DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

GRANT MANAGEMENT

Ohio's Compliance With Disaster
Assistance Program's Requirements

Dallas Field Office
Office of Audits

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Office of Inspector General

U.S. Department of Homeland Security
Dallas Field Office, Office of Audits
3900 Karina Street, Room 224
Denton, Texas 76208

Homeland Security

August 24, 2004

MEMORANDUM FOR: Edward G. Buikema
Regional Director, FEMA Region V

Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Grant Management: Ohio's Compliance With Disaster Assistance Program's Requirements*
Audit Report Number DD-16-04

This memorandum transmits the results of the subject audit performed by Foxx & Co, an independent accounting firm under contract with the Office of Inspector General. In summary, Foxx & Company determined that Ohio's Emergency Management Agency (OEMA) could improve certain program and financial management procedures associated with the administration of disaster assistance funds.

On July 22, 2004, you responded to the draft audit report. The attached report includes your response, in its entirety, as Management Comments. Your comments are also summarized and presented after each finding in the report, along with additional comments from the auditors (Foxx & Company and the OIG). The complete report will be posted on our Intranet and Internet website.

The actions described in your response were sufficient to resolve and close Recommendation B.1 and no further action is required. The actions described will resolve Recommendations A.5.1, B.2, and B.3. However, these three recommendations will remain open until the described actions have been implemented. Your response did not adequately address the conditions cited for recommendations A.1, A.2, A.3, A.4, and A.5.2. Therefore, these five recommendations remain unresolved.

Please advise this office by November 22, 2004, of actions taken or planned to implement Recommendations A.1, A.2, A.3, A.4, and A.5.2. Any planned actions should include target completion dates.

We would like to thank your staff and the OEMA staff for the courtesies extended to the auditors during their fieldwork. Should you have any questions concerning this report, please contact Paige Hamrick, Deputy Field Office Director, or me at (940) 891-8900.

cc: Mr. Michael Moline, Audit Coordinator, FEMA Region V
Mr. Bill Moore, Foxx & Company
Ms. Martha Barksdale, Project Officer/COTR

AUDIT OF DISASTER ASSISTANCE GRANT PROGRAM MANAGEMENT

State of Ohio
Emergency Management Agency

August 13, 2004

Contract No. GS23F9832H

Foxx & Company
Certified Public Accountants

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I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the Ohio Emergency Management Agency's (OEMA's) administration and management of Federal Emergency Management Agency (FEMA) disaster assistance grant programs. The overall objective of this audit was to determine the effectiveness of the grantee's administration and management of disaster assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

This report focuses on the grantee's systems and processes for ensuring that grant funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of the audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on the grantee's financial Statements or funds claimed in the Financial Status Reports (FSRs) submitted to FEMA. The funds awarded and costs claimed for the disasters included in the audit scope are presented in Attachment A of this report. Attachment B summarizes the costs questioned as a result of the audit.

Our audit included nine major disasters declared by the President of the United States between August 1995 and August 2001. The Federal share of obligations for the nine disasters was over $109 million. Federal funds claimed through September 30, 2002, were over $102 million.

The audit concluded that the State of Ohio, for the most part, had effectively managed FEMA's disaster assistance programs in accordance with Federal requirements. However, as indicated by the findings from the audit, some weaknesses in internal controls and noncompliance situations were identified. Our report includes recommendations that, if implemented properly, would improve OEMA's management, eliminate or reduce weaknesses in internal controls, and help to correct the noncompliance situations.

The findings summarized below are discussed in detail in the body of the report.

Financial Management

OEMA's internal controls and procedures for managing FEMA funds were inadequate. We found that OEMA consistently drew down Federal funds in excess of program requirements, did not return the excess funds to FEMA in a timely manner, made undocumented transfers of Federal funds between SMARTLINK accounts, submitted incorrect Financial Status Reports (FSRs) that had to be retroactively submitted to correct previous reporting errors, and used FEMA-approved administrative allowance funds for unallowable expenses.

These conditions resulted in excess Federal funds being on hand at OEMA for long periods of time, FEMA funds not being utilized for intended purposes, and inaccurate financial information being reported to the FEMA Regional Office. These conditions also delayed program closures while the required financial reconciliations were being completed.

- **Overdraw of Program Funds**

  OEMA consistently overdrew funds from SMARTLINK primarily for its IFG and HMG grants. We found that OEMA drew down over $1.5 million in Federal funds in excess of its program requirements.

- **Return of Excess Federal Funds to FEMA**

  OEMA did not return excess Federal funds from program overdraws or funds returned from subgrantees to FEMA in a timely manner. We found that OEMA did not return excess IFG and HMG Federal funds until the programs were being closed. In addition, some excess funds from the HMG programs were used to offset PA shortfalls rather than being returned to FEMA. As a result, funds due the U.S. Treasury were outstanding for long periods of time.

- **Transfer of Funds Between Programs and Disasters**

  OEMA transferred over $416,000 of excess drawdowns from HMG Disaster No. 1164 to PA Disaster No. 1343. In addition, $18,294 of excess funds was transferred from the Disaster No. 1227 HMG program to the Disaster No. 1343 PA program. No support for these actions was provided by OEMA. As a result, funds from different programs and different disasters were being co-mingled. Co-mingling funds increases risk that funds may not be properly expended, allocated, or reported. Co-mingling can also delay completion of the fund reconciliation process that is part of each program's closeout process.

- **Incorrectly Prepared Financial Status Reports**

  OEMA prepared FSRs that did not reflect the amount expended for the HMG and PA programs. OEMA reported the drawndown amount from SMARTLINK as the Federal share of expenditures rather than the amount that had been recorded in the State accounting system. As a result, OEMA did not report, and the Regional Office's reconciliation process could not identify, differences in the amounts drawn down versus expended for the programs. This condition existed because OEMA did not have effective procedures to reconcile amounts drawn down with the accounting system.

- **Use of Administrative Allowances**

  OEMA did not expend FEMA-approved administrative allowances in accordance with Federal requirements. We found that OEMA used $41,136 of administrative allowance funds for expenses, such as a copier, a projector, and computer equipment that were not considered allowable extraordinary expenses.

Program Management

- **Closeout of IFG Programs**

  OEMA did not submit closeout packages for IFG programs under two disasters within the required timeframe. As a result, OEMA was not in compliance with Federal requirements for timely closure of IFG programs and delays occurred in the final reconciliation of program obligations with expenditures.

- **HMG Memorandum of Understanding**

  OEMA did not comply with some key provisions specified in the FEMA/OEMA Memorandum of Understanding (MOU) that designated Ohio as a managing State for HMG programs. In addition, the MOU had not been revised or updated to reflect changes in policies and procedures since it was signed in August 1998. Accordingly, the MOU was not being implemented as originally intended.

- **Payments for PA Small Projects**

  OEMA did not comply with Federal requirement that payments to subgrantees for small projects be made as soon as practicable after Federal funding was approved. OEMA did not always pay subgrantees for PA small projects in a timely manner. Our review of 40 small projects funded under Disaster Nos. 1343 and 1390 disclosed that subgrantees for 13 of those projects (or 33 percent) were not paid within 30 days.

II. Background

Federal assistance supplements the State's response efforts after large disasters and emergencies. When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA).[1] FEMA, in turn, makes grants to State agencies, local governments, certain other non-profit organizations, private citizens, and other qualifying organizations through a designated agency within the State.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters declared by the President of the United States.[2] Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The three major disaster assistance programs are:

- Individual and Family Grants
- Public Assistance Grants
- Hazard Mitigation Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the State (25 percent).

Public Assistance (PA) Grants are awarded to State agencies, local governments, private non-profit organizations, Indian tribes or authorized tribal organizations, and Alaska native village or organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. At least 75 percent of approved individual project costs are paid by FEMA and the remainder of the cost is paid by non-Federal sources.

Hazard Mitigation Grants (HMG) are awarded to States to help reduce the potential for future disaster damages. The State, as the grantee, is responsible for setting priorities for the selection of specific projects, but each project must be approved by FEMA. HMG grants can be awarded to State agencies, local governments, private non-profit organizations or institutions, Indian tribes or authorized tribal organizations, and Alaskan native villages or organizations. The

[1] Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

[2] On October 30, 2000, the President signed the Disaster Mitigation Act of 2000 (Public Law 106-390). This Act was not fully implemented by FEMA at the time of the audit.

FEMA share of project cost shall not exceed 75 percent. The amount of Federal assistance under the HMG program is limited pursuant to Section 404 of the Stafford Act to 15 percent of the estimated aggregate amount of grants to be made (less any associated administrative costs) for a declared disaster.

Ohio Emergency Management Agency

The Ohio Emergency Management Agency (OEMA) was the central point of coordination within Ohio for response and recovery to disasters. In a tiered effort, the agency worked with Federal, State, and local government agencies with a mission to coordinate an emergency management system of mitigation, preparedness, response, and recovery to protect the lives, environment, and property of the people of Ohio. When not in a response or recovery mode, OEMA's primary focus was to ensure that the State was prepared to respond to an emergency or disaster. Also, OEMA had the responsibility to lead mitigation efforts against the effects of emergencies and disasters.

OEMA was an organizational component of the Ohio Department of Public Safety. The agency's authorized staffing level included 91 full-time equivalent and five part-time employees at the time of our audit.

OEMA personnel managed the IFG, PA and HMG programs. An Individual Assistance Officer managed the IFG program, a Public Assistance Officer managed the PA program, and a Hazard Mitigation Officer managed the HMG program. Other agency employees assisted the three program officers. Financial responsibility for the IFG, PA, and HMG programs resided with OEMA's Fiscal Branch.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine if the State of Ohio:

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- Properly accounted for and expended FEMA disaster assistance funds, and
- Operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included the nine major disasters listed below. These disasters were declared between August 1995 and August 2001. As agreed with the Office of Inspector General (OIG), we concentrated on four of the most current disasters for testing the systems and processes used by the grantee. We expanded our tests to include other disasters when justified by the issues identified.

Declaration			Disaster Programs		
Number	**Date**	**Disaster**	**IFG**	**PA**	**HMG**
1065	08/25/95	Severe Storms and Flooding	Closed	N/A	Closed
1097	01/26/96	Severe Storms and Flooding	Closed	Closed	Closed
1122	06/24/96	Flooding	N/A	Closed	Closed
1164	03/04/97	Severe Storms and Flooding	Closed	Closed	Open
1227	06/30/98	Severe Storms	Closed	Open	Open
1321*	**03/07/00**	**Severe Storms and Flooding**	**Closed**	**N/A**	**Open**
1339*	**08/21/00**	**Severe Storms and Flooding**	**Closed**	**N/A**	**Open**
1343*	**09/26/00**	**Severe Storms and Tornado**	**Closed**	**Open**	**Open**
1390*	**08/27/01**	**Severe Storms and Flooding**	**N/A**	**Open**	**Open**

*Indicates that this disaster was one of the four originally tested during the audit.

The cut-off date for the audit was September 30, 2002. However, we also reviewed current activities related to conditions found during our audit to determine whether changes in OEMA's policies or procedures had occurred relative to the conditions noted during the audit.

Our audit fieldwork was initiated at the FEMA Region V Office in Chicago, Illinois. Region V is the Federal Regional Office that implements FEMA's disaster policies and programs in the State of Ohio. Our **methodology** included interviews with FEMA Headquarters, Regional, and State officials to obtain an understanding of internal control systems and to identify current issues or concerns relative to OEMA's management of disaster programs. Our audit considered FEMA and State policies and procedures, as well as the applicable Federal requirements. Documentation received from OEMA, FEMA Headquarters, the Regional Office, and the Disaster Finance Center in Berryville, Virginia, was reviewed.

We selected and tested individual recipient files and representative projects to help ensure that disaster assistance programs had been conducted in compliance with applicable regulations. We also reviewed State procurement and property management procedures for compliance with Federal regulations. We evaluated current systems and procedures to identify systemic causes of internal control system weaknesses or noncompliance situations. Our review included all aspects of **program management** including application, approval, monitoring, and reporting.

We reviewed prior audits conducted within the timeframe of the disasters included in our scope, including OMB Circular A-133 audit reports and the project-by-project subgrantee audit reports prepared by the OIG and provided to us. Our audit scope did not include interviews with subgrantees or visits to their project sites. We also did not evaluate the technical aspects of the disaster related repairs that were beyond the scope of the audit.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified. The report does not extend to any financial statements of OEMA or the State of Ohio and should not be used for that purpose.

IV. Findings and Recommendations

The findings and recommendations focus on Ohio's systems and procedures for ensuring that grant funds were managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned the grantee's financial and program management activities for the PA, IFG, and HMG programs. These findings are summarized below.

The audit concluded that the State of Ohio, for the most part, had effectively managed FEMA's disaster assistance programs in accordance with Federal requirements. However, as indicated by the findings from the audit, some weaknesses in internal controls and noncompliance situations were identified. Our report includes recommendations that, if implemented properly, would improve OEMA's management, eliminate or reduce weaknesses in internal controls, and help to correct the noncompliance situations.

A. Financial Management

OEMA's internal controls and procedures for managing FEMA funds were inadequate. We found that OEMA:

- Consistently drew down Federal funds in excess of program requirements,
- Did not return excess funds to FEMA in a timely manner,
- Made undocumented transfers of Federal funds between SMARTLINK accounts,
- Submitted incorrect Financial Status Reports (FSRs) that had to be retroactively submitted to correct previous reporting errors, and
- Used FEMA-approved administrative allowance funds for unallowable expenses.

These conditions resulted in excess Federal funds being on hand at OEMA for long periods of time, FEMA funds not being utilized for intended purposes, and inaccurate financial information being reported to the FEMA Regional Office. These conditions also delayed program closures while the required financial reconciliations were being completed.

1. Overdraw of program funds

OEMA consistently overdrew funds from SMARTLINK primarily for its IFG and HMG grants. We found that OEMA drew down over $1.5 million in Federal funds in excess of its program requirements.

According to 44 CFR 13.21(c), *Payment/Advances,* grantees are to be paid in advance, provided that the grantees demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds from SMARTLINK and the grantee's disbursement of the funds for program expenditures.

a. IFG Funds

OEMA drew down over $773,000 of IFG funds in excess of its program needs for six of the disasters included in the scope of our audit. The following overdrawn amounts were discovered by OEMA during the program closeout process.

Disaster	Amount Overdrawn
1065	$48,344
1097	$76,127
1164	$398,912
1227	$61,733
1339	$17,035
1343	$171,063
Totals:	$773,214

OEMA officials acknowledged that withdraws from SMARTLINK soon after the funds were obligated, rather than when the funds were needed for payments to IFG recipients, contributed to the overdraw of IFG funds.

b. HMG Funds

OEMA drew down over $793,000 of HMG funds in excess of its program needs for two disasters included in the scope of our audit. The following overdrawn amounts were discovered by OEMA during the program closeout process.

Disaster	Amount Overdrawn
1164	$774,824
1227	$18,294
Totals:	$793,118

OEMA could not provide details of the costs supporting the drawdowns from SMARTLINK that made up the totals shown above.

Conclusion and Recommendations

It is clear from the above examples that OEMA consistently withdrew funds from SMARTLINK in advance of program requirements and in excess of immediate cash needs. This situation resulted because OEMA did not have effective internal controls over cash management to prevent premature or excessive withdraws of Federal funds. As a result, large amounts of Federal monies were on hand at OEMA for long periods of time. OEMA was not in compliance with Federal requirements concerning drawdowns and disbursements of FEMA funds for program expenditures.

Therefore, we recommend that the Regional Director, Region V, require OEMA to establish effective internal controls over SMARTLINK withdraws, including written procedures, to ensure that FEMA program funds are only withdrawn for actual and immediate program expenditures as required by Federal regulations.

Management Response

FEMA, Region V, concurred with the finding and recommendation concerning HMG and IFG program fund overdraws. The Regional Director said that for the next 30 days the Regional Office would collaborate with the State to resolve the deficiencies cited.

For the IFG program, the Regional Director noted that the IFG program had been replaced by the Other Needs Assistance program and no funds would be transmitted to the State through SMARTLINK. The State selected the FEMA option in their State administrative plan and the State will be billed by FEMA for their 25 percent share of the program. According to the Regional Director, the Region V staff will work with OEMA in the event their selection of the FEMA option changes. The Regional Director considered the finding resolved and closed.

Auditor's Additional Comment

This recommendation remains unresolved because the Region did not provide an action plan to establish effective controls over SMARTLINK withdraws to include written procedures that ensure FEMA program funds are only withdrawn for actual and immediate program expenditures.

2. Return of Excess Federal Funds to FEMA

OEMA did not return excess Federal funds from program overdraws, or funds returned from subgrantees, to FEMA in a timely manner. We found that OEMA did not return excess IFG and HMG Federal funds until the programs were being closed. In addition, some excess funds from the HMG programs were used to offset PA shortfalls rather than being returned to FEMA. As a result, funds due the U.S. Treasury were outstanding for long periods of time.

According to 44 CFR 206.131(f)(3), *State initiation of the IFG program,* and 44 CFR 13.50(d)(2), *Closeout/Cash adjustments*, grantees are to return funds advanced immediately upon discovery that the withdrawn funds exceed actual requirements. Also, FEMA's IFG Handbook States that if a State has drawn down funds from SMARTLINK that exceed program needs, the State must return the excess funds to FEMA before preparing a final FSR to close the IFG program.

a. Various IFG Programs

We found that OEMA did not return over $773,000 in overdrawn IFG funds until an average of 7 months after the date of the final drawdown from SMARTLINK. Although OEMA discovered the excess funds during closeout of IFG programs, it did not return the excess funds until an average of 44 days after the final FSRs were submitted.

b. Disaster No. 1164 HMG program

During the March 2003 closeout process for the HMG program under Disaster No. 1164, OEMA identified $774,824 of overdrawn Federal funds. Disaster No. 1164 was declared in March 1997 and the last drawdown from SMARTLINK was made in July 2001.

On March 21, 2003, OEMA notified FEMA Region V by letter of the overdrawn amount and enclosed a refund check for $358,193. The letter said that the check represented funds returned from projects. However, OEMA officials could not identify the projects or provide documentation to support that refunds were received from subgrantees. The March 21, 2003 letter stated that the remaining $416,631 could "be de-obligated on SMARTLINK." However, we found that on March 7, 2003, OEMA made an adjusting entry in SMARTLINK transferring $416,631 ($774,824 minus $358,193) from Disaster No. 1164's HMG program to the PA program under Disaster No. 1343.

In addition, the identified $774,825 overdrawn for the HMG program resulted in delaying the program's closure. A revised FSR for the quarter ending September 30, 2002, was prepared in March 2003 and submitted to the Regional Office.

Conclusion and Recommendations

OEMA did not have effective procedures to ensure that funds advanced in excess of actual requirements were immediately returned to FEMA. Accordingly, we recommend that the Regional Director, Region V, require OEMA to establish procedures to ensure that funds drawn down in excess of program requirements are returned to FEMA in accordance with Federal regulations.

Management Response

FEMA, Region V, concurred with the finding and recommendation concerning HMG and IFG program fund overdraws. The Regional Director said that for the next 30 days the Regional Office would collaborate with the State to resolve the deficiencies cited.

For the IFG program, the Regional Director noted that the IFG program had been replaced by the Other Needs Assistance program and no funds would be transmitted to the State through SMARTLINK. The State has selected the FEMA option in their State administrative plan and the State will be billed by FEMA for their 25 percent share of the program. According to the Regional Director, the Region V staff will work with OEMA in the event their selection of the FEMA option changes. The Regional Director considered the finding resolved and closed.

Auditor's Additional Comment

This recommendation remains unresolved because the Region did not provide an action plan for OEMA to establish procedures to ensure that funds drawn down in excess of program requirements are returned to FEMA in accordance with Federal regulations.

3. Transfer of Funds Between Programs and Disasters

OEMA transferred over $416,000 of excess drawdowns from HMG Disaster No. 1164 to PA Disaster No. 1343. In addition, over $18,000 of excess funds was transferred from Disaster No. 1227's HMG program to the Disaster No. 1343 PA program. No support for these actions was provided by OEMA. As a result, funds from different programs and different disasters were being co-mingled. Co-mingling funds increases risk that funds may not be properly expended, allocated, or reported. Co-mingling can also delay completion of the fund reconciliation process that is part of each program's closeout process.

Office of Management and Budget (OMB) Circular A-87, Section C.3.c., *Allocable Costs,* states that costs allocable to a particular award may not be charged to other Federal awards.

We noted that OEMA made transfers from the HMG programs under Disaster Nos. 1164 and 1227 to the PA program under Disaster No. 1343. We found that OEMA transferred:

- $416,631 from the Disaster No. 1164 HMG program to the Disaster No. 1343 PA program to pay for various PA projects and expenses. OEMA officials said that, in conjunction with the discovery of an overdraw for Disaster No. 1164's HMG program, a review of expenditures recorded in the State accounting system was conducted to compare drawdowns from SMARTLINK with actual expenses for all open disaster programs. Expenses incurred under the PA program for Disaster No. 1343 exceeded the amounts drawn down from SMARTLINK through September 30, 2002. Documentation supporting the results of OEMA's review of open program expenditures was not provided for our review.

- $18,294 from Disaster No. 1227's HMG program to the Disaster No. 1343 PA program. OEMA officials said that the HMG program had been overdrawn and the excess amount was transferred to the PA program similar to what had been done with the HMG Disaster No. 1164 overdraw. The officials said the amount overdrawn of $18,294 was discovered during the process of closing out the Disaster No. 1227 HMG program and OEMA's review of open program expenditures.

OEMA did not notify the FEMA Regional Office that excess drawdowns had occurred or that funds from the HMG programs were being transferred to the PA program.

***Conclusion and Recommendations*:**

OEMA's lack of documentation to support transfers of Federal funds between the HMG and PA programs for Disaster Nos. 1164, 1227, and 1343 indicates a failure of OEMA's financial management system to adequately account for FEMA funds. OEMA officials said that transfers of excess drawdowns of Federal funds were the result of mistakes made within the fiscal office during the drawdown process. The officials attributed OEMA's fiscal problems to inadequately trained staff, a lack of attention to detail, and weak internal controls. Therefore, we recommend that the Regional Director, Region V, require OEMA to:

1. Establish procedures to ensure that Federal funds are expended on the appropriate disaster program as approved by FEMA and

2. Provide appropriate training and supervision to fiscal office staff members to ensure that OEMA's accounting for HMG and PA program funds complies with Federal requirements.

Management Response

FEMA, Region V, concurred with the finding and recommendation concerning the transfer of funds between programs and disasters. The Regional Director said that for the next 30 days the Regional Office would collaborate with the State to resolve deficiencies cited.

Auditor's Additional Comment

This recommendation remains unresolved because the Region did not provide an action plan for OEMA to establish procedures to ensure that Federal funds are expended on the appropriate disaster program as approved by FEMA and provide appropriate training and supervision to fiscal office staff members to ensure that OEMA's accounting for HMG and PA program funds complies with Federal requirements.

4. Incorrectly Prepared Financial Status Reports

OEMA prepared Financial Status Reports (FSRs) that did not reflect the correct amounts expended for HMG and PA programs. OEMA reported the drawndown amount from SMARTLINK as the Federal share of expenditures rather than the amount that was recorded in the State accounting system. As a result, OEMA did not report, and the Regional Office's reconciliation process could not identify, differences in the amounts drawn down versus expended for the programs. This condition existed because OEMA did not have effective procedures to reconcile amounts drawn down with the accounting system.

According to 44 CFR 13.20(b)(4), *Standards for financial management systems/Budget control,* actual expenditures should be compared with budgeted amounts (FEMA approvals) for each grant or subgrant. Section 13.20(b)(1), *Financial Reporting,* also states that financial reports should be accurate, current, and complete in the disclosure of Federally assisted activities. The requirements are, among other things, that accounting records and supporting documentation be maintained.

FEMA's *Guide to Managing Disaster Grants*, issued in August 2000, states that the information included in the required quarterly FSRs should come from the grantee's accounting system. The FEMA guide also states that the FSR is a critical component of grant management because it (1) enables FEMA to carry out its financial stewardship duties, (2) serves as a check to determine if grantees are expending Federal funds on a timely basis, and (3) is the official source for cost-share information.

The FSRs submitted by OEMA did not always agree with the State accounting system. Our review of the State accounting system disclosed that the total expenditures for Disaster No. 1343's PA program, through September 30, 2002, exceeded what was drawn down from SMARTLINK by $850,270. According to the accounting system, the Federal share of expenditures at September 30, 2002, was $3,261,892. However, SMARTLINK showed that the State's drawdown of Federal funds was $2,411,172 at September 30, 2002. We also noted that the grantee reported on the FSRs the amount drawn down from SMARTLINK ($2,411,172) as the Federal share of expenditures through September 30, 2002, rather than the amount recorded in the State accounting system.

We noted also that, as a result of the March 7, 2003, transfer of $416,631 from the HMG program and other transactions within the Disaster No. 1343 SMARTLINK account, the $850,720 ($3,261,892 - $2,411,172) underdraw through September 30, 2002, was recovered by OEMA. However, our comparison of the expenditures recorded in the State accounting system with the PA program's SMARTLINK account and OEMA's quarterly FSR for March 31, 2003, revealed that the drawdowns exceeded the recorded expenditures by $64,726.

On September 19, 2003, OEMA submitted the Disaster No. 1343 PA program's FSR for the quarter ending June 30, 2003. The FSR reported the amount **drawn down** from SMARTLINK, $3,340,810, as the Federal share of the program's expenditures. This was also the amount that had been **authorized** for the program. According to the State accounting system, the Federal share of expenditures for the program was $3,331,815, which was $8,995 less than the Federal funds drawn down from SMARTLINK. As a result, the $8,995 overdraw represents a questioned cost.

Because OEMA reported the amounts drawn down from SMARTLINK as the expenditures for the program on the original September 30, 2002 FSR, the Regional Office's reconciliation process did not identify that excess drawdowns occurred in the programs.

Conclusions and Recommendations

OEMA did not always reconcile SMARTLINK drawdowns with the expenditures recorded in the State accounting records during the preparation of FSRs. As a result, the FSRs submitted to FEMA Region V contained erroneous expenditures.

OEMA contended that it performed quarterly reconciliations of FEMA program funds withdrawn from SMARTLINK to the actual disbursements as recorded in the State accounting system. However, there was no documentation to support that such reconciliations had been done. We believe that properly performed quarterly reconciliations during the management of the programs would have resulted in OEMA accurately reporting program expenditures in relation to SMARTLINK drawdowns. The reconciliations would also have assisted OEMA to identify overdrawn funds and to refund excess funds to FEMA. (See Finding Nos. A.1. and A.2. in this report.)

Accordingly, we recommend that the Regional Director, FEMA Region V, require OEMA to:

1. Reimburse the $8,995 overdrawn from SMARTLINK and

2. Establish procedures to:

   a. Report only actual expenditures that agree with the State accounting system on the FSRs and

   b. Reconcile expenditures reported on the FSRs with the expenditures recorded in the State accounting system by program and disaster.

Management Response

FEMA, Region V, concurred with the finding and recommendation concerning incorrectly prepared FSRs. The Regional Director said that for the next 30 days the Regional Office would collaborate with the State to resolve the deficiencies cited.

Auditor's Additional Comment

This recommendation remains unresolved because the Region did not provide an action plan for OEMA to (1) reimburse the $8,995 overdrawn from SMARTLINK and (2) establish procedures to (a) report only actual expenditures that agree with the State accounting system on the FSRs and (b) reconcile expenditures reported on the FSRs with the expenditures recorded in the State accounting system by program and disaster.

5. Use of Administrative Allowances

OEMA did not expend FEMA approved administrative allowances in accordance with Federal requirements. We found that OEMA used $41,136 of administrative allowance funds for expenses, such as a copier, a projector, and computer equipment that were not considered allowable extraordinary expenses.

Under PA and HMG programs, OEMA may receive funds from FEMA for costs associated with the administration of disaster assistance programs. Federal Regulations 44 CFR 206.228(a)(2), *Statutory Administrative Costs* (PA), and 206.439(b)(1), *Statutory administrative costs* (HMG), restrict the use of the administrative allowance to extraordinary costs. Extraordinary costs include costs incurred by State employees for travel, per diem, and overtime related to the preparation of applications for assistance and quarterly reports, the conduct of final audits and the completion of related field inspections.

We tested OEMA's use of FEMA-awarded administrative allowances for four of the most recent disasters. Our selections included two PA programs (i.e., Disaster Nos. 1343 and 1390) and 2 HMG programs (Disaster Nos. 1321 and 1339). The total awarded as administrative allowances for these programs as of September 30, 2002, was $80,422. Of this amount, we tested transactions totaling $52,951 (66 percent).

Although expenses paid by OEMA were accounted for and supported by appropriate documentation, OEMA used $41,136 (78 percent) of the $52,952 tested for expenses that were not allowable extraordinary costs. For the PA program under Disaster Nos. 1343, OEMA used $18,500 of its administrative allowance to purchase projectors and projector equipment as well as $20,111 for a copier. For the PA program under Disaster No. 1390, OEMA used $1,725 of its administrative allowance to purchase computer equipment and $400 for a breakfast/lunch catering charge. For the HMG program under Disaster No. 1339, OEMA used approximately $400 of its administrative allowance to purchase a computer printer. The transactions tested for the HMG program under Disaster No. 1321 showed that administrative allowance funds awarded as of September 30, 2002, were used for allowable costs.

OEMA officials said that their use of administrative allowance funds was based upon advice received from FEMA Region V. In this regard, FEMA Region V officials said that the Region had historically allowed the States to use administrative allowance funds for the purchase of computers, etc.

However, FEMA Headquarters officials provided documentation to support that the use of grantee administrative allowance funds was restricted to overtime, per diem, and travel costs of State employees. The Headquarters officials added that extraordinary costs do not include items such as computers.

Conclusions and Recommendations

OEMA used administrative allowance funds to purchase items that were not allowable extraordinary costs. As a result, the $41,136 overdrawn from SMARTLINK was questioned and should be returned to FEMA.

Accordingly, we recommend that the Regional Director, Region V:

1. Disallow the total amount of $41,136 used by OEMA for unallowable administrative costs and

2. Require OEMA to develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for extraordinary costs as defined by Federal regulations.

Management's Response

While the expenses were eligible disaster related expenses, the State should have included the expenses within the State management cost budget and not charged them as administrative expenses. The Region concurred with this finding and will work with the State Public Assistance staff to correct the error. According to the Regional Director, it is not possible to directly de-obligate funds from PA State administrative costs as these are a function of, and determined by a sliding scale applied to each eligible PA project obligation. The State may change their accounts to withdraw the questioned costs from State administrative costs and apply these charges to State management costs. The Director said that the Region V staff would work with OEMA to devise a method to properly allocate these costs within the next 30 days.

Auditor's Additional Comment

The actions being taken by the Regional Office appear adequate to resolve Recommendation A.5.1. However, Recommendation A.5.1 cannot be closed until the $41,136 is returned to FEMA. Recommendation A.5.2 remains unresolved because the Region did not provide an action plan for OEMA to ensure that administrative allowance funds are used only for extraordinary costs as defined by Federal regulations.

With respect to Region V's comment that administrative allowance funds cannot be de-obligated, we noted that a procedure does exist for the required de-obligation to be made. According to FEMA Headquarters, a Category Z Project Worksheet can be prepared to de-obligate the amount that should be returned to FEMA.

B. Program Management

1. Closeout of IFG Programs

OEMA did not submit closeout packages for the IFG programs under two disasters within the required timeframe. As a result, OEMA was not in compliance with Federal requirements for timely closure of IFG programs. The untimely closures delayed the final reconciliation of program obligations with expenditures.

According to Federal Regulation, 44 CFR 206.131(j)(ii), *Time limitations,* all IFG application processing and administrative work must be completed within 270 days, or 9 months, from the date of the declaration. However, the Regional Director may approve a grantee's request for any time limitation not to exceed 90 days. FEMA Headquarters may approve any request for a further extension of the time limitations.

OEMA did not submit the required IFG closeout package for Disaster No. 1343 until October 2001, or over 3 months after the June 2001 deadline date. The Regional Office provided documentation supporting that an extension had been granted for the closure of the IFG program under Disaster No. 1339. However, OEMA did not submit the required closeout package for the Disaster No. 1339 program until October 2001, approximately 2 months after the extended deadline date.

Conclusions and Recommendations

Federal Regulations clearly establish time limitations leading to the closure of IFG programs. These same regulations provide for extensions of the time limitation by the Regional Director and/or Associate Director when and if warranted. Therefore, it is essential that the State establish appropriate procedures to ensure that State closeout packages are submitted to FEMA within the agreed upon time periods.

As a result of the implementation of the Disaster Mitigation Act of 2000 and from discussions with OEMA officials, we recognize that FEMA is currently administering the State's Individuals and Households Program (IHP), previously known as the IFG program. Therefore, OEMA is no longer responsible for the closeout of IFG programs. However, OEMA is pursuing the available option to take over the administration of the IHP from FEMA in the near future.

Accordingly, if OEMA meets the requirements to administer the IHP and the conversion is accomplished, we recommend that the Regional Director, Region V, require OEMA to establish procedures to ensure that OEMA prepares and submits the required program closeout packages within approved time periods.

Management's Response

The Regional Director commented that the timely closure of IFG programs was no longer an issue because of the implementation of the Individuals and Households Program (IHP) changed the program from IFG to Other Needs Assistance (ONA). The Director also said the Region V staff would work with OEMA in the event OEMA's selection of the FEMA option changes. The Region, based on this response, considers this finding resolved and closed.

Auditor's Additional Comment

Because the State is no longer responsible for the closeout of the individual assistance program and the region will work with OEMA if the selection of the FEMA option changes, we consider the finding to be resolved and closed.

2. HMG Memorandum of Understanding

OEMA did not comply with some key provisions specified in the FEMA/OEMA Memorandum of Understanding (MOU) that designated Ohio as a managing State for HMG programs. In addition, the MOU had not been revised or updated to reflect changes in policies and procedures since it was signed in August 1998. Accordingly, the MOU was not being implemented as originally intended.

The purpose of the MOU was to build a FEMA/State collaborative partnership for implementation of HMG programs in Ohio. OEMA agreed to adhere to the provisions outlined in the MOU. The MOU provisions included that the HMG programs would be closed out within 4 years of disaster declarations and that quarterly program evaluations of the MOU would be conducted.

OEMA did not close the three programs[3] included in the MOU within 4 years of the dates the disasters were declared. Although the three programs should all have been closed at the time of our audit, only the Disaster No. 1122 program had been closed. The Disaster No. 1122 program was closed on June 6, 2002, about 6 years after the disaster declaration date.

According to FEMA and OEMA officials, OEMA had co-mingled HMG funds from other disasters to fund HMG projects under Disaster Nos. 1122 and 1164. The co-mingling of HMG funds delayed the closeout of projects, prevented proper financial reconciliations of program funds, and delayed the closure of the HMG programs for these two disasters.[4]

Further, OEMA did not conduct required quarterly program evaluations. The evaluations were intended to determine the effectiveness of the HMG programs and the managing State arrangement. As of September 30, 2002, only one quarterly evaluation had been completed. In addition, one "annual" evaluation was completed on January 23, 2002. OEMA did not perform any other evaluations of the MOU.

We also noted that, as of September 30, 2002, the MOU had not been revised to reflect changes in policies and procedures since the agreement was signed in August 1998. For example, the MOU required that a HMG program be closed out within 4 years of the disaster declaration date. However, FEMA's June 18, 2002 guidance on HMG program closeouts required that "all funds to subgrantees would be disbursed and all activities completed, not later than 3 years from the date of the grant award to the State. This deadline can be extended if necessary, but only in unusual circumstances."

Furthermore, the MOU only applied to the administration of HMG programs under Disaster Nos. 1122, 1164, and 1227. However, the FEMA Regional Office and OEMA have continued to use the MOU for HMG programs under Disaster Nos. 1321, 1339, 1343, and 1390. Region V and OEMA officials agreed that the MOU needed to be revised to reflect changes in policy and procedures. Regional officials said that the Region had not been concerned with ensuring compliance with the key provisions of the MOU because OEMA had performed its responsibilities well as a managing State.

[3] The MOU Stated that the requirements for Ohio as a managing State would cover HMG programs under Disaster Nos. 1122, 1164, and 1227.

[4] HMG program closures were also affected by the transfers of funds between HMG and PA – See Finding A.1. of this report.

Conclusions and Recommendations

Region V and OEMA officials were pleased with the Ohio's performance as a managing State. However, the MOU was nearly 5 years old and there was clearly a need for the agreement to be updated to reflect current policies and procedures. Provisions were also needed to extend the agreement to include future disasters, if this is the desire of FEMA and the State.

In addition, although periodic evaluations of the State's performance as a managing State are important, quarterly evaluations might not be practical or cost beneficial. Because the State has done well as a managing State, annual evaluations might be sufficient. Accordingly, we recommend that the Regional Director, Region V, ensure that the FEMA/OEMA managing State MOU is reviewed and updated, as appropriate, to:

1. Reflect current Federal requirements, policies, and procedures,

2. Include future HMG programs, and

3. Establish an agreed upon timeline for periodic evaluations of Ohio's performance as a managing State.

Management's Response

FEMA V agreed with the aforementioned findings and recommendations. The State of Ohio is scheduled to submit an Enhanced Mitigation Plan for approval by November 1, 2004. FEMA's approval of the plan will re-establish Ohio as a managing State. Ohio's Enhanced Mitigation Plan will reflect current Federal policies and procedures. In addition, the plan will be updated when new HMG programs are established. Once FEMA V approves the plan, a copy will be forwarded to OIG and an agreed upon timeline for evaluations of Ohio's performance as a managing State will be also be given.

Auditor's Additional Comment

The actions being taken by the Regional Office appear adequate to resolve the condition cited. However, the finding cannot be closed until the evaluation of Ohio as a managing State is completed and the Enhanced Mitigation Plan is submitted and approved.

3. Payments for PA Small Projects

OEMA did not always pay subgrantees for PA small projects in a timely manner. Our review of 40 small projects funded under Disaster Nos. 1343 and 1390 disclosed that subgrantees for 13 of those projects (or 33 percent) were not paid within 30 days.

Title 44 CFR 206.205(a), *Payment of claims/Small Projects,* requires that the final payment of the Federal share for small projects be made to the grantee upon approval of the Project

Worksheet (PW). After approval, the payment of the Federal share to the subgrantee should be made as soon as practicable. For the purpose of determining what is practicable, we considered the provision of the Federal Prompt Payment Act and the standards set forth in 5 CFR 1315.4(g)(1), *Prompt payment standards.* We concluded that payment within 30 days of project approval would meet the timeliness requirement. Regional Office and OEMA officials agreed that this was reasonable.

We reviewed 40 small projects for compliance with the timely payments requirements. Nine of the projects were from Disaster No. 1343 and 31 were from Disaster No. 1390. We noted that the subgrantees for 13 of the projects (or 33 percent) were not paid within 30 days.

- For eight of the nine (or 89 percent) small projects reviewed under Disaster No. 1343, it took an average of 43 days for payments to be made to the subgrantees. The range of payment time for these eight small projects was from 41 to 43 days following project approval (or receipt of all required forms by OEMA). On average, 11 days were required for OEMA's Public Assistance staff to request payment from the OEMA Fiscal Office, another 18 days for the Fiscal Office staff to request the Ohio State Treasurer to prepare a warrant (check), and an additional 14 days for the warrant to be issued.

- For five of the 31 (or 16 percent) small projects reviewed under Disaster No. 1390, it took an average of 60 days for payments to be made to the subgrantees. The range of payment time for these five small projects was from 33 to 67 days following project approval (or receipt of all required forms by OEMA). On average, 44 days were required for OEMA's Public Assistance staff to request payment from the OEMA Fiscal Office, another eight days for the Fiscal Office staff to request the Ohio State Treasurer to prepare a warrant (check), and an additional 8 days for the State Treasurer to issue the warrant.

Although much of the delay in payments occurred within the State of Ohio, OEMA officials said that some of the delay was caused by FEMA not mailing hard copies of the PWs and supporting documents to OEMA in a timely manner. The OEMA officials said that OEMA's procedures were to not make payments until copies of the approved PWs were received from FEMA. In this regard, we noted that OEMA's access to FEMA's electronic National Emergency Management Information System (NEMIS) would provide timely project approval information that could be relied upon by the State to proceed with payments to subgrantees for small projects. Hard copies would not be needed if the payments to the subgrantees were made based upon approvals reported in NEMIS.

Conclusions and Recommendations

It is important for payments to subgrantees for small projects to be made in a timely manner. OEMA needs to improve its payment process for small projects to ensure that payments are made within 30 days. For example, if the State initiated the payment process for small projects based upon NEMIS approval information, it could improve the timeliness of the payments.

Accordingly, we recommend that the Regional Director, Region V, require OEMA to establish procedures to ensure that timely payments are made to subgrantees for PA small projects.

Management's Response

The audit report indicated two contributions to delayed payment for small projects. First, procedures in OEMA between PA staff, OEMA Fiscal Office and the State Treasurer's office may contribute to delay. Second, FEMA's procedures, particularly in the post-DFO phase of operations, involve the approval of the PW project package, assembling copies of documentation and sending this to OEMA. It is in this phase where the possibility of delay has occurred in the past. The process in the post-DFO phase has improved substantially since then.

The Region concurred with the suggestion that payment within 30 days of project approval is recommended. However, the Regional Director believed that some circumstances would extend this period somewhat. The Director said the Regional Office would review small project approval and payment procedures with the State for both FEMA and OEMA over the next 30 days but did not conclude that current procedures need to be revised at this time. The Director also expected that some improvement in processing could be accomplished but noted that significant improvement in payment time has already been established since 1390-DR-OH.

Auditor's Additional Comment

The actions described by the Regional Office appear adequate to resolve the condition cited. However, the finding cannot be closed until the review of the small project approval and payment procedures is completed and appropriate changes are made to consistently improve the timeliness of payments for small projects.

ATTACHMENTS

Attachment A-1

Sources and Applications of Funds
As of September 30, 2002

Disaster Nos. 1065 thru 1390

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$72,750,436	$13,979,474	$22,295,031	**$109,024,941**
Local Match/State Share	$26,068,630	$4,544,272	$3,268,762	**$33,881,664**
Total Award Amounts	**$98,819,066**	**$18,523,746**	**$25,563,793**	**$142,906,605**
Sources of Funds				
Federal Share (SMARTLINK)	$69,015,667	$13,979,474	$19,958,029	**$102,953,170**
Local Match/State Share	$24,931,526	$4,544,272	$894,019	**$30,369,817**
	$93,947,193	**$18,523,746**	**$20,852,048**	**$133,322,987**
Total Undrawn Authorizations	**$3,734,769**	**$0**	**$2,337,002**	**$6,071,771**
Application of Funds (Expenditures)				
Federal Share	$69,108,731	$13,979,474	$19,089,027	**$102,177,232**
Local Match/State Share	$24,700,218	$4,544,272	$8,975,112	**$38,219,602**
Total Application of Funds	**$93,808,949**	**$18,523,746**	**$28,064,139**	**$140,396,834**
Balance of Federal Funds On Hand	**($93,064)**	**$0**	**$869,002**	**$775,938**

Attachment A-2

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1065
Declared August 25, 1995

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$0	$262,070	$766,749	$1,028,819
Local Match/State Share	$0	$81,897	$243,134	$325,031
Total Award Amounts	**$0**	**$343,967**	**$1,009,883**	**$1,353,850**
Sources of Funds				
Federal Share (SMARTLINK)	$0	$262,070	$766,749	$1,028,819
Local Match/State Share	$0	$81,897	$243,134	$325,031
Total Sources of Funds	**$0**	**$343,967**	**$1,009,883**	**$1,353,850**
Total Undrawn Authorizations	**$0**	**$0**	**$0**	**$0**
Application of Funds (Expenditures)				
Federal Share		$262,070	$766,749	$1,028,819
Local Match/State Share		$81,897	$243,134	$325,031
Total Application of Funds	**$0**	**$343,967**	**$1,009,883**	**$1,353,850**
Balance of Federal Funds On Hand	**$0**	**$0**	**$0**	**$0**

Attachment A-3

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1097
Declared January 26, 1996

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$4,345,700	$405,178	$1,830,979	$6,581,857
Local Match/State Share	$1,614,863	$128,628	$590,461	$2,333,952
Total Award Amounts	**$5,960,563**	**$533,806**	**$2,421,440**	**$8,915,809**
Sources of Funds				
Federal Share (SMARTLINK)	$4,345,700	$405,178	$1,830,979	$6,581,857
Local Match/State Share	$1,614,863	$128,628	$590,461	$2,333,952
Total Sources of Funds	**$5,960,563**	**$533,806**	**$2,421,440**	**$8,915,809**
Total Undrawn Authorizations	**$0**	**$0**	**$0**	**$0**
Application of Funds (Expenditures)				
Federal Share	$4,345,700	$405,178	$1,830,979	$6,581,857
Local Match/State Share	$1,614,863	$128,628	$590,461	$2,333,952
Total Application of Funds	**$5,960,563**	**$533,806**	**$2,421,440**	**$8,915,809**
Balance of Federal Funds On Hand	**$0**	**$0**	**$0**	**$0**

Attachment A-4

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1122
Declared June 24, 1996

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$8,176,210	$0	$1,201,612	$9,377,822
Local Match/State Share	$3,343,023	$0	$7,475	$3,350,498
Total Award Amounts	**$11,519,233**	**$0**	**$1,209,087**	**$12,728,320**
Sources of Funds				
Federal Share (SMARTLINK)	$8,176,210	$0	$1,201,612	$9,377,822
Local Match/State Share	$3,343,023	$0	$7,475	$3,350,498
Total Sources of Funds	**$11,519,233**	**$0**	**$1,209,087**	**$12,728,320**
Total Undrawn Authorizations	**$0**	**$0**	**$0**	**$0**
Application of Funds (Expenditures)				
Federal Share	$8,176,210		$1,201,612	$9,377,822
Local Match/State Share	$3,343,023		$7,475	$3,350,498
Total Application of Funds	**$11,519,233**	**$0**	**$1,209,087**	**$12,728,320**
Balance of Federal Funds On Hand	**$0**	**$0**	**$0**	**$0**

Attachment A-5

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1164
Declared March 4, 1997

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$29,525,261	$7,225,069	$10,449,162	$47,199,492
Local Match/State Share	$10,978,667	$2,369,066	$0	$13,347,733
Total Award Amounts	**$40,503,928**	**$9,594,135**	**$10,449,162**	**$60,547,225**
Sources of Funds				
Federal Share (SMARTLINK)	$29,525,261	$7,225,069	$10,449,162	$47,199,492
Local Match/State Share	$10,978,667	$2,369,066	$0	$13,347,733
Total Sources of Funds	**$40,503,928**	**$9,594,135**	**$10,449,162**	**$60,547,225**
Total Undrawn Authorizations	**$0**	**$0**	**$0**	**$0**
Application of Funds (Expenditures)				
Federal Share	$29,525,261	$7,225,069	$9,674,337	$46,424,667
Local Match/State Share	$10,978,667	$2,369,066	$6,340,492	$19,688,225
Total Application of Funds	**$40,503,928**	**$9,594,135**	**$16,014,829**	**$66,112,892**
Balance of Federal Funds On Hand	**$0**	**$0**	**$774,825**	**$774,825**

Attachment A-6

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1227
Declared June 30, 1998

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$21,760,641	$3,702,844	$6,095,397	$31,558,882
Local Match/State Share	$7,181,012	$1,194,772	$0	$8,375,784
Total Award Amounts	**$28,941,653**	**$4,897,616**	**$6,095,397**	**$39,934,666**
Sources of Funds				
Federal Share (SMARTLINK)	$21,555,348	$3,702,844	$5,623,975	$30,882,167
Local Match/State Share	$7,113,265	$1,194,772	$0	$8,308,037
Total Sources of Funds	**$28,668,613**	**$4,897,616**	**$5,623,975**	**$39,190,204**
Total Undrawn Authorizations	**$205,293**	**$0**	**$471,422**	**$676,715**
Application of Funds (Expenditures)				
Federal Share	$21,654,236	$3,702,844	$5,529,679	$30,886,759
Local Match/State Share	$7,626,524	$1,194,772	$1,773,720	$10,595,016
Total Application of Funds	**$29,280,760**	**$4,897,616**	**$7,303,399**	**$41,481,775**
Balance of Federal Funds On Hand	**($98,888)**	**$0**	**$94,296**	**($4,592)**

Attachment A-7

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1321
Declared March 7, 2000

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$0	$375,304	$317,859	$693,163
Local Match/State Share	$0	$120,817	$346,308	$467,125
Total Award Amounts	**$0**	**$496,121**	**$664,167**	**$1,160,288**
Sources of Funds				
Federal Share (SMARTLINK)	$0	$375,304	$30,748	$406,052
Local Match/State Share	$0	$120,817	$33,500	$154,317
Total Sources of Funds	**$0**	**$496,121**	**$64,248**	**$560,369**
Total Undrawn Authorizations	**$0**	**$0**	**$287,111**	**$287,111**
Application of Funds (Expenditures)				
Federal Share	$0	$375,304	$30,867	$406,171
Local Match/State Share	$0	$120,817	$381	$121,198
Total Application of Funds	**$0**	**$496,121**	**$31,248**	**$527,369**
Balance of Federal Funds On Hand	**$0**	**$0**	**($119)**	**($119)**

Attachment A-8

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1339
Declared August 21, 2000

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$0	$1,928,100	$1,201,275	$3,129,375
Local Match/State Share	$0	$623,406	$1,834,140	$2,457,546
Total Award Amounts	**$0**	**$2,551,506**	**$3,035,415**	**$5,586,921**
Sources of Funds				
Federal Share (SMARTLINK)	$0	$1,928,100	$9,779	$1,937,879
Local Match/State Share	$0	$623,406	$13,719	$637,125
Total Sources of Funds	**$0**	**$2,551,506**	**$23,498**	**$2,575,004**
Total Undrawn Authorizations	**$0**	**$0**	**$1,191,496**	**$1,191,496**
Application of Funds (Expenditures)				
Federal Share	$0	$1,928,100	$9,779	$1,937,879
Local Match/State Share	$0	$623,406	$13,719	$637,125
Total Application of Funds	**$0**	**$2,551,506**	**$23,498**	**$2,575,004**
Balance of Federal Funds On Hand	**$0**	**$0**	**$0**	**$0**

Attachment A-9

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1343
Declared September 26, 2000

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$3,364,359	$80,909	$311,501	$3,756,769
Local Match/State Share	$1,110,238	$25,686	$247,244	$1,383,168
Total Award Amounts	**$4,474,597**	**$106,595**	**$558,745**	**$5,139,937**
Sources of Funds				
Federal Share (SMARTLINK)	$2,411,172	$80,909	$28,402	$2,520,483
Local Match/State Share	$891,056	$25,686	$0	$916,742
Total Sources of Funds	**$3,302,228**	**$106,595**	**$28,402**	**$3,437,225**
Total Undrawn Authorizations	**$953,187**	**$0**	**$283,099**	**$1,236,286**
Application of Funds (Expenditures)				
Federal Share	$2,411,172	$80,909	$28,402	$2,520,483
Local Match/State Share	$891,056	$25,686	$0	$916,742
Total Application of Funds	**$3,302,228**	**$106,595**	**$28,402**	**$3,437,225**
Balance of Federal Funds On Hand	**$0**	**$0**	**$0**	**$0**

Attachment A-10

Sources and Applications of Funds
As of September 30, 2002
Disaster No. 1390
Declared August 27, 2001

	Public Assistance	Individual & Family	Hazard Mitigation	Totals
Award Amounts (FEMA approved)				
Federal Share	$5,578,265		$120,497	$5,698,762
Local Match/State Share	$1,840,827	$0	$0	$1,840,827
Total Award Amounts	**$7,419,092**	**$0**	**$120,497**	**$7,539,589**
Sources of Funds				
Federal Share (SMARTLINK)	$3,001,976		$16,623	$3,018,599
Local Match/State Share	$990,652	$0	$5,730	$996,382
Total Sources of Funds	**$3,992,628**	**$0**	**$22,353**	**$4,014,981**
Total Undrawn Authorizations	**$2,576,289**	**$0**	**$103,874**	**$2,680,163**
Application of Funds (Expenditures)				
Federal Share	$2,996,152	$0	$16,623	$3,012,775
Local Match/State Share	$246,085	$0	$5,730	$251,815
Total Application of Funds	**$3,242,237**	**$0**	**$22,353**	**$3,264,590**
Balance of Federal Funds On Hand	**$5,824**	**$0**	**$0**	**$5,824**

Attachment B

OEMA
Schedule of Questioned Costs

Disaster Number	Amount	Finding Reference
1343	$8,995	A.4.
1339	$400	A.5
1343	$38,611	A.5.
1390	$2,125	A.5.
	$50,131	

Attachment C

List of Acronyms

CFR	Code of Federal Regulations
DMA	Disaster Mitigation Act
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
HMG	Hazard Mitigation Grant
IFG	Individual and Family Grant
IHP	Individuals and Households Program
MOU	Memorandum of Understanding
OEMA	Ohio Emergency Management Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PW	Project Worksheet

MANAGEMENT COMMENTS

U.S. Department of Homeland Security
Region V
536 South Clark Street, Floor 6
Chicago, IL 60605

FEMA

JUL 22 2004

MEMORANDUM FOR: Tonda L. Hadley, Field Office Director
Office of Inspector General, Audits Division
Department of Homeland Security

FROM: Edward G. Buikema
for Regional Director

SUBJECT: Performance Audit of the State of Ohio's Compliance with Disaster Assistance Program's Requirements. Job Code C-OH-005-2003.

Attached is FEMA Region V's response to the Financial, Hazard Mitigation, Public Assistance, and the Individual and Family Grant program findings and recommendations that were reported in the aforementioned audit.

The State of Ohio program officers are in the process of replying to my request of June 29, 2004 for their responses to the above compliance audit. The Financial, Hazard Mitigation, Public Assistance, and Individual and Family Grant programs should have their responses to their respective FEMA counterparts within the next 30 days.

If you have any questions or concerns, please call Michael Moline, Director, Administration and Resource Planning Division, at 312-408-5368.

Attachments

1. Region V response to Ohio audit report for Financial Management.
2. Region V response to Ohio audit report for Hazard Mitigation
3. Region V response to Ohio audit report for Public Assistance
4. Region V response to Ohio audit report for Individual and Family Grant Assistance

cc: Mr. Michael Moline, Audit Coordinator, FEMA Region V
Ms. Paige Hamrick, Deputy Field Office Director
Mr. Dale W. Shipley, Executive Director, Ohio Emergency Management Agency
Mr. Rita Steele, Ohio Fiscal Branch Manager

Attachment #1

FEMA Region V's Response to Ohio's Draft Audit Report

Financial Management

Findings: A.1. through A.4.

"… OEMA's internal controls and procedures for managing FEMA funds were inadequate."

Recommendations:

A.1. Overdraw of program funds. "…the Regional Director, Region V, require OEMA to establish effective internal controls over SMARTLINK withdraws, including written procedures, to ensure that FEMA program funds are only withdrawn for actual and immediate program expenditures as required by Federal regulations."

A.2. Return of Excess Federal Funds to FEMA. "…the Regional Director, Region V, require OEMA to establish procedures to ensure that funds drawn down in excess of program requirements are returned to FEMA in accordance with Federal regulations."

A.3. Transfer of Funds Between Programs and Disasters. "… the Regional Director, Region V, require OEMA to:

1. Establish procedures to ensure that Federal funds are expended on the appropriate disaster program as approved by FEMA and

2. Provide appropriate training and supervision to fiscal office staff members to ensure that OEMA's accounting for HMG and PA program funds complies with Federal requirements."

A.4. Incorrectly Prepared Financial Status Reports. "… the Regional Director, Region V, require OEMA to:

1. Reimburse the $8,995 overdrawn from SMARTLINK,

2. Report only actual expenditures that agree with the state accounting system on the FSRs, and

3. Establish procedures to reconcile expenditures reported on the FSRs with the expenditures recorded in the state accounting system by program and disaster.

Regional Response to A.1 through A.4:

FEMA, Region V, concurs with the above findings and recommendations. As mentioned in the cover letter, Rita Steele, the Ohio Fiscal Branch Chief, did not receive a copy of the request for a response to the audit until July 6th. Consequently, she estimated that at a minimum, a 10 day extension would be needed to complete her response. As of July 22nd, no response has been received from Ohio's finance office concerning the financial management questions. For the next 30 days we will collaborate with the state Fiscal Branch Chief to resolve and answer the deficiencies enumerated above.

Attachment #2

FEMA Region V's Response to Ohio's Draft Audit Report

HMGP Program

Findings: B.2 HMG Memorandum of Understanding

"OEMA did not comply with some key provisions specified in the FEMA/OEMA Memorandum of Understanding (MOU) that designated Ohio as a managing State for HMG programs. In addition, the MOU had not been revised or updated to reflect changes in policies and procedures since it was signed in August 1998."

Recommendations:

"…ensure that the FEMA/OEMA managing State MOU is reviewed and updated, as appropriate, to: 1. Reflect current Federal requirements, policies, and procedures; 2. Include future HMG programs; and 3. Establish an agreed upon timeline for periodic evaluations of Ohio's performance as a managing State.

Regional Response:

FEMA V agrees with the aforementioned findings and recommendations. The State of Ohio is scheduled to submit an Enhanced Mitigation Plan for approval by November 1,FEMA's approval of the plan will re-establish Ohio as a managing State. Ohio's Enhanced Mitigation Plan will reflect current Federal policies and procedures. In addition, the plan will be updated when new HMG programs are established. Once FEMA V approves the plan, a copy will be forwarded to OIG and an agreed upon timeline for evaluations of Ohio's performance as a managing State will be also be given.

Attachment #3

Ohio Audit
C-OH-005-2003
Public Assistance Program Findings, Recommendations
And Region V Response

Finding A.5. **Use of Administrative Allowances**. OEMA used administrative allowance funds to purchase items, such as copiers, computer, projector and projector equipment that are not allowable extraordinary costs. The PA costs in question total $40,736.00; The HMG program supported $400 for a breakfast/lunch catering charge.

Recommendation A.1: “”We recommend that the Regional Director:

1) Disallow the total amount of $41,136 used by OEMA for unallowable administrative costs, and
2) Require OEMA to develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for extraordinary costs as defined by Federal regulations”.

Region V’s Response: While the expenses are eligible disaster related expenses, they should have been included within the state management cost budget and not charged to administrative expenses. The Region concurs with this finding and will work with the State Public Assistance staff to correct the error. It should be noted that it is not possible to directly de-obligate funds from PA state administrative costs as these are a function of, and determined by a sliding scale applied to each eligible PA project obligation. The State may change their accounts to withdraw the questioned costs from state administrative costs and apply these charges to state management costs. Region V staff will work with OEMA to devise a method to properly allocate these costs within the next 30 days.

Finding B. 3. **Payments for PA Small Projects**. OEMA did not process PA payments for small projects in a timely manner.”

Recommendation B.3. “We recommend that the Regional Director require OEMA to establish procedures to ensure that timely payments are made to subgrantees for PA small projects.”

Region V’s Response: The audit report indicates two contributions to delayed payment for small projects. First, procedures in OEMA between PA staff, OEMA Fiscal Office and the State Treasurer’s office may contribute to delay. Second, FEMA’s procedures, particularly in the post-DFO phase of operations, involve the approval of the PW project package, assembling copies of documentation and sending this to OEMA. It is in this phase where the possibility of delay has occurred in the past. The process in the post-DFO phase has improved substantially since then.

The Region concurs with the suggestion that payment within 30 days of project approval is recommended. However, we believe that some circumstances will extend this period somewhat. We will review small project approval and payment procedures with the State for both FEMA and OEMA over the next 30 days but do not conclude that current procedures need to be revised at this time. It is expected that some improvement in processing can be accomplished but note that significant improvement in payment time has already been established since 1390-DR-OH.

Attachment #4

Ohio Audit
Individual Assistance (IFG) Program Findings, Recommendations
And Region V Response

Finding A.1. **Overdraw of program funds.** OEMA consistently overdrew funds from SMARTLINK primarily for its IFG and HMG grants. We found that OEMA drew down over $1.5 million in Federal funds in excess of its program requirements

Recommendation A.1: "We recommend that the Regional Director, Region V require OEMA to establish effective internal controls over SMARTLINK withdraws, including written procedures, to ensure that FEMA program funds are only withdrawn for actual and immediate program expenditures as required by Federal regulations:

Region V's Response: The Region concurs with this finding and will continue to work with the State Individual Assistance staff. However, the IFG program has been replaced by the Other Needs Assistance (ONA) program, and no funds will be transmitted to the State through SMARTLINK. The State has selected the FEMA option in their State Administrative Plan which means they will be billed by FEMA for their 25% State Share of the program. Region V staff will work with OEMA in the event their selection of the FEMA option changes.

All other Individual Assistance issues observed in the audit refers to the IFG program, which is no longer an issue.

In further reviewing all the audit findings and recommendations for IFG, it is no longer an issue because of the implementation of the Individual and Households Program (IHP) which changes the program from IFG to Other Needs Assistance (ONA). The State will no longer receive funds from FEMA to drawdown under SMARTLINK, but instead will be billed by FEMA for the State's share of 25%. The Region, based on this response considers this finding resolved and closed.