that the KHP did not have a system in place to adequately monitor the subrecipients for implementing the PSIC Investments. We noted issues with no onsite monitoring performed during PSIC grant period, review of OMB Circular A-133 audits, and equipment. Accordingly, we recommend KHP establish a monitoring system to ensure subrecipient compliance with applicable federal requirements and to ensure that performance goals are being achieved.
- During our testing we noted three of five SF425 reports we tested did not have evidence of management review. We also noted one of the reports was submitted with incorrect information, since the report contained an overstatement of \$35,169 of the recipient's share of expenditures. We recommend KHP modify the current financial reporting policy to include a documented second level review of the financial reports prepared for submission.
- KHP grant agreements did not include all required information as set forth by OMB Circular A-133. In particular the agreements did not include the specific period of availability and the matching amount required by the PSIC grant. We recommend KHP modify the grant agreements utilized to include information regarding the period of availability and matching share of expenditures.

-
- We noted that certain reimbursements did not have evidence of review and approval by a manager prior to reimbursement. Additionally, we noted that during the reimbursement process that equipment included on invoices submitted for reimbursement was not compared to the Authorized Equipment Listing (AEL). We recommend KHP modify the reimbursement policy to include a documented management level review of the payment requests prior to reimbursement and a validation of equipment submitted on invoices for reimbursement to is the AEL prior to payment to the subrecipient.

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance. Kansas did not seek an extension and therefore the PSIC grant period ended September 30, 2011.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

KHP serves as the SAA for the State of Kansas. Established by the State of Kansas in 1933, KHP reports to the Governor. KHP works with state and local governments, federal agencies and voluntary organizations to provide protection of life and property through active enforcement of traffic, criminal, and other laws of the State of Kansas, and by supporting homeland security initiatives.

As part of KHP's responsibility as the SAA, KHP administers various projects approved as part of the PSIC grant application process. The table below identifies KHP's submitted and approved Investments. Each State is required to make provision for a strategic technology reserve which is also approved in the Investments noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. State Interoperability Planning	\$ 533,358	\$	\$ 533,358
2. Statewide Interoperability System Enhancements and User Equipment	8,963,653	2,240,913	11,204,566
3. Strategic Technology Reserve: Upgrade of Statewide Mobile Response Emergency Communications Units and Regional Response Teams	826,157	206,539	1,032,696
4. Interzone Connection Between P25 Trunked Radio Systems	344,000	86,000	430,000
Total	\$ 10,667,169	\$ 2,533,452	\$ 13,200,621

As part of our work we analyzed KHP's progress in closing out the PSIC grant. As of September 30, 2011, KHP had expended all grant funds intended and closed the PSIC grant with \$12,044 which was then deobligated. The table below shows the status of the seven investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded as of Closeout*	PSIC Funds Expended
1. State Interoperability Planning	\$ 533,358	\$ 533,358
2. Statewide Interoperability System Enhancements and User Equipment	8,642,739	8,642,739
3. Strategic Technology Reserve: Upgrade of Statewide Mobile Response Emergency Communications Units and Regional Response Teams	1,301,096	1,301,096
4. Interzone Connection Between P25 Trunked Radio Systems	\$177,932	177,932
Total	\$ 10,655,125	\$ 10,655,125

* The amounts in the column are reflective of two budget modification approved during the grant period.

Objectives, Scope and Methodology

In general, the objective of our performance audit is to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we will determine whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012. However, KHP did not request an extension for the PSIC grant as they completed investments by September 30, 2011.

This performance audit consisted of field work at the State of Kansas's SAA, KHP. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit test to be performed, we considered the following documents as they are applicable to KHP and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007.
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009
- c. FEMA Information Bulletin No. 268, October 19, 2007.
- d. Office of Grant Operations Financial Management Guide January 2006. See
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24).
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555, released March, 2008.*
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007.*
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*
- k. *28 CFR Part 70, Uniform Administrative Requirements for Grants and Agreements (Including Subawards) with Institutions of Higher Education, Hospitals, and other Non-profit Organizations.*
- l. Latest approved State Communication Interoperability Plan (SCIP)
- m. Original signed Grant and Amendments
- n. Approved Investment Justifications and Clarifications
- o. State Feedback Forms
- p. Organizational Chart
- q. State of Kansas policies and procedures

We reviewed key controls that had a direct and material effect on KHP's ability to ensure compliance with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls associated with:

- Allowable Costs
- Activities Allowed
- Cash Management
- Equipment and Property Management
- Matching Level of Effort
- Period of Availability
- Procurement, Suspension, and Debarment
- Subrecipient Monitoring
- Reporting

We assessed the risk associated with each of the compliance areas noted and tested controls and compliance with these requirements based on nonstatistical samples of KHP and subrecipient transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsibility for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by KHP to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

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

Findings And Recommendations

1. Subrecipient Monitoring

KHP did not monitor subrecipients in accordance with federal requirements and with internal policies and procedures. KHP was required to perform onsite monitoring to review OMB Circular A-133 audits of subrecipients and to ensure maintenance of equipment inventory records of its subrecipients.

Onsite Monitoring Program

KHP had agreements with 4 subrecipients and 2 state agencies to implement the approved PSIC Investments. KHP administers the PSIC program on a reimbursement basis and therefore, subrecipients must submit proof of payment prior to reimbursement from KHP. KHP uses the reimbursement requests as a basis for drawdowns from KHP.

According to the revised August 16, 2007, Public Safety Interoperable Communications Grant Program Guidance and Application Kit page 35, KHP is "responsible for monitoring award activities, to include

subawards, to provide reasonable assurance that the PSIC award is administered in compliance with requirements.” It further states, “In addition, the SAA is responsible for monitoring subrecipients/subgrantee awards.”

Although the subrecipients were responsible for implementing the PSIC grant activity the State, thru KHP, was responsible for monitoring the relevant activities to ensure compliance with applicable federal requirements and to ensure that performance goals were being achieved. (Title 15, Code of Federal Regulations, §24.40) The regulation further required grantees to monitor subrecipient performance under each program, function, or activity of the grant.

KHP, during the period of the PSIC grant, had monitoring policies and procedures but did not perform those procedures. According to KHP personnel, KHP did not have the available staff to perform the monitoring procedures. Without a implemented monitoring plan in place there is an increased risk of PSIC funds not being spent in accordance with the grant requirements and for program goals to not be met.

Because monitoring did not occur during the PSIC funding period KHP cannot be sure:

- The actual payment of invoices was made by the subrecipient prior to submission of a reimbursement request to KHP. When subrecipients submit invoices for reimbursement to KHP they did not require proof of payment to support that the invoices had been paid prior to the request for reimbursement. In this instance monitoring visits could have substantiated payment by the subrecipient had occurred prior to reimbursement by KHP.
- The performance data submitted was accurate.
- The equipment was actually purchased and was being used for the intended purpose. KHP’s monitoring policies and procedures require verification of the purchase, use and implementation of the equipment purchased. However, because no onsite visits were completed verification was not performed.

OMB Circular A-133 Audit Review

Part of an adequate monitoring system includes the review of audit reports received by subrecipients for any items that may impact the PSIC grant. KHP did not have policies and procedures for annually identifying, gathering, and reviewing the Office of Management and Budget (OMB) Circular A-133 audits, also known as the Single Audit Act reports from subrecipients who receive greater than \$500,000 or more. Without a monitoring system in place the potential exists for findings which impact PSIC grant administration to go undetected and not corrected.

According to OMB Circular A-133, the pass-through entity (KHP) is responsible for reviewing for audit findings and issuing a decision on audit findings that effect the PSIC grant within six months after receipt of the subrecipient’ s audit report and ensuring that the subrecipient takes appropriate and timely corrective action.

Equipment Inventory

KHP did not ensure subrecipients maintained adequate equipment inventory records for equipment purchased with PSIC funds. We noted the inventory records did not include the percentage of Federal participation being utilized when the equipment was purchased.

According to Title 44 CFR part 13.32 (d)(1), property records were to include the following information about individual equipment items; a description (including serial number or other identification number), source, allowed to purchase under FEMA guidelines, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

Recommendation

We recommend KHP establish a monitoring system to ensure subrecipient compliance with applicable federal requirements and to ensure that performance goals are being achieved. As part of the overall monitoring program, we recommend KHP modify its policies and procedures to identify, gather, and review Single Audit reports and to ensure compliance with Title 44 CFR part 13.32 (d)(1), property inventory records.

2. Reporting

During our testing we noted three of five SF425 reports tested had no evidence of management review. We also noted one of the reports without a documented review was submitted with incorrect information. The report contained an overstatement of \$35,169 of the recipient's share of expenditures. This error effected only reporting and did not affect the amount of cash drawdowns. According to KHP personnel, the individual who prepared this report is no longer with the organization, therefore, they were unsure why the reviews were not documented and why the error in reporting occurred.

According to the Public Safety Interoperable Communication Grant Program, Program Management Handbook, (Handbook), "Reporting provides an effective way for both the SAA and the Federal government to monitor grant recipient progress against the Investments" Internal control best practices include a review of all documents by an individual not associated with the documents preparation and at the reviewer should be least one level above the individual responsible for preparation of the report.

Recommendation

We recommend KHP modify the current financial reporting policy to include a documented second level review of the financial reports prepared for submission and to determine if an amended report filing is necessary for the error noted.

3. Subrecipient Grant Agreements

KHP utilized 6 subrecipients to administer the PSIC grant program activities. Each subrecipient signed a grant agreement at the beginning of the grant period. These grant agreements did not include all of the information required to be provided to subrecipients by the SAA. In particular the agreements did not include the specific period of availability and the matching amount required for the PSIC grant.

According to OMB Circular A-133 pass-through entities are required to "Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity." This would include providing subrecipients with such information as the period of availability of funds and any matching requirement placed on the subgrantee.

Recommendation

We recommend KHP modify the grant agreements with its subrecipients to include information regarding the period of availability and matching share of expenditures in accordance OMB Circular A-133.

4. Reimbursements

We noted that all eight reimbursements tested did not have evidence that they had been reviewed and approved by a manager prior to reimbursement. A single individual at KHP both prepared and approved the request for payment to subrecipient. Good internal control practices dictate that proper segregation of duties exist to minimize the risk of fraud and error. In order to achieve the proper segregation of duties, reimbursement requests should be reviewed and approved by management separate from the individual responsible for preparing the document. The review and approval of the reimbursements should be documented.

Additionally, we noted that during the reimbursement process equipment on invoices submitted for reimbursement was not checked against the Authorized Equipment Listing (AEL). KHP personnel stated that during the reimbursement process they performed a review of the invoices for unallowable items but they did not check back against the AEL. By not checking the invoiced equipment against the AEL there was the potential for unallowable equipment purchases.

Recommendation

We recommend KHP modify the reimbursement policy to include a documented management level review of the payment requests prior to reimbursement. In addition, we recommend a review of equipment submitted on invoices for reimbursement is validated with the AEL prior to payment to the subrecipient.

Other Matters

Program Audit

KHP has completed the PSIC grant and is in the process of completing the close out reporting. The findings above should be addressed on a go forward basis for grant administration practices in general.

KHP administration of the PSIC grant was not audited by NTIA during the grant administration period. However, since August 2011 KHP was the subject of an audit of the Homeland Security Program, a programmatic review of the State Homeland Security Program (SHSP): FY 06 – 10; Buffer Zone Protection Program (BZPP): FY 07 – 10; Interoperable Emergency Communication Grant Program (IECGP): FFY 08 – 10, and a monitoring visit of the Emergency Operations Center (EOC) and Emergency Management Performance Grants (EMPG). According to KHP, as they obtained feedback from the above engagements they began to implement recommendations from these to overall grant administration, including the PSIC program. However, the recommendations were of limited benefit to the PSIC because of the completion of the program at September 30, 2011.

National Environmental Policy Act (NEPA)

The PSIC Program Guidance and Application Kit, August 2007, required grantees to comply with the terms of NEPA prior to expenditure of grant funds. We tested six projects within KHP's four approved Investment Justifications and noted all six projects (100%) had incurred expenditures prior to NEPA approval. The first expenditures under the projects ranged from 187 days to 879 days prior to obtaining NEPA approval for the specific projects. Because KHP obtained NEPA approval once requested by NTIA and KHP has since completed the all PSIC projects, there is no remedial action that can be taken by KHP. Accordingly, we make no recommendation at this time.

Pass-through of Funding

The PSIC Program Guidance and Application Kit, August 2007, required that grantees pass-through at least 80% of PSIC funding to subgrantees within 60 days after the approval of the Investment Justifications. We selected seven subgrantee agreements and noted three agreements were issued greater than 60 days after the IJs were approved. The number of days beyond the 60-day limit ranged from 111 to 286 days. Because the condition that caused these instances of non-compliance only existed at the 60-day time limit in the early stage of the grant, there is no remedial action that can be taken by KHP. Accordingly, we make no recommendation at this time.



Kentucky Office of Homeland Security – PSIC Performance Audit

April 17, 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Submitted by:

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April 17, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Re: Kentucky Office of Homeland Security – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit of the Kentucky Office of Homeland Security (KOHS) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, findings and recommendations.

KOHS's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements or material non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is immaterial to the performance audit objectives.

During the course of our work we noted 7 compliance findings relating to allowable costs, equipment and property management, reporting and subrecipient monitoring. These findings are detailed further in this attached report.

Crowe Horwath LLP

Cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader

Summary

Our performance audit scope included PSIC grant activity administered by the KOHS from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with conducting interviews of KOHS staff having direct knowledge of the PSIC grant. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of Kentucky's State Administering Agency (SAA), KOHS. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

KOHS's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

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Results

The following provides a summary of the findings and recommendations reported within this document.

Allowable Costs

- Unallowable Costs - KOHS reimbursed a subrecipient for supplies purchased totaling \$1001.12. The grant agreement with KCTCS only included capital items and as such materials and supplies were not approved under the grant budget. We recommend that KOHS perform a review of actual costs versus the budget on each and every PSIC request for reimbursement submitted by subrecipients.
- Time Studies - There was no underlying support to corroborate allocation of employee time to the PSIC grant. Additionally, KOHS allocates all administrative costs only to grants that allow for administrative cost recovery. Therefore, payroll and non-payroll costs were only charged to grants that have an administration allowance which result in costs being charged to the PSIC grant that may not have benefitted the PSIC grant and thus could be deemed unallowable. Since documentation could not be provided to support the allocation of administrative costs to the PSIC grant, questioned costs would range from \$0 up to the amount of administrative expenses charged to the grant of \$169,252 through September 30, 2011. We recommend that KOHS

update its procedures to incorporate a process such as preparing time studies on a regular basis, to ensure administrative costs are properly allocated.

- Supporting Documentation for Subrecipient Invoices - KOHS did not maintain proper supporting documentation for 4 out of the 6 subrecipient reimbursement requests tested. Specifically, documentation such as a copy of a cleared check and/or payroll source documents (e.g. payroll vouchers) to provide proof of payment was not included with the reimbursement request. We recommend that KOHS ensure that all reviews of subrecipient reimbursement requests include a review to ensure proper documentation supporting the proof of payment is included prior to processing the reimbursement request. If proper documentation to support is not included, KOHS should not process the reimbursement for payment until the proper documentation is received.

Equipment and Property Management

- Equipment Monitoring Procedures - The policies and procedures for KOHS's subrecipient monitoring did not require the staff to verify that subgrantees maintained adequate equipment inventory lists. In addition, Subrecipient equipment inventory lists did not include all of the information required under federal regulations. We recommend that the KOHS ensure subrecipient equipment inventory records contain the required information in accordance with Title 44 CFR 13.32 (d) (1).

Reporting

- Report Reviews - KOHS did not perform an independent review of the information contained in the BSIR or the SF425 reports prior to submission. The individual preparing the reports from the source documents entered the data into the online reporting systems and also submitted the reports to the Federal government. To ensure the reasonableness of the data in the reports as well as other steps to help management gain assurance the information is correct prior to submission of the reports, we recommend KOHS revise their procedures for preparing and submitting fiscal and programmatic reports to include a review from an independent person with the appropriate skills within the organization.
- Timeliness and Accuracy of Reports – KOHS did not complete all of its required reports on a timely and accurate basis. One of eight reports (2 BSIRs, 2 CAPRs and 4 SF425s) we tested was not filed by the deadline. In addition, two of 8 reports tested that contained financial information contained incorrect amounts in the reports. The Required Recipient Share amount was incorrect on all 4 of the SF425 reports tested. We recommend KOHS implement management control procedures to ensure reports are submitted in a timely and in an accurate manner.

Subrecipient Monitoring

- Subrecipient Grant Agreements - During our testing of subrecipient grant agreements, we noted that 3 out of 3 grant agreements selected for testing did not include the Catalog of Federal Domestic Assistance (CFDA) number or the name of the federal awarding agency. We recommend that KOHS ensure that the CFDA number and federal awarding agency are clearly identified in all grant agreements in accordance with OMB Circular A-133.

More details on the findings can be found in the Findings and Recommendations section of this report.

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

KOHS serves as the SAA for the State of Kentucky. KOHS works with state and local governments, federal agencies and voluntary organizations to provide strategic direction and access to resources that will enable all of the state's homeland security stakeholders to achieve their collective goals.

As part of KOHS's responsibility as the SAA, KOHS administers various projects approved as part of the PSIC grant application process. The table below identifies KOHS's submitted and approved Investments. Each State is required to make provision for a strategic technology reserve which is also approved in the Investments noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. Louisville Metro Mutual Aid Enhancement Project	\$ 2,520,000	\$ 630,000	\$ 3,150,000
2. Kentucky Mobile Communication Centers	1,634,275		1,634,275
3. Kentucky Strategic Voice Mutual Aid System	11,067,928		11,067,928
Statewide Plan	-	3,221,406	3,221,406
M&A	183,422		183,422
Total	\$ 15,405,625	\$ 3,851,406	\$ 19,257,031

As part of our work we analyzed KOHS's progress toward completing the approved investments within the remaining grant period. As of September 30, 2011, KOHS had \$2,851,841 in PSIC funds remaining to expend. KOHS stated they will complete the three approved investment by the extension date of September 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by September 30, 2012. The table below shows the status of the three investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded	PSIC Funds Expended	PSIC Funds Remaining
1. Louisville Metro Mutual Aid Enhancement Project	\$ 2,520,000	\$ 2,439,823	\$ 80,177
2. Kentucky Mobile Communication Centers	1,634,275	1,544,142	90,133
3. Kentucky Strategic Voice Mutual Aid System	11,067,928	8,400,567	2,667,361
Statewide Plan	-	-	-
M&A	183,422	169,252	14,170
Total	\$ 15,405,625	\$ 12,553,784	\$ 2,851,841

Objectives, Scope and Methodology

In general, the objective of our performance audit is to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we will determine whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012.

This performance audit consisted of field work at the State of Kentucky SAA, KOHS. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit tests to be performed, we considered the following documents as they are applicable to KOHS and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007.
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009.
- c. FEMA Information Bulletin No. 268, October 19, 2007.
- d. Office of Grant Operations Financial Management Guide January 2006.
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24).
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555*.
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007*.
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- k. Latest approved State Communication Interoperability Plan (SCIP).
- l. Original signed Grant agreement and Amendments.
- m. Approved Investment Justifications and Clarifications.
- n. State Feedback Forms.
- o. Organizational Chart.
- p. Written policies and procedures.

We reviewed key controls that had a direct and material effect on KOHS's ability to comply with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls over:

- Activities Allowed or Unallowed
- Allowable Costs
- Cash Management
- Equipment and Property Management
- Matching
- Period of Availability
- Procurement, Suspension, and Debarment
- Reporting
- Subrecipient Monitoring

We assessed the risk associated with each of the compliance areas noted above and tested controls and compliance with these requirements based on nonstatistical samples of KOHS transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsibility for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by KOHS to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

In addition, we tested the validity and reliability of computer-processed data supplied by KOHS by directly testing data against supporting documentation. Based on our tests, we concluded the computerized data were reliable for use in meeting our objective.

Findings and Recommendations

Allowable Costs

Unallowable Costs

KOHS reimbursed the Kentucky Community and Technical College System (KCTCS) for supplies purchased totaling \$1001 that were used for the mobile communication trailers. These office expense included telephone charges, vehicle maintenance costs, office rental, furniture and general office supplies.

KOHS's budget for the PSIC 07 subgrant did not include a line item for supplies. In addition, section VII, Allowable and Disallowable Cost Guidance, of the PSIC Program Guidance and Application Kit states that the PSIC Grant Program covers the acquisition of, deployment of, and training for the use of interoperable communications systems that use or enable interoperability with communications systems that can use the reallocated public safety spectrum in the 700 MHz frequency band for radio communication.

Per discussion with the Grant Manager, KOHS believes that supplies expenses are allowable for the completion and implementation of communication trailers as the communication trailer could not function without these items. Though we agree that the trailer would require these items to operate, the grant budget was for the capital purchase of the trailer itself and not the on-going operations of the trailer. In addition, the Grant Manager stated that the KOHS Grant Management Policies and Procedures - Subrecipient Grant Reimbursement, the Reimbursement checklist does not require the grant manager to reference the grant budget to ensure all expenditures were included in the budget.

Although the KOHS's Grant Management Policies and Procedures do not require a check against the budget, we would expect this to be performed as part of KOHS's review of allowability of costs. Not reviewing actual costs against the budget could result in subrecipients receiving reimbursements for expenses that were not in the approved PSIC budget and thus could be deemed unallowable.

Since supplies were not approved in the grant budget, we would question the \$1,001 expended on supplies and charged to the PSIC grant.

Recommendation

We recommend that KOHS amend their Request for Reimbursement checklist to include a budget to actual analysis of expenditures to ensure they are allowable under the grant budget. Furthermore, we recommend that KOHS perform this review on all PSIC request for reimbursement submitted by subrecipients.

Time Studies

There was no underlying support to corroborate allocation of employee time to the PSIC grant. Additionally, not all grants managed by KOHS have an administration portion. Therefore, payroll and non-payroll costs are only charged to grants that have an administration allowance. Therefore, hours incurred by employees on grants that do not have an administrative allowance are charged to other grants that have an administrative allowance including the PSIC grant.

OMB Circular A-87 (Cost Principles for State, Local and Tribal governments), Attachment B (Selected Items of Costs) states:

"8. Compensation for Personal Services

(3) Is determined and supported as provided in subsection h.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity, for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee."

Since documentation could not be provided to support the allocation of administrative costs to the PSIC grant, questioned costs would range from \$0 up to the amount of administrative expenses charged to the grant of \$169,252 through September 30, 2011.

Recommendation

We recommend that KOHS update its procedures to incorporate a process of preparing times studies on a monthly basis. Further, the process should also incorporate a review procedure whereby the time studies are reviewed and approved by authorized personnel other than the preparer.

Supporting Documentation for Subrecipient Invoices

KOHS did not maintain proper supporting documentation for 4 out of the 6 subrecipient reimbursement requests tested to comply with federal requirements and internal policies and procedures. Specifically, documentation such as a copy of a cancelled check and/or payroll source documents (e.g. payroll vouchers) to provide proof of payment was not included with the reimbursement request.

KOHS stated that they operate on a reimbursement basis for the PSIC grant. Without documentation to support payment from the subrecipients, we could not verify that the payments were on the reimbursement basis. Furthermore, Title 2 of the Code of Federal Regulations (CFR) Part 215 Appendix

A - General Principles for Determining Allowable Costs, section C-1 states that “to be allowable under Federal awards, costs must meet the following criteria...(j) Be adequately documented”.

Per discussion with KOHS and review of the KOHS Grant Management Policies and Procedures - Subrecipient Grant Reimbursement, subrecipients are required to attached invoice(s), purchase order(s), timesheets, etc., identifying the goods or services purchased, cancelled checks or other official banking documentation verifying that payment has actually been made by the Second Party, and documentation that the local procurement process has been followed. However, though this section states the general supporting documentation for most items, it does not list specific source documents required to support subrecipient payroll.

Not having the specific source documents required for reimbursement listed in the policies and procedures increases the likelihood that the State could reimburse a subrecipient prior to that subrecipient paying for the cost (i.e. on the advance basis).

Recommendation

We recommend that KOHS ensure that all reviews of subrecipient reimbursement requests include a review to ensure proper documentation to support of the cost is included prior to processing the reimbursement request.

Equipment and Property Management

Equipment Monitoring Procedures

The policies and procedures for KOHS's subrecipient monitoring did not require the grant staff to verify that subgrantees were maintaining adequate equipment inventory lists to comply with Federal requirements. In addition, Subrecipient equipment inventory lists received by KOHS did not include all the information required under federal regulations. Specifically, we selected ten equipment items from subrecipients and requested the subrecipient listings obtained by KOHS to ensure that the listing contained all of the federal required components. Based on our testing, we noted the following:

- All 10 items of equipment were missing the condition and the percentage of federal ownership,
- 8 out of the 10 items were missing the cost and the acquisition date,
- 4 out of the 10 items were missing the location of the asset.

44 CFR part 13.32 (d) (1) requires that SAAs keep property records with the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

KOHS indicated that it has had difficulty obtaining the information from subrecipients, even though it is listed as a requirement in the grant agreements. Furthermore, it was stated by the grant manager that the policies for subrecipient monitoring were written without requirements to verify the property control information was available from the subrecipients. Therefore, KOHS did not check the equipment listings from subrecipients for this information.

Not having adequate procedures to ensure that subrecipients are properly tracking and maintaining equipment could result in costs related to the purchase of those equipment items being questioned. Specifically, without the required data elements in the subrecipient equipment control lists, it would be difficult to track equipment purchased with federal funds and ensure the items were being used for their

federally-funded purpose. Additionally, upon disposition of the items, without appropriate documentation of percentage of federal participation, it is possible the federal government would not be properly notified of the disposal.

Recommendation

We recommend KOHS maintain adequate property controls procedures to ensure inventory listings maintained by subrecipients include all federally required elements outlined in Title 44 CFR 13.32 (d) (1). Verifying that the subrecipients are capturing the proper information in their property control records could be documented during on-site visits during the course of the project or by requiring the property control information to be submitted along with the corresponding requests for reimbursement.

Reporting

Report Reviews

KOHS did not perform an independent review of the information contained in the BSIR or the SF425 reports prior to submission. The individual preparing the reports from the source documents entered the data into the online reporting systems and also submitted the reports to the Federal government.

Prudent business practices include having internally prepared reports reviewed by management personnel with knowledge of the information that should be contained within the reports. Per KOHS personnel, KOHS policies did not require a review of the financial or programmatic reports because the information is thoroughly checked prior to filling out the reports (normally online) and it is not feasible with the current workload to have an additional person review all the programmatic and fiscal reports prior to submission.

By not having a management review of the reports prior to their submission, there is an increased risk of inaccurate data being submitted to the Federal government.

Recommendation

To ensure the reasonableness of the data in the reports as well as other steps to help management gain assurance the information is correct prior to submission of the reports, we recommend KOHS revise their procedures for preparing and submitting fiscal and programmatic reports to include a review from an independent person with the appropriate skills within the organization.

Timeliness and Accuracy of Reports

During our procedures over reporting, we noted the following exceptions:

- One of 8 reports (2 BSIRs, 2 CAPRs and 4 SF425s) tested was not filed by the deadline. Specifically, a SF425 report was submitted on November 2, 2011, which is 3 days after the deadline of 10/30/11.
- Two of 6 reports tested contained an incorrect amount in the report. Specifically the December 31, 2010 SF425 had a Recipient Share of Expenditures of \$0.31. However, support documentation showed this amount as \$21,155,757.90. In addition, the June 2011 BSIR contained an expended amount of \$4,503,160.00 for Investment Justification number 3 - KSP Project. However, the supporting documentation from the accounting system showed expenditures of \$6,022,835.84.

- The Required Recipient Share amount was incorrect on all 4 of the SF425 reports tested. Specifically, the amounts reported on the SF425 (\$3,081,125 for recipient share) did not equal 25% of the federal award amount (should have been \$3,851,406.25 = \$15,405,625 x 25%). Although the Required Recipient Share was reported as less than the proper amount, it did not result in improper requests for reimbursement or incorrect reporting of actual expenditure amounts.

The incorrect amounts appeared to be caused by data entry errors by the KOHS staff preparing the reports. According to KOHS personnel, one report was not filed timely due to a temporary increase in workload which caused the employee to not be able to complete and submit the report on time. Related to the incorrect Required Recipient Share amounts, KOHS personnel stated they believed the reports to reflect the amount on the original award letter from Commerce.

Accurate reporting is necessary for the users of the reported information to be able to make appropriate decisions based on that information. For timely reporting, according to the Public Safety Interoperable Communication Grant Program, Program Management Handbook, (Handbook), "Reporting provides an effective way for both the SAA and the Federal government to monitor grant recipient progress against the Investments." The Handbook further notes the BSIR is due on the 30th of January and July. For the timely reporting of the SF425s, the FFR instructions state that the quarterly reporting periods will be the quarters that end with 3/31, 6/30, 9/30 and 12/31. The quarterly SF425 reports are due within 30 days of quarter end.

By not filing an SF425 timely, KOHS may not have allowed the federal oversight agency to have adequate time in which to make decisions or take action related to the information in the report. By reporting incorrect amounts, KOHS may cause the federal oversight agency to make improper decisions based on the incorrect data. This could also lead the federal oversight agency to question the costs of the PSIC program.

Recommendation

We recommend KOHS implement procedures to have someone at an appropriate level within the organization (other than the person who prepared the reports) review the reports for accuracy and reasonableness prior to their submission. This review should be documented. Additionally, we recommend KOHS put into place a system to remind staff and management of due dates for federal reports.

Subrecipient Monitoring

Subrecipient Grant Agreements

During our testing of subrecipient grant agreements, we noted that 3 out of 3 grant agreements selected for testing did not include the Catalog of Federal Domestic Assistance (CFDA) number or the name of the federal awarding agency as required by OMB Circular A-133.

Subpart D--Federal Agencies and Pass-Through Entities paragraph 400(d)(1) - Pass-through entity responsibilities - of the Office of Management and Budget (OMB) Circular A-133 - Audits of State and Local Governments states that "A pass-through entity shall perform the following for the Federal awards it

makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.”

Not providing this information to a subrecipient is a violation of OMB Circular A-133 and could result in inaccurate reporting by the subrecipient of their federal grant expenditures.

Recommendation

We recommend that the department ensure that the CFDA number and federal awarding agency is clearly identified in all grant agreements in accordance with OMB Circular A-133.

Other Matters

National Environmental Policy Act (NEPA)

The PSIC Program Guidance and Application Kit, August 2007, required grantees to comply with the terms of NEPA prior to expenditure of grant funds. We tested all 7 projects within KOHS's 3 Investment Justifications and noted 1 project (14%) had incurred expenditures prior to NEPA approval. The first expenditures under the project were made 163 days prior to obtaining NEPA approval for the project. Because the project did eventually receive NEPA approval, there is no remedial action that can be taken by KOHS. Accordingly, we make no recommendation at this time.



South Carolina Law Enforcement Division – PSIC Performance Audit

April 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

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April 18, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Re: South Carolina Law Enforcement Division – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit on the South Carolina Law Enforcement Division (SLED) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, findings and recommendations.

SLED's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some significant misstatements or significant non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is insignificant to the performance audit objectives.

During the course of our work we noted internal control findings related to cash management and allowable costs as well as compliance findings related to reporting, property records for equipment, and subrecipient monitoring. These findings are detailed further in this report.

Crowe Horwath LLP

Cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader

Summary

Our performance audit scope included PSIC grant activity administered by the South Carolina Law Enforcement Division (SLED) from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with interviews of SLED staff having direct knowledge of PSIC grant activities and observations made to support our results, findings and recommendations. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of South Carolina's SAA, SLED. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

SLED's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

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Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some significant misstatements or significant non-compliance may not be detected exists, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect error or fraud that is insignificant to the performance audit objectives.

Results

The following provides a summary of the findings and recommendations reported within this document.

- We noted that SLED did not have a policy in place requiring documentation of a managerial review and approval of cash drawdown requests prior to submission to FEMA. We recommend SLED establish a policy to require a managerial review be documented on each cash drawdown request.
- We tested controls over SLED's determination of allowable costs and noted one instance in which a request for reimbursement was not supported by proof of payment and one instance in which managerial review was not documented on the request for payment. We recommend SLED update their policies and procedures documents to include procedures:
 1. defining required subrecipient documentation prior to reimbursement; and
 2. requiring managerial review and documentation of the review prior to reimbursement.
- SLED is required to submit biannual strategy implementation reports (BSIR) and SF425 (formerly SF269) reports in accordance with the PSIC Program Management Handbook. SLED was unable to

provide documentation that the BSIR reports were based on the underlying accounting records at the time the BSIRs were submitted. Also, we noted the SF425 reports were prepared on other than a cash basis. We recommend SLED establish procedures as necessary to ensure compliance with the PSIC Management Handbook and U.S. Department of Health and Human Services instructions.

- Equipment inventory records maintained in the subgrantee files did not contain all the data elements as required by 44 CFR part 13.32 (d) (1). We recommend SLED require the necessary data elements be reported by subgrantees as well as maintain such information relative to any PSIC equipment purchases made by SLED.
- During our testing of the PSIC grant activity we noted that during the audit period SLED did not conduct on-site monitoring visits or desk reviews; document the review of subrecipient A-133 audit reports; and did not ensure subrecipients maintained equipment inventory in accordance with applicable federal guidance. We recommend SLED establish a subrecipient monitoring system to ensure subrecipient compliance with applicable federal requirements and to ensure that performance goals are being achieved and modify its Single Audit report review policy to require the review of the State's Single Audit report for all relevant findings and to document the review.

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

SLED serves as the SAA for the State of South Carolina. SLED works with state and local governments, federal agencies and voluntary organizations to provide resources and expertise in law enforcement and investigation.

As part of SLED's responsibility as the SAA, the division administers various projects approved as part of the PSIC grant application process. The table below identifies SLED's submitted and approved original Investment Justifications. Each State is required to make provision for a strategic technology reserve which is also approved in the IJs noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. Western Piedmont Interoperability Initiative	\$ 2,000,000	500,000	\$ 2,500,000
2. SC Dept. of Public Safety Communications	107,520	26,880	134,400
3. Georgetown County Simulcast Upgrade	1,100,000	275,000	1,375,000
4. Greenville County Simulcast Upgrade	3,500,000	875,000	4,375,000
5. Statewide Interoperability	700,000	183,325	883,325
6. Jasper County Tower	608,000	142,000	750,000
7. Charleston Consolidated 911 Dispatch	500,000	-	500,000
8. Statewide Radio Interoperability	3,500,007	875,002	4,375,009
9. Strategic Technology Reserve	1,045,502	261,375	1,306,877
M&A	404,979	101,245	506,224
Statewide Planning	33,300	-	33,300
Total	\$ 13,499,308	3,239,827	\$ 16,739,135

As part of our work we analyzed SLED's progress toward completing the approved investments within the remaining grant period. As of September 30, 2011, SLED had \$1,735,221 in PSIC funds remaining to expend. SLED stated they will complete the nine approved investments by the extension date of June 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by June 30, 2012. The table below shows the status of the nine investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded	PSIC Funds Expended	PSIC Funds Remaining
1. Western Piedmont Interoperability Initiative	\$ 2,116,800	1,702,369	\$ 414,431
2. SC Dept. of Public Safety Communications	307,520	307,520	-
3. Georgetown County Simulcast Upgrade	1,145,531	893,446	252,085
4. Greenville County Simulcast Upgrade	3,500,000	3,500,000	-
5. Statewide Interoperability	733,300	170,984	562,316
6. Jasper County Tower	608,000	555,765	52,235
7. Charleston Consolidated 911 Dispatch	140,650	140,650	-
8. Statewide Radio Interoperability	3,497,026	3,448,359	48,667
9. Strategic Technology Reserve	1,045,502	1,044,994	508
M&A	404,979	-	404,979
Statewide Planning	-	-	-
Total	\$ 13,499,308	11,764,087	\$ 1,735,221

Objectives, Scope and Methodology

In general, the objective of our performance audit was to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we determined whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012.

This performance audit consisted of field work at the State of South Carolina's SAA, SLED. We conducted tests of procedures and of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit tests to be performed, we considered the following documents as they are applicable to SLED and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009
- c. FEMA Information Bulletin No. 268, October 19, 2007
- d. Office of Grant Operations Financial Management Guide January 2006
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24)
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555, released March, 2008*
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007*
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*
- k. *28 CFR Part 70, Uniform Administrative Requirements for Grants and Agreements (Including Subawards) with Institutions of Higher Education, Hospitals, and other Non-profit Organizations*
- l. Latest approved State Communication Interoperability Plan (SCIP)
- m. Original signed Grant and Amendments
- n. Approved Investment Justifications and Clarifications
- o. State Feedback Forms
- p. Organizational Chart
- q. State of South Carolina policies and procedures.

We reviewed key controls that had a direct and significant effect on SLED's ability to comply with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls associated with:

- Allowable Costs
- Activities Allowed
- Cash Management
- Equipment and Property Management
- Matching and Level of Effort
- Period of Availability
- Procurement, Suspension, and Debarment
- Subrecipient Monitoring
- Reporting

We assessed the risk associated with each of the compliance areas noted and tested controls over and compliance with these requirements based on nonstatistical samples of SLED and subrecipient transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsible for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by SLED to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

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

Findings And Recommendations

1. Cash Management

SLED provided copies of policies and procedures during the audit. However, upon reviewing those policies and through discussion with staff, we noted there were no established procedures for documentation of managerial review of cash drawdown requests prior to submission.

Although SLED has procedures in place to prepare the drawdown requests, prudent business practices require someone at an appropriate level within the organization review and approve requests such as cash drawdowns prior to their submission. SLED staff indicated that a manager did review the drawdown requests but only provided verbal approval. In our compliance testing over cash drawdown requests, we did not note any discrepancies in the supporting documentation. However, this issue is a weakness in the internal control over the cash drawdown processing.

Without procedures requiring written approval of cash drawdown requests, it is possible the requests could be made without management's knowledge or could lack sufficient documentation.

Recommendation

We recommend SLED update their cash drawdown procedures to include documentation of a management review and approval of drawdown requests prior to submission.

2. Allowable Costs

We tested controls over SLED's determination of allowable costs and noted one instance in which a request for reimbursement was not supported by proof of payment and another instance in which managerial review was not documented on the request for payment.

According to SLED personnel, subrecipient requests for reimbursement must include all invoices and proof of payment prior to SLED providing reimbursement to the subrecipient and making cash drawdown requests from FEMA. Sled personnel also stated the requests for payment are to have documentation of a managerial review prior to providing reimbursement to the subrecipient. These procedures were not documented as part of the SLED policy and procedures manual.

Per discussion with SLED staff, the two errors noted were due to an oversight in the process.

Recommendation

We recommend SLED update their policies and procedures documents to include procedures:

1. defining required subrecipient documentation prior to reimbursement; and
2. requiring managerial review and documentation of the review prior to reimbursement.

3. Reporting

Biannual Strategy Implementation Reports

SLED was unable to provide documentation that any of their biannual strategy implementation reports (BSIR) were based on the underlying accounting records at the time the BSIRs were submitted.

According to the PSIC Handbook, "Reporting provides an effective way for both the SAA and the Federal government to monitor grant recipient progress against the Investments." SLED is required to submit the BSIR semiannually on the 30th day of January and July. The BSIR report is designed to provide a status of programmatic progress on a semi-annual basis.

SLED personnel stated the lack of supporting documentation for the BSIR was because the reports were prepared based on information contained in SLED's online grants management system on the date the reports were prepared. This grants management system is updated each time a subrecipient provides SLED with new information related to a grant and the previous information is overwritten. There is no mechanism within the grants management system to review activity once changes have been made to the system.

Standard Form 425

SLED staff prepared the SF 425 on a quarterly basis. On each of the reports cash disbursements were made to equal cash receipts. SLED staff stated it was their understanding the Cash Disbursement amount in box 10.b of the SF 425 should always match the cash receipt amount in box 10.a – Cash Receipts, even if more cash had been disbursed than received. This was done to avoid having a negative amount in box 10.c – Cash on Hand.

The U.S. Department of Health and Human Services instructions for preparing the SF 425, page 26 states, Cash Disbursements are “the sum of actual cash disbursements for direct charges for goods and services....and the amount of cash advances and payments made to subrecipients and contractors.” Additionally, page 11 of the SF 425 instructions states the Cash on Hand amount “can be a negative number.”

If programmatic reports (BSIR) cannot be traced back to any supporting documentation or if financial reports (SF 425) contain information that is not based on underlying accounting data, it is possible the reports could be incorrect causing management of SLED and the federal oversight agency to make improper decisions based on that incorrect data.

Recommendation

We recommend SLED develop procedures to ensure an audit trail exists linking the BSIR reports to the underlying data used to prepare the reports and SLED ensure the SF 425 reports are prepared in accordance with U.S. Department of Health and Human Services instructions.

4. Subrecipient Monitoring

During our testing of the PSIC grant activity we noted that during the audit period SLED did not conduct on-site subrecipient monitoring visits or desk reviews; document the review of subrecipient OMB Circular A-133 audit reports; and did not ensure subrecipients maintained equipment inventory in accordance with applicable federal guidance.

Monitoring Program

SLED has agreements with nine subrecipients and two state agencies to implement the approved PSIC Investments. SLED did not perform any onsite visits or desk reviews of PSIC subgrantee activity during the audit period.

According to the revised August 16, 2007, Public Safety Interoperable Communications Grant Program Guidance and Application Kit page 35, SLED is “responsible for monitoring award activities, to include subawards, to provide reasonable assurance that the PSIC award is administered in compliance with requirements.” It further states, “In addition, the SAA is responsible for monitoring subrecipients/subgrantee awards.”

Although the subrecipients are responsible for implementing the PSIC grant activity the State, thru SLED, is responsible for monitoring the relevant activities to ensure compliance with applicable federal requirements and to ensure performance goals are being achieved. (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.

Without performing these monitoring activities, there is an increased risk of PSIC funds not being spent in accordance with the grant requirements and for program goals to not be met. We did note, however, that SLED performed an onsite review of all PSIC subgrantees after the audit period (through September 30, 2011).

Without adequate monitoring, SLED could not be sure performance data submitted was accurate or that equipment was being used for the intended purpose.

According to SLED personnel, they understood having a second person review the subrecipients' requests for reimbursement to qualify as a desk review. Additionally, they stated the previous administration had established different priorities and had not allocated resources for onsite monitoring visits.

OMB Circular A-133 Audit Review

Part of an adequate monitoring system includes the review of audit reports received by subrecipients for any items that may impact the PSIC grant. SLED has a policy and procedure for reviewing the Office of Management and Budget (OMB) Circular A-133 audits, also known as the Single Audit reports, from subrecipients. However, the policy did not require the review to be documented. Therefore, SLED was unable to provide documentation that the required reviews had taken place. According to SLED personnel, the required reviews were performed, but as long as no findings directly affecting PSIC activity were noted in the Single Audit reports, there would be nothing to document. This was caused by an oversight in the current policy which did not require the review to be documented regardless of the existence of findings that might impact PSIC funds.

Equipment Inventory

SLED did not ensure subrecipients maintained adequate equipment inventory records for equipment purchased with PSIC funds. We tested ten equipment items purchased with PSIC funds by five subgrantees. We noted the following:

- all items tested did not have the percentage of federal participation included as part of the inventory record.
- two items were missing the serial numbers.
- two items were missing serial numbers, titles, acquisition dates, locations, and condition.

44 CFR part 13.32 (d) (1) requires that SAAs keep property records with the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

Even though SLED's subgrantee agreements include a requirement that the equipment records should contain all the data elements, the Division's staff stated it was difficult to obtain the information from subgrantees.

Recommendation

We recommend SLED:

1. establish a subrecipient monitoring system to ensure subrecipient compliance with Title 15 CFR §24.4 and Title 44 CFR §13.32 (d) (1).
2. modify its Single Audit report review policy to require the review of subgrantee Single Audit reports for all relevant findings and to document such review.
3. ensure compliance with to Title 44 CFR part 13.32 (d)(1), property inventory records.

Other Matters

Administrative Costs

During our audit period we noted SLED did not charge any administrative expenses to the PSIC grant. However, during fieldwork, we noted that SLED had requested and received reimbursement for administrative expenses equal to the full amount budgeted. SLED personnel stated the methodology used to determine the administrative expenses charged to the PSIC grant was a proportional allocation based on total grant dollars managed. The allocation was not based on actual level of effort to administer each grant.

Subsequent to audit fieldwork, SLED management began a process of documenting grant staffs' actual time spent working on various activities including grants administration. SLED plans to allocate personnel services cost based on the proportion of effort of each grant staff's time to each grant and task.

Once the new levels of effort are documented and administrative expenses are recalculated by SLED, the division plans to submit a revised drawdown request, if necessary.

National Environmental Policy Act (NEPA)

The PSIC Program Guidance and Application Kit, August 2007, required grantees to comply with the terms of NEPA prior to expenditure of grant funds. We tested one project within all nine of SLED's approved Investment Justifications (IJ) and noted eight of the IJ's (89%) had projects which incurred expenditures prior to NEPA approval. The first expenditures under the projects ranged from 38 days to 742 days prior to obtaining NEPA approval for the specific projects. Because SLED obtained NEPA approval once requested by NTIA, there is no remedial action that can be taken by SLED. Accordingly, we make no recommendation at this time.

Appendix R: Virginia Department of Emergency Management



Virginia Department of Emergency Management – PSIC Performance Audit

April 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Submitted by:

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April 16, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW 7085
Washington, DC 20230

Re: Virginia Department of Emergency Management – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit on the Virginia Department of Emergency Management (VDEM) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, and findings and recommendations.

VDEM's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some significance misstatements or significant non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is insignificant to the performance audit objectives.

During the course of our work we noted compliance findings relating to a lack of subrecipient monitoring, timely and accurate reporting, and procurement policies. We also noted an item related to the tracking of matching funds which is not considered as a finding but is included in this report for informational purposes. The findings noted are detailed further in the attached report.

Crowe Horwath LLP

Cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader

Summary

Our performance audit scope included PSIC grant activity administered by the Virginia Department of Emergency Management (VDEM) from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with conducting interviews of VDEM staff having direct knowledge of PSIC grant. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of Virginia's SAA, VDEM. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

VDEM's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some significant misstatements or significant non-compliance may not be detected exists, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect error or fraud that is insignificant to the performance audit objectives.

Results

The following provides a summary of the findings and recommendations reported within this document.

- We noted that the VDEM did not have a system in place to adequately monitor the 15 subrecipients and 4 state agencies responsible for implementing the PSIC Investments. We recommend VDEM establish and maintain a risk based system of monitoring subrecipients.
- VDEM is required to submit biannual strategy implementation report (BSIR) and SF425 (formerly SF269) reports in accordance with PSIC Program Management Handbook. We noted 4 of the 19 reports tested did not comply with the requirements of the handbook. The non-compliance noted included untimely submission, reports not agreeing to underlying financial records, and a report not signed by a member of management prior to submission. We recommend VDEM establish further procedures as necessary to ensure compliance with the PSIC Management Handbook.
- The State of Virginia State purchasing policy is followed by VDEM when procuring goods and services with grant funds. This policy does not include a requirement for an analysis to be conducted to determine whether a lease or a purchase would be the most economical and practical procurement for federally funded purchases. This type of lease/purchase analysis is required by 2 CFR 215.43.

We recommend that the State amend its procurement manual to include the requirements of 2 CFR Part 215.43 to analyze the benefits of lease versus purchase procurements.

- During the initial years of the PSIC grant VDEM did not require subrecipients to report matching funds or in kind activities on an ongoing basis. This was caused, in part, by confusion at VDEM due to conflicting instructions provided by NTIA. Since the fall of calendar year 2010, VDEM has required the reporting of match with each reimbursement request from the subrecipients.

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

VDEM serves as the SAA for the State of Virginia. Established by the Commonwealth of Virginia and the Emergency Services and Disaster Law of 2000, VDEM reports to the Secretary of Public Safety and the Governor of Virginia. VDEM works with state and local governments, federal agencies and voluntary organizations to provide resources and expertise in emergency management.

As part of VDEM's responsibility as the SAA, VDEM administers various projects approved as part of the PSIC grant application process. The table below identifies VDEM's submitted and approved Investments. Each State is required to make provision for a strategic technology reserve which is also approved in the Investments noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. Strategic Reserve	\$ 4,543,187	\$ 559,277	\$ 5,102,464
2. NOVA Data Interoperability	4,985,641	1,200,544	6,186,185
3. Technology Connectivity and Sustainability	5,064,700	1,178,709	6,243,409
4. Comms Infrastructure & Nat'l Interop Channels	5,442,479	1,348,120	6,790,599
5. Tactical Interoperability Solutions: State	3,424,701	790,322	4,215,023
6. Tactical Interoperability Solutions: Locality	80,000	20,000	100,000
7. Portable and Mobile Devices	1,180,000	295,000	1,475,000
Statewide Planning	282,117	-	282,117
M&A	9,696	2,424	12,120
Total	\$ 25,012,521	\$ 5,394,396	\$ 30,406,917

As part of our work we analyzed VDEM's progress toward completing the approved investments within the remaining grant period. As of September 30, 2011, VDEM had \$5,484,274 in PSIC funds remaining to expend. VDEM stated they will complete the seven approved investment by the extension date of September 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by September 30, 2012. The table below shows the status of the seven investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded	PSIC Funds Expended	PSIC Funds Remaining
1. Strategic Reserve	\$ 4,543,187	\$ 2,408,429	\$ 2,134,758
2. NOVA Date Interoperability	4,985,641	4,466,936	518,705
3. Technology Connectivity and Sustainability	5,064,700	3,251,789	1,812,911
4. Comms Infrastructure & Nat'l Interop Channels	5,442,479	4,449,501	992,978
5. Tactical Interoperability Solutions: State	3,424,701	3,399,778	24,923
6. Tactical Interoperability Solutions: Locality	80,000	77,937	2,063
7. Portable and Mobile Devices	1,180,000	1,182,063	(2,063)
Statewide Planning	282,117	282,117	-
M&A	9,696	9,696	-
Total	\$ 25,012,521	\$ 19,528,246	\$ 5,484,275

Objectives, Scope and Methodology

In general, the objective of our performance audit is to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we will determine whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012.

This performance audit consisted of field work at the State of Virginia's SAA, VDEM. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit test to be performed, we considered the following documents as they are applicable to VDEM and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007.
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009.
- c. FEMA Information Bulletin No. 268, October 19, 2007.
- d. Office of Grant Operations Financial Management Guide January 2006.
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24).
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555, released March, 2008*.
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007*.
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- k. *28 CFR Part 70, Uniform Administrative Requirements for Grants and Agreements (Including Subawards) with Institutions of Higher Education, Hospitals, and other Non-profit Organizations*.
- l. Latest approved State Communication Interoperability Plan (SCIP).
- m. Original signed Grant and Amendments.
- n. Approved Investment Justifications and Clarifications.
- o. State Feedback Forms.
- p. Organizational Chart.
- q. State of Virginia policies and procedures.

We reviewed key controls that had a direct and significant effect on VDEM's ability to ensure compliance with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls over:

- Allowable Costs
- Activities Allowed
- Cash Management
- Equipment and Property Management
- Matching Level of Effort
- Period of Availability
- Procurement, Suspension, and Debarment
- Subrecipient Monitoring
- Reporting

We assessed the risk associated with each of the compliance areas noted and tested controls and compliance with these requirements based on nonstatistical samples of VDEM and subrecipient transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsible for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by VDEM to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

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

Findings And Recommendations

1. Subrecipient Monitoring

VDEM did not have a monitoring plan in place to monitor its subrecipients in accordance with applicable requirements.

Onsite Monitoring Program

VDEM has agreements with 15 subrecipients and 4 state agencies to implement the approved PSIC Investments. VDEM administers the PSIC program on a reimbursement basis and therefore, subrecipients must submit proof of payment prior to reimbursement from VDEM. VDEM uses the reimbursement requests as a basis for drawdowns from PSIC.

According to the revised August 16, 2007, Public Safety Interoperable Communications Grant Program Guidance and Application Kit page 35, VDEM is "responsible for monitoring award activities, to include subawards, to provide reasonable assurance that the PSIC award is administered in compliance with

requirements.” It further states, “In addition, the SAA is responsible for monitoring subrecipients/subgrantee awards.”

Although the subrecipients are responsible for implementing the PSIC grant activity the State, thru VDEM, is responsible for monitoring the relevant activities to ensure compliance with applicable federal requirements and to ensure that performance goals are being achieved. (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. VDEM did not have a comprehensive risk based monitoring plan in place to monitor subrecipients receiving PSIC funds. Without a monitoring plan in place there is an increased risk of PSIC funds not being spent in accordance with the grant requirements and for program goals to not be met. VDEM has performed 1 on-site visit specific to the PSIC grant activity since the inception of the grant. There have been 2 other subrecipient visits during the grant period, however, these visits were not PSIC specific and documentation was not available to confirm what procedures were performed or what findings resulted. Because a system of monitoring did not exist VDEM cannot be sure:

- The actual payment of invoices was made by the subrecipient prior to submission of a reimbursement request to VDEM. When subrecipients submit invoices for reimbursement to VDEM they did not include valid supporting documentation to show that the invoices had been paid prior to the request for reimbursement. We noted that subrecipients have provided invoices stamped with “Paid” and ledger printouts from various accounting systems. Neither of these types of documentation provides adequate support that the invoice had actually been paid prior to submission of the reimbursement request. In this instance monitoring visits could substantiate payment by the subrecipient had occurred prior to reimbursement by VDEM.
- The performance data submitted was accurate.
- The equipment was actually purchased and was being used for the intended purpose.

According to VDEM personnel, budget constraints have forced the agency to administer all grants under VDEM's purview with reduced staffing and there is not adequate staffing capacity to actively perform on-site monitoring activities.

OMB Circular A-133 Audit Review

Part of an adequate monitoring system includes the review of audit reports received by subrecipients for any items that may impact the PSIC grant. VDEM has a policy and procedure for annually identifying, gathering, and reviewing the Office of Management and Budget (OMB) Circular A-133 audits, also known as the Single Audit reports from subrecipients who are non-state agencies. However, the policy did not address the review of the Virginia State OMB Circular A-133 audit report for findings that may impact those state agencies to which VDEM grants PSIC funds. Because the agencies were not included in the policy, the State's Single Audit reports were not reviewed for relevant findings. There were 3 state agencies under the PSIC grant that expend greater than \$500,000 annually. According to VDEM personnel, this was caused by an oversight in the current policy.

Equipment Inventory

VDEM did not ensure subrecipients maintained adequate equipment inventory records for equipment purchased with PSIC funds. We selected five subrecipient files and two equipment invoices submitted by each to trace to equipment inventory records. One subrecipient file did not contain an equipment inventory listing therefore we were unable to verify equipment purchased. For the remaining files tested were noted only invoice totals were entered on the inventory records. Therefore, individual items purchased could not be separately identified and it could not be determined if each item was properly accounted for in the inventory records.

According to Title 44 CFR part 13.32 (d)(1), property records are to include the following information about individual equipment items; a description (including serial number or other identification number), source, allowed to purchase under FEMA guidelines, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

Recommendation

We recommend VDEM establish a monitoring system to ensure subrecipient compliance with applicable federal requirements and to ensure that performance goals are being achieved. In addition, we recommend VDEM modify its policies to include a review of the State's Single Audit report and to ensure compliance with to Title 44 CFR part 13.32 (d)(1), property inventory records.

2. Reporting

VDEM did not file a BISR report in accordance with program requirements and could not be tied to supporting documentation. In addition, an SF 425 did not contain evidence that it was reviewed by management before the report was submitted.

According to the Public Safety Interoperable Communication Grant Program, Program Management Handbook, (Handbook), "Reporting provides an effective way for both the SAA and the Federal government to monitor grant recipient progress against the Investments." VDEM is required to submit the SF 425 (formerly SF 269) on report quarterly. The SF269/425 includes the amount of federal cash drawdowns, federal expenditures, unobligated balances, and the recipients' required matching share.

The Handbook further notes the BSIR is due semiannually on the 30th day of January and July. The BSIR report is designed to provide a status of programmatic progress on a semi-annual basis.

We tested four of 16 SF 269/425 reports and two of 8 BSIR reports submitted by VDEM for the period from October 1, 2007 thru September 30, 2011 and noted the following items:

- The BSIR prepared for the June 30, 2009 semi-annual period was filed on July 31, 2009, which was one day late. In addition, this BSIR could not be tied to support as the supporting worksheet is "saved over" each time the report is generated.
- We noted that the September 30, 2008, SF269/425 was not signed by a management representative from VDEM. Management best practices would require each report to be reviewed and signed by a representative of management. Without a signature on the report it cannot be assumed the information was reviewed and approved by management prior to submission.

Recommendation

We recommend VDEM ensure SF269/425 reports tie to supporting financial records and are reviewed and signed by VDEM management prior to submission to the Federal government. We further recommend VDEM submit the BSIR reports by the due dates of January 30th and July 30th, as required by the Handbook.

3. Procurement

VDEM did not have a written procurement policy or procedure related to conducting an analysis of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government. The State of Virginia purchased a mobile command bus for approximately \$260,000 as part of the PSIC grant activity. The State of Virginia policy and procedure manual, Chapter 4, Section 18 discussed the purchasing requirements for rentals/leases and installment purchases. While

this section of the policy did cover the purchasing procedures for rentals/leases and installment purchases it did not discuss the requirement to perform an analysis between purchasing and renting/leasing in order to make the most economical decision for federally funded purchases.

Title 2 of the Code of Federal Regulations (CFR) Part 215.43 states that "All recipients shall establish written procurement procedures". These procedures shall provide for, at a minimum, that paragraphs (a) (1), (2) and (3) of this section apply". Paragraph (2) of the aforementioned reference states that "Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government".

Not having a written policy or procedure to conduct this analysis may result in the State using federal funds to purchase assets that it would be more economical or practical to lease or vice versa.

Recommendation

We recommend that the State amend its procurement manual to include the requirements of 2 CFR Part 215.43 to state that an analysis will be performed, when appropriate, of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government. The procedures should go on to state the required forms and approvals that would be necessary to document this analysis.

Other Matters

Matching

VDEM did not track its fiscal matching on an on-going basis to determine that it was in compliance with the grant requirements. VDEM was required to provide a 20 percent matching share from nonfederal sources (\$4,330,495 required based on the level of expenditures as of September 30, 2011) for acquisition and deployment of communications equipment as well as management and administration costs. The match is required and/or further defined by the Digital Television Transition and Public Safety Act of 2005, Public Law 109-171, Section 3006, the PSIC Grant Program Guidance and Application Kit and the special award conditions. According to the FEMA Information Bulletin 268, dated October 19, 2007, the matching requirement can be identified and allocated at either the investment level or at the total PSIC grant level; therefore, individual investments can be under matched or over matched according to the needs of the grantee.

According to VDEM personnel, during the initial years of the grant period, conflicting direction had been received by VDEM from the NTIA regarding the reporting of match. It was the understanding of VDEM personnel that it was not necessary to require subrecipients to report match with each request for reimbursement. VDEM grant staff indicated that during 2010, NTIA provided clarification that it was necessary to report match proportionate to the amount of federal funds being requested each quarter. VDEM then changed its procedures to require subrecipients to report matching activity at the subrecipient level in order to manage nonfederal match at the state level.

VDEM's grant includes budgeted matching share of \$5,394,395.81, which is comprised of both state expenditures and subrecipient expenditures. In total, the documented match provided from nonfederal sources as of September 30, 2011, was \$5,479,132.41.

National Environmental Policy Act (NEPA)

The PSIC Program Guidance and Application Kit, August 2007, required grantees to comply with the terms of NEPA prior to expenditure of grant funds. We tested all 23 projects within VDEM's seven

approved Investment Justifications and noted 20 projects (87%) had incurred expenditures prior to NEPA approval. The first expenditures under the projects ranged from 43 days to 813 days prior to obtaining NEPA approval for the specific projects. Because VDEM obtained NEPA approval once requested by NTIA, there is no remedial action that can be taken by VDEM. Accordingly, we make no recommendation at this time.

Appendix S: Michigan Emergency Management & Homeland Security Division



Michigan Emergency Management & Homeland Security Division – PSIC Performance Audit

April 2012

Submitted to:

Mr. Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

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April 27, 2012

To: Andrew Katsaros, Assistant Inspector General for Audit
Department of Commerce, Office of the Inspector General
1401 Constitution Ave. NW Room 7085
Washington, DC 20230

Re: Michigan Emergency Management & Homeland Security Division – PSIC performance audit.

As requested by the Department of Commerce, Office of the Inspector General, we have conducted a performance audit on the Michigan Emergency Management & Homeland Security Division (MEMHSD) and its administration of the Public Safety Interoperable Communications (PSIC) grant, award number 2007-GS-H7-0027, for the period from October 1, 2007 through September 30, 2011. The report contains a summary of results followed by background, objectives, scope, methodology, findings and recommendations.

MEMHSD's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some significant misstatements or significant non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is insignificant to the performance audit objectives.

During the course of our work we noted findings relating to financial report review, cash management, equipment inventory, and evidence of payment prior to reimbursement to subrecipients. This report also contains an Other Matter regarding MEMHSD's preparation of the BSIR. These findings are detailed further in the attached report.

Crowe Horwath LLP

cc: Patty McBarnette, Audit Director
Belinda Riley, Audit Supervisor
Laura Murphy, Audit Team Leader

Summary

Our performance audit scope included Public Safety Interoperable Communications (PSIC) grant activity administered by the Michigan Emergency Management & Homeland Security Division (MEMHSD) from October 1, 2007 through September 30, 2011. In conducting this performance audit we reviewed supporting documentation in conjunction with interviews of MEMHSD staff having direct knowledge of PSIC grant activities and observations made to support our results, findings and recommendations. The results are summarized briefly below and are discussed in further detail in the body of this report.

This performance audit consisted of field work at the State of Michigan's State Administering Agency (SAA), MEMHSD. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals.

MEMHSD's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the performance audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We conducted this performance audit in accordance with performance audit standards contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. 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.

Because of inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some significant misstatements or significant non-compliance may not be detected, even though the audit is properly planned and performed in accordance with applicable standards. An audit is not designed to detect errors or fraud that is insignificant to the performance audit objectives.

Results

The following provides a summary of the findings and recommendations reported within this document.

- We noted that MEMHSD policies and procedures did not include a process requiring management review of PSIC Standard Financial Reports (SFR) prior to submission to the Federal government. We recommend MEMHSD modify the current financial reporting policy to include a second level review of the financial reports prepared for submission.
- On November 12, 2008, MEMHSD received \$3,619,895 in PSIC funds as an advance for the purchase of equipment by a subgrantee. On November 18, 2008 \$240,648 of the advance was returned to MEMHSD. However, MEMHSD did not return or adjust for the returned funds until February 13, 2009 or 88 days from the original date of receipt. SAA's are allowed 30 days in which to spend or return PSIC funds after such time the SAA's must calculate and pay potential interest owed to the Federal government. We recommend MEMHSD calculate interest due and pay the calculated amount due to Federal government for this time period.
- On a monthly basis MEMHSD reconciles the amount of PSIC funds drawdown to the amounts reimbursed to the subgrantees. We noted that the monthly reconciliations are performed at or near the end of the month following the month in which the drawdowns occurred. By not performing the

reconciliation at or near the end of the month in which the drawdowns actually occurred, the potential exists for MEMHSD to not expend funds within 30 days of the drawdown date as required by PSIC guidance. We recommend MEMHSD establish procedures to perform the monthly PSIC reconciliation at current month end.

- MEMHSD did not ensure equipment inventory records for equipment purchased by subrecipients with PSIC funds contain the required fields including federal participation share, serial number, acquisition date, location, and condition noted. We recommend that the MEMHSD ensure subrecipient equipment inventory records contain the required information in accordance with Title 44 CFR part 13.32 (d) (1).
- We selected sixteen disbursements and determined that eight did not have proof of payment included in the files. Without proof of payment MEMHSD cannot be assured reimbursements to subrecipients were for costs actually incurred. We recommend that the MEMHSD modify current procedures to require proof of payment from subrecipients for costs to be reimbursed.

Background

The Digital Television and Public Safety Act of 2005 authorized the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA), in consultation with the Department of Homeland Security (DHS), to establish and implement a \$1 billion one-time, formula based, matching grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communications. The Call Home Act of 2006 subsequently directed NTIA to make the grant awards by September 30, 2007. The Implementing Recommendations of the 9/11 Commission Act of 2007 later expanded the allowable costs under the award to include planning and coordination costs and established a strategic technology reserve fund (STR) for deployable communications equipment in the event of an emergency or disaster. Public law 111-96 extended the period for performance of any investment approved under the Program by one year, but not later than September 30, 2011, except that the Assistant Secretary of Commerce for Communications and Information may extend, on a case-by-case basis, the period of performance for any investment approved under the Program as of that date for a period of not more than 2 years, but not later than September 30, 2012. The PSIC program was extended through potentially, September 30, 2012 for those Grantees who applied for and were granted extensions for the allowable period of performance.

The PSIC program made available \$968,385,000 in grants for the period of October 1, 2007 through September 30, 2010 to the 50 States, the District of Columbia, Puerto Rico, American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands.

PSIC grant recipients were required to submit a State Communications Interoperable Plan (SCIP) and an Investment Justification (IJ). The SCIP must address locally-driven interoperable communications capabilities among local and tribal government entities and authorized nongovernmental organizations. The IJ detailed individual interoperable communications projects that achieve meaningful and measurable improvements in interoperability and fill interoperability gaps identified in the statewide plans.

The Governor of each State and Territory designated a State Administrative Agency (SAA) to apply and administer the funds under the PSIC grant program. The SAA is the sole eligible applicant for PSIC grant funds and the entity to which PSIC funds are awarded. The SAA has overall responsibility for ensuring that Investments are implemented as approved and administered in compliance with PSIC program requirements. The SAA is 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. Overall, a 20 percent

match is required from non-federal sources for acquisition, deployment and management & administrative costs of communications equipment.

MEMHSD serves as the SAA for the State of Michigan. Established by the State of Michigan and the Michigan Emergency Act of 1976, MEMHSD reports to the Governor of Michigan. MEMHSD works with state and local governments, federal agencies and voluntary organizations to foster, promote, and maintain partnerships to protect the state and homeland from all hazards.

As part of MEMHSD's responsibility as the SAA, MEMHSD administers various projects approved as part of the PSIC grant application process. The table below identifies MEMHSD's submitted and approved Investments. Each State is required to make provision for a strategic technology reserve which is also approved in the Investments noted below.

PSIC Investment Justification	PSIC Funds Awarded	Nonfederal Match (budgeted)	Total
1. Michigan Public Safety Communications System (MPSCS)	\$ 2,406,485	\$ 601,625	\$ 3,008,110
2. Establish & Enhance Multi-Disciplined Interoperability in Southwestern & Central Michigan	7,721,632	1,916,275	9,637,907
3. Enhance voice and data interoperability and provide critical communications functions in Southeast Michigan .	5,173,648	1,246,819	6,420,467
4. Enhance and promote advanced interoperability in Northern Michigan by expanding the statewide network and ensuring regional interoperable communications.	5,585,110	1,425,333	7,010,443
5. Enhance voice and data interoperability between and within state agencies, as well as between state agencies and local jurisdictions.	1,382,419	377,715	1,760,134
6. Establish a Robust Strategic Technological Reserve.	1,939,294	519,740	2,459,034
Total	\$ 24,208,588	\$ 6,087,507	\$ 30,296,095

As part of our work we analyzed MEMHSD's progress toward completing the approved investments within the remaining grant period. As of September 30, 2011, MEMHSD had \$5,760,375 in PSIC funds remaining to expend. MEMHSD stated they will complete the six approved investment by the extension date of September 30, 2012. We noted no evidence to indicate that any of the investments would not be completed by September 30, 2012. The table below shows the status of the six investments as of September 30, 2011.

PSIC Investment Justification	PSIC Funds Awarded	PSIC Funds Expended	PSIC Funds Remaining
1. Michigan Public Safety Communications System (MPSCS)	\$ 2,406,485	\$ 2,406,485	\$ -
2. Establish & Enhance Multi-Disciplined Interoperability in Southwestern & Central Michigan	7,721,632	6,275,761	1,445,871
3. Enhance voice and data interoperability and provide critical communications functions in Southeast Michigan .	5,173,648	4,587,657	585,991
4. Enhance and promote advanced interoperability in Northern Michigan by expanding the statewide network and ensuring regional interoperable communications.	5,585,110	2,520,941	3,064,169
5. Enhance voice and data interoperability between and within state agencies, as well as between state agencies and local jurisdictions.	2,032,419	1,803,740	228,679
6. Establish a Robust Strategic Technological Reserve.	1,939,294	1,503,629	435,665
Total	\$ 24,858,588	\$ 19,098,213	\$ 5,760,375

* PSIC Funds Awarded for Investment #5 have been increased by \$650,000 to accurately reflect awards to State agencies and to be consistent with the modification approved by NTIA on April 12, 2011.

Objectives, Scope and Methodology

In general, the objective of our performance audit is to determine whether grantees are administering PSIC grant funds in accordance with federal requirements. In meeting this objective we will determine whether; (1) costs incurred by grantees receiving PSIC funds from the Department of Commerce are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) grant funds are being effectively managed; (4) grantees have appropriately acquired, tested, and implemented PSIC equipment; (5) grantees are achieving the approved PSIC Investment Justification goals; and (6) grantees are on track to complete interoperable communications investments by September 30, 2011 or with an approved extension, by September 30, 2012.

This performance audit consisted of field work at the State of Michigan's SAA, MEMHSD. We conducted tests of procedures of the recipients' compliance with laws and regulations, terms and conditions of the award, federal cost principles, and progress in achieving approved project goals. We evaluated the use and administration of PSIC funds from the beginning of the program to September 30, 2011.

Based on consultation with the Department of Commerce Office of Inspector General, state agencies receiving PSIC grant funds directly from the SAA are to be treated as subrecipients for the purposes of this performance audit.

As part of designing the performance audit test to be performed, we considered the following documents as they are applicable to MEMHSD and the subrecipients.

- a. PSIC Grant Program Guidance and Application Kit, Revised August 16, 2007.
- b. Public Safety Interoperable Communications Grant Program, Program Management Handbook, October 2009.
- c. FEMA Information Bulletin No. 268, October 19, 2007.
- d. Office of Grant Operations Financial Management Guide January 2006.
- e. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.
- f. OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (codified at 15 C.F.R. Part 24).
- g. OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.
- h. *OMB Circular A-133 Compliance Supplement, CFDA 11.555, released March, 2008.*
- i. *Department of Commerce Financial Assistance Standard Terms and Conditions, May 2007.*
- j. *28 CFR Part 66, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*
- k. *28 CFR Part 70, Uniform Administrative Requirements for Grants and Agreements (Including Subawards) with Institutions of Higher Education, Hospitals, and other Non-profit Organizations.*
- l. Latest approved State Communication Interoperability Plan (SCIP)
- m. Original signed Grant and Amendments
- n. Approved Investment Justifications and Clarifications
- o. State Feedback Forms
- p. Organizational Chart
- q. State of Michigan policies and procedures

We reviewed key controls that had a direct and significant effect on MEMHSD's ability to ensure compliance with the requirements of the PSIC grant as noted from the various guidance listed above. Specifically we reviewed controls associated with:

- Allowable Costs
- Activities Allowed
- Cash Management
- Equipment and Property Management
- Matching Level of Effort
- Period of Availability
- Procurement, Suspension, and Debarment
- Subrecipient Monitoring
- Reporting

We assessed the risk associated with each of the compliance areas noted and tested controls and compliance with these requirements based on nonstatistical samples of MEMHSD and subrecipient transactions, generally focusing on the highest dollar 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 conducted interviews with individuals with direct knowledge and responsible for the administration and oversight of the PSIC grant activities. We analyzed supporting documentation provided to us by MEMHSD to corroborate both control and compliance activities. Documents we analyzed included subrecipient grant applications and reports, expenditure support, cash drawdowns, procurement policies and procedures as well as documentation of subrecipient monitoring.

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

Findings And Recommendations

1. Reporting Policies and Procedures

We noted that MEMHSD policies and procedures did not include a process requiring management review of PSIC financial reports, including the SF269/425, prior to submission to the Federal government. According to MEMHSD personnel, this was an oversight when preparing the procedures. Internal control best practices include a review of all documents by an individual not associated with the documents preparation and that the reviewer should be least one level higher than the individual responsible for preparation of the report.

Recommendation

We recommend MEMHSD modify the current financial reporting procedures to include a second level review of the financial reports prepared for submitted.

2. Cash Management

Advance of funds

On November 12, 2008, MEMHSD received \$3,619,895 in PSIC funds as an advance for the purchase of equipment by a subgrantee. On November 18, 2008, \$240,648 of the advance was returned to MEMHSD by the subgrantee. However, MEMHSD did not return or adjust for the returned funds until February 13, 2009 or 88 days from the original date of receipt.

Per PSIC Program Management Handbook, "PSIC grantees may elect to draw down funds up to 30 days prior to expenditure or disbursement; however, grantees should draw down funds as close to expenditure as possible to comply with the Cash Management Improvement Act (CMIA). CMIA requires that programs remain interest-neutral (i.e., no interest will be gained or lost by either Federal or State governments as a result of a Federal grant program). Interest is due to the Federal government if the State has held grant funds in an interest-bearing account prior to disbursement for program purposes, and has accrued interest as a result of this action."

According to MEMHSD personnel, during this time period a change in personnel occurred and the needed adjustment for these funds went unnoticed.

Reconciliation process

On a monthly basis MEMHSD reconciles the amount of PSIC funds drawdown to the amounts reimbursed to the subgrantees. Any difference noted becomes an adjustment to the PSIC drawdown following the reconciliation. Adjustments are either an increase if reimbursements were greater than amounts drawdown or decrease if reimbursements were less than amounts drawdown.

We noted that the monthly reconciliations are performed at or near the end of the month following the month the drawdowns occurred. By not performing the reconciliation at or near the end of the month in which the drawdowns actually occurred the potential exists for MEMHSD to have excess funds that have not been expended or returned within 30 days of the drawdown date as required by PSIC Program Management Handbook.

According to MEMHSD personnel the reconciliation is not performed until the state's accounting system has been fully closed and updated. They went on to say that the PSIC grant is the only grant administered by MEMHSD that has a 30 day expenditure requirement.

Recommendation

We recommend MEMHSD:

1. Calculate the potential interest due to the Federal Government for the \$240,648 of overdrawn funds and remit interest as is appropriate.
2. Establish procedures to perform the monthly PSIC reconciliation at current month end.

3. Equipment Inventory

MEMHSD does not ensure equipment inventory records for equipment purchased by subrecipients with PSIC funds contain the required informational fields. We selected nine pieces of equipment from invoices in subrecipient files to trace to inventory records. We noted four pieces did not have associated federal share information included in the record and one piece of equipment did not have a serial number, acquisition date, location, and condition noted in inventory. MEMHSD does not routinely keep equipment

inventory records from subrecipients and therefore does not review the inventory records for completeness of information.

Per Title 44 CFR part 13.32 (d) (1) the SAAs must maintain property records with information about the individual pieces of equipment including such things as a description (including serial number or other identification number), the source of funding, acquisition date and cost, and percentage of Federal participation in the cost, location and condition, and any ultimate disposition data.

Recommendation

We recommend that the MEMHSD ensure subrecipient equipment inventory records contain the required information in accordance with Title 44 CFR part 13.32 (d) (1).

4. Payment Support

MEMHSD administers the PSIC program on a reimbursement basis. We selected sixteen disbursements and determined that eight did not have proof of payment by the subrecipient included in the files. Without proof of payment MEMHSD cannot determine if reimbursements to subrecipients were for costs actually incurred. According to MEMHSD personnel they do not require subrecipients to provide proof of payment for PSIC funded activities.

Recommendation

We recommend that the MEMHSD modify current policy to require proof of payment from subrecipients for costs reimbursed.

Other Matters

BSIR Reporting

MEMHSD December 2008 Biannual Strategy Implementation Report (BSIR) was submitted with an approximate \$240,649 in over reporting of expenditures caused by an oversight of the individual responsible for preparing the report. This error was subsequently noted and corrected by MEMHSD during the June 2009 BSIR process. MEMHSD was audited by the Michigan Office of Inspector General and as part of that audit a finding was noted regarding the lack of supporting documentation for the BSIR. MEMHSD changed their procedures and we noted no further differences between the amounts reported on the BSIR and supporting documentation. Accordingly, we make no recommendation at this time.

Pass-through of Funding

The PSIC Program Guidance and Application Kit, August 2007, requires that grantees pass-through at least 80% of PSIC funding to subgrantees within 60 days after the approval of the Investment Justifications. We selected 16 subgrantee agreements and noted 15 agreements were issued greater than 60 days after the IJs were approved. The number of days beyond the 60-day limit ranged from 33 to 250 days. Because the condition that caused these instances of non-compliance only existed at the 60-day time limit in the early stage of the grant, there is no remedial action that can be taken by MEMHSD. Accordingly, we make no recommendation at this time.

Appendix T: Potential Monetary Benefits from This Assessment

	Questioned Costs	Funds Put to Better Use
Unallowable costs	\$190,317 ^a	\$0

^aFor a breakdown of unallowable costs by state, see table 2.

Appendix U: Prior PSIC Reports Issued by OIG

Annual Assessments

Third Annual Assessment of the PSIC Grant Program, OIG-12-008-A, November 2011

Second Annual Assessment of the PSIC Grant Program, OIG-11-001-A, October 2010

First Annual Assessment of the PSIC Grant Program, DEN-19003, March 2009

State Audits

Audit of Texas PSIC Grant Award No. 2007-GS-H7-0044, OIG-11-007-A, November 2010

Audit of Massachusetts PSIC Grant Award No. 2007-GS-H7-0036, OIG-11-003-A, October 2010

Audit of California PSIC Grant Award No. 2007-GS-H7-0008, OIG-11-002-A, October 2010

Audit of Florida PSIC Grant Award No. 2007-GS-H7-0019, DEN-19886, September 2010

Audit of State of New York PSIC Grant Award No. 2007-GS-H7-0039, DEN-19674, August 2010

Audit of Arkansas PSIC Grant Award No. 2007-GS-H7-0012, DEN-19430, March 2010

Audit of Pennsylvania PSIC Grant Award No. 2007-GS-H7-0028, DEN-19429, March 2010

Audit of Nevada PSIC Grant Award No. 2007-GS-H7-0015, DEN-19431, September 2009

Audit of Louisiana PSIC Grant Award No. 2007-GS-H7-0014, DEN-19427, July 2009

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