EXHIBIT 3
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Department of Homeland Security

Office of Inspector General

The State of Montana's Management of State Homeland Security Program Grants Awarded During Fiscal Years 2007 through 2009

OIG-12-16

December 2011

Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

This report addresses the State of Montana's management of State Homeland Security Program grants. We contracted with the independent public accounting firm Foxx & Company to perform the audit. The contract required that Foxx & Company perform its audit according to generally accepted government auditing standards. Foxx & Company's report identifies four reportable conditions where State management of the grant funds could be improved, resulting in 13 recommendations addressed to the Assistant Administrator, Grants Programs Directorate. Foxx & Company is responsible for the attached auditor's report dated November 18, 2011, and the conclusions expressed in the report.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Anne L. Richards
Assistant Inspector General for Audits

November 18, 2011

Ms. Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of Homeland Security
245 Murray Drive, S.W. Building 410
Washington, D.C. 20528

Dear Ms. Richards:

Foxx & Company performed an audit of the State of Montana's management of the Department of Homeland Security's State Homeland Security Program grants for Fiscal Years 2007 through 2009. The audit was performed in accordance with our Task Order No. 11 under TPD-FIG-BPA-07-0007 dated September 28, 2010. This report presents the results of the audit and includes recommendations to help improve the State's management of the audited State Homeland Security Program grants.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2007 revision. The audit was a performance audit as defined by Chapter 1 of the *Standards* and included a review and report on program activities with a compliance element. Although the audit report comments on costs claimed by the State, we did not perform a financial audit, the purpose of which would be to render an opinion on the State of Montana's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company
Martin W. O'Neill
Partner

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Abbreviations

DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	fiscal year
OIG	Office of Inspector General

OIG

Department of Homeland Security
Office of Inspector General

Executive Summary

Public Law 110-53, *Implementing Recommendations of the 9/11 Commission Act of 2007*, requires the Department of Homeland Security, Office of Inspector General, to audit individual states' management of State Homeland Security Program and Urban Areas Security Initiative grants. This report responds to the reporting requirement for the State of Montana.

The objectives of the audit were to determine if the State of Montana distributed and spent State Homeland Security Program grant funds (1) effectively and efficiently and (2) in compliance with applicable federal laws and regulations. In addition, the extent to which grant funds enhanced the State of Montana's ability to prevent, prepare for, protect against, and respond to natural disasters, acts of terrorism, and other man-made disasters were addressed. The audit included a review of approximately $16.5 million in State Homeland Security Program grant funds awarded to Montana during fiscal years 2007 through 2009.

Generally, Montana did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State's plans linked funding to all-hazard capabilities and to goals that were established based on risk assessments.

However, we identified four areas for improvement: measurement of goals and objectives, compliance with property management requirements, subgrantee performance monitoring, and financial management internal controls.

Our 13 recommendations call for the Federal Emergency Management Agency (FEMA) to initiate improvements which, if implemented, should help strengthen program management, performance, and oversight.

FEMA and Montana officials provided written comments and concurred with our findings and recommendations. Their comments are included in their entirety in appendix B.

Background

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies.

The State of Montana (State) received $19.7 million in Homeland Security Grant Program funds over the course of fiscal years (FY) 2007, 2008, and 2009, $16.5 million of which was State Homeland Security Program grants. Appendix A provides details on the purpose, scope, and methodology for this audit, and appendix C provides background on the Homeland Security Grant Program.

The Governor of Montana designated the Montana Disaster and Emergency Services, Department of Military Affairs, as the State Administrative Agency, the entity responsible to administer the Homeland Security Grant Program. The State Administrative Agency is responsible for managing the grant programs in accordance with established federal guidelines and allocating funds to local, regional, and other state government agencies. The Montana State Administrative Agency organization is depicted in appendix D.

Within Montana, the State Administrative Agency subawarded Homeland Security Grant Program funds to 25 separate subgrantees during FYs 2007 through 2009.

Results of Audit

Montana's Grants Management Practices Were Generally Effective, But Required Some Improvements

Generally, the State did an efficient and effective job of administering program requirements in accordance with grant guidance and regulations. The State's plans linked funding to all-hazard capabilities and to goals that were established based on risk assessments. However, improvements were needed to enhance Montana's management of the grants in the areas of:

- Measurement of goals and objectives,
- Compliance with property management requirements,
- Subgrantee performance monitoring, and
- Financial management internal controls.

We have made 13 recommendations that are designed to enhance the effectiveness of the State's grants management and overall use of the grant funds to improve preparedness and response capabilities.

Measurement of Goals and Objectives

The Montana State Administrative Agency could not demonstrate improvement and accomplishments resulting from the State Homeland Security Program awards. The Agency had not developed measurable goals and objectives consistent with federal requirements which provided an adequate basis for measuring improvements in the State's preparedness and response capabilities. Also, the Agency did not have an effective systematic method for the collection of performance-related data. As a result, the State does not have a system to evaluate and document the effect that grant funds had on the capability of the State Administrative Agency and the subgrantees.

Code of Federal Regulations Title 44 §13.40 (a), *Monitoring and reporting program performance*, requires that grantees monitor grant and subgrant supported activities to assure that performance goals are being achieved. In addition, Department of Homeland Security (DHS) State and Urban Area Homeland Security Strategy, Guidance on Aligning Strategies with the National Preparedness Goal, dated July 22, 2005, states that an objective sets a tangible and measurable target level of performance over time against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. Therefore, an objective should meet the following criteria:

- Specific, detailed, particular, and focused — helping to identify what is to be achieved and accomplished;
- Measurable — quantifiable, providing a standard for comparison, and identifying a specific achievable result;
- Achievable — the objective is not beyond a State, region, jurisdiction, or locality's ability;
- Results-oriented — identifies a specific outcome; and
- Time-limited — a target date exists to identify when the objective will be achieved.

Table 1 identifies shortcomings with two of Montana's goals and objectives from its 2007 Strategic Plan. These two are typical examples from the State's nine goals.

Table 1: Examples of FY 2007 Strategic Plan Goals and Objectives Shortcomings

Strategic Goal #2: Establish and strengthen a statewide interoperable public safety communication system.	
OBJECTIVES	**SHORTCOMINGS**
2.1 Implement the Statewide Interoperable Public Safety Radio Communications Plan recommended by the Statewide Interoperability Executive Council.	No target date for completion. No expression of specific outcome such as documenting results of implementation.
2.2 Deploy backbone technology across large geographic regions and subsequently to deploy digital technology to all users.	No target date for completion. No details on identifying regions, areas, or users.
2.3 Design and implement a statewide enhanced 911 network.	No target date for completion. No criteria as to what constitutes "enhanced." No expression of specific outcome such as documenting results of implementation.
2.4 In conjunction with the Public Safety Services Office continue planning, assisting, education and implementation of public safety communications projects in Montana.	No target date for completion. Open-ended. Specific outcome such as documentation of shared information not expressed.
2.5 Develop an education and outreach program within six months.	Meets criteria.
2.6 Procure equipment to enhance interoperable communications using available funding.	No criteria as to what constitutes "enhance." No target date set for completion.
2.7 Support planned exercises.	No target date for completion. No expression of specific outcome such as how exercises will be identified or information shared after completion.
Strategic Goal #7: Strengthen chemical, biological, radiologic, nuclear, explosive (CBRNE) decontamination, detection, and response.	
OBJECTIVES	**SHORTCOMINGS**
7.1 Enhance geographic information systems capabilities to support the planning, response, and recovery of a CBRNE event.	No target date for completion. No specifics as to which capabilities will be enhanced.
7.2 Sustain advance hazmat, explosive ordnance disposal, and tactical law enforcement response capabilities.	No target date for completion. No provisions for identifying law enforcement capabilities or how capabilities would be sustained.
7.3 Identify recovery measures associated with this goal.	No target date for completion. No specifics for how measures will be identified.
7.4 Provide training to strengthen CBRNE detection, response, and decontamination capabilities.	No target date for completion. No specifics on who will be trained, how training is delivered, and how training results are measured.
7.5 Exercise local, tribal, and state response plans and procedures to test the level of detection, response, and decontamination capabilities.	No target date for completion. No criteria provided for assessing capabilities.
7.6 Identify the preventive detection aspects of CBRNE capabilities.	No target date for completion. No criteria for determining which detection aspects will be identified and measured.

Taken as a whole, the State's goals and objectives:

- Were broad-based,
- Were not always in compliance with the federal requirements, and
- Did not allow for the measuring progress in preparedness and response capabilities.

The lack of measurement capability, specifics, and target completion dates in the state-wide goals and objectives also impacted the measurement of progress at the subgrantee level.

The Montana State Administrative Agency required subgrantees to periodically submit standardized progress reports as a part of the subgrantee award letter package. The report form requested that the subgrantee describe the activities accomplished during the preceding quarter, any difficulties in accomplishing activities or needed timeframe readjustments, and funding used during the period. Not all subgrantees submitted progress reports and, of those that did, the information was unclear and did not relate to measuring improvement.

We found that the subgrantee progress reports did not contain information that would enable the State to measure and oversee the progress made in achieving the goals, objectives, and milestones identified for the individually funded programs. For example, the FY 2007 Interoperability Montana investment justification requested $3.7 million to meet five milestones. However, the progress reports for this grant did not indicate how well the funds were being spent, nor did the reports specifically discuss the progress being made on particular milestones prior to the milestones being reached. Table 2 shows the milestones and the progress made as of June 30, 2010, as reported by the subgrantee.

Table 2: Milestone Status on FY 2007 Interoperability Montana Investment Justification (as of June 30, 2010)

Milestone	Milestone Status (as of June 30, 2010)
1. Complete site acquisition, building, and equipment installation for three Northern Tier sites.	Sites were complete.
2. Tie the master controller at Helena to the Northern Tier.	No status given.
3. Adopt standard operating procedures in accordance with SAFECOM (public safety communications) guidelines.	No status given.
4. Outfit and train 14 law enforcement officials to use radios compatible with the new towers	Training plan submitted to the State Administrative Agency for approval.
5. Test and evaluate the system.	An exercise was being planned for later in 2010.

While the milestones are specific and are capable of measurement, the progress reports are incomplete and did not provide information during the grant period concerning the extent to which the milestones were met or would be delayed. For example, concerning Milestone 1, the June 2010 report noted that the sites were complete and inspected but no mention was made as to whether or not the sites were operational. For 2008 and 2009, the subgrantee progress reports did not report on whether or not the milestone would be met.

Milestone 2 indicated that upon tower completion, the towers were to be tested for connectivity to a radio controller in Helena, Montana. Completion was scheduled for December 2008 but no activity was reported until the March 2009 progress report.

Milestone 4 specified that 14 officers would be outfitted and trained to use radios. Outfitting and training was to be completed by December 2009. However, while initial progress on this milestone was reported in the March 30, 2009 progress report, it was not until the December 2009 progress report that a request for training funds was reported.

Because of minimal State Administrative Agency guidance as to what was expected of subgrantees in their progress reports, the subgrantees were left to interpret the degree to which accomplishments were reported. The State Administrative Agency did not request subgrantees to report on the status of achieving program goals, objectives, and milestones.

The State Administrative Agency funded activities without knowing the extent that funds previously provided to subgrantees had impacted the subgrantee's ability to meet specific program goals. Also, the State did not know the extent to which additional funds were needed for the individual programs.

Without measurable goals and objectives and a mechanism to collect objective, results-oriented data from local jurisdictions and first responders, the State did not have a basis to evaluate the effect of grant expenditures on its preparedness and response capabilities. Also, the State was unable to determine progress toward goals and objectives when making funding and management decisions.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Administrator, Montana Disaster and Emergency Services to:

Recommendation #1: Develop strategic goals and objectives applicable to capabilities that are specific, measurable, achievable, results-oriented, and time limited.

Recommendation #2: Develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives.

Recommendation #3: Require subgrantees to use the performance measures to report activity accomplishments in quarterly progress reports, including the status of goals, objectives, and milestone achievements.

Recommendation #4: Summarize the progress reported each quarter by program and incorporate the progress and projected funding needs into the State's process for preparing subsequent years' applications for Homeland Security Grant Program funds.

Management Comments and Auditors' Analysis

FEMA concurred with the findings and recommendations, and commented that it would benefit Montana to assess capabilities on an ongoing basis if the state has clearly stated goals and objectives. FEMA will request the State develop strategic goals and specific objectives applicable to capabilities, and submit the outline of the goals and objectives to FEMA within 90 days of receipt of the final report.

FEMA noted that there is not sufficient evidence that Montana is aware of the progress subgrantees are making against the goals and objectives stated in their grant applications. FEMA attributed this deficiency to a staff shortage. FEMA will request the State develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives. FEMA will also direct the Administrator, Montana Disaster and Emergency Services to ensure that there is sufficient qualified staff to oversee and administer all awards issued by FEMA, including subject matter

experts. These actions are to be completed within 90 days of receipt of the final report.

Concerning quarterly progress reports, FEMA will request the State to require subgrantees to report accomplishments in quarterly progress reports, including the status of goals, objectives, and milestone achievements. These actions are to be completed within 90 days of receipt of the final report.

FEMA will also request the State summarize the progress reported each quarter by program, and incorporate the progress and projected funding needs into the State's process for preparing subsequent years' grant applications. These actions will be completed within 120 days of receipt of the final report FEMA requested that recommendations 1 through 4 be resolved and open pending implementation of the stated corrective actions.

Montana Disaster and Emergency Services officials also agreed with the findings and recommendations. They acknowledged that the State's goals and objectives in the past have been too broad-based and the officials are in the process of making them more specific. Progress on measurable objectives will be reported by subrecipients on a quarterly basis using expanded reporting forms clearly demonstrating project progress. If progress is not sufficient, the subgrantee will be identified for monitoring, technical assistance, and withholding of funds until satisfactory progress is made. Montana officials also stated that they will submit quarterly reports to FEMA summarizing subgrantee progress.

If properly implemented, the corrective actions proposed by FEMA and the State should resolve the condition identified in the audit. The recommendations are considered resolved, but will remain open until the corrective actions have been implemented.

Compliance with Property Management Requirements

State subgrantees did not always maintain property management records in accordance with federal requirements. Property record requirements were not being followed at 14 of 22 subgrantees we visited. As a result, the State did not have reasonable assurance that the assets procured with federal funds were adequately safeguarded to prevent loss, damage, or theft of the property.

Code of Federal Regulations Title 44 §13.32 (d) *Management Requirements*, establishes procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds. Under Title 44 §13.3, *Definitions*, equipment means tangible, non-expendable, personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. The federal property management regulations include the following minimum requirements:

- Maintain property records that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- Take a physical inventory of the property and reconcile the results with the property records at least once every 2 years and maintain a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property.
- Perform adequate maintenance procedures to keep the property in good condition.

The federal requirements are included by reference in the state grant agreements with subgrantees.

While FEMA guidance for the State Homeland Security Program requires grantees and subgrantees to follow federal requirements when managing and maintaining property management records for equipment purchased with grant funds, 14 of the 22 subgrantees who purchased equipment with State Homeland Security Program funding were not following this guidance. The following is a summary of these shortcomings.

- 11 of the 14 subgrantees did not perform periodic physical inventories which were required at least once every 2 years,
- 7 of 14 subgrantees were unable to determine which fiscal years' State Homeland Security Program funds were used to procure equipment, and
- 5 of 14 subgrantees did not mark or affix labels to indicate the property was purchased with Homeland Security funding.

Subgrantee staff told us that they were not fully aware of the property management requirements or had not focused on their responsibilities concerning record keeping, documentation, and inventories. Nevertheless, the property management requirements were included in the grant award

letter and as a separate attachment in the grant agreements between the State and each subgrantee.

In addition, we noted a unique situation that pertained to the title of assets procured for the Interoperability Montana program. At least one county subgrantee indicated that while they were responsible for erecting radio towers on county property, the county was unclear as to which entity actually owned the equipment—the county or Interoperability Montana. Also, the subgrantee was not sure which entity was ultimately responsible for maintenance.

As a result, the State did not have reasonable assurance that the assets procured with federal funds were adequately safeguarded to prevent loss, damage, or theft of the property or if title was clearly established. Without the required property management records, the potential exists for poor internal control over the maintenance, safeguarding, and accounting for equipment procured with federal funds.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Administrator, Montana Disaster and Emergency Services to:

Recommendation #5: Establish policies and procedures to enforce the property management requirements for equipment purchased with federal funds by subgrantees.

Recommendation #6: Require subgrantees to furnish plans for performing biennial physical inventories within a specified timeframe and to provide details on how all subgrantees will become compliant with property management requirements.

Recommendation #7: Clarify ownership of equipment furnished with federal funds particularly with arrangements between Interoperability Montana and its partner subgrantee jurisdictions.

Management Comments and Auditors' Analysis

FEMA concurred with the findings and recommendations. FEMA commented that it will request that Montana Disaster and Emergency Services establish policies and procedures to enforce property management requirements for subgrantee equipment purchased with federal funds within 45 days of receipt of the final report. FEMA will request also that Montana furnish plans for

performing annual physical inventories and provide details on how all subgrantees will become compliant with property management regulations within 60 days of receipt of the final report.

Concerning the issue of equipment ownership regarding Interoperability Montana and its partner jurisdictions, FEMA will request that Montana clarify ownership, and provide an inventory of all equipment purchased by Interoperability Montana with DHS grant funds. The list is to include, among other things, equipment identifiers, price, applicable grant program funding year, and the jurisdiction responsible for the equipment, and is to be completed within 30 days of receipt of the final report. FEMA requested that recommendations 5 through 7 be resolved and open pending implementation of the stated corrective action.

The Montana Disaster and Emergency Services officials also agreed with the findings and recommendations, and stated they will update its property management policies to include inventory schedules, improved forms, lists of all items over $5,000, and physical inventories no less than every 2 years. The State will establish a schedule of subgrantee inventory due dates, and require submission with the subgrantee grant applications. Relating to Interoperability Montana and equipment ownership, Disaster and Emergency Services officials stated that verification of equipment has commenced, and that Interoperability Montana has submitted equipment transfer letters outlining ownership, signed by the partner subgrantees.

If properly implemented, the corrective actions proposed by FEMA and the State should provide reasonable assurance that assets procured with federal funds are adequately safeguarded to prevent loss, damage, or theft; and that ownership is clearly delineated. The recommendations are considered resolved, but will remain open until the corrective actions have been implemented.

Subgrantee Performance Monitoring

The Montana State Administrative Agency needs to improve subgrantee performance monitoring. In its February 2010 Single Audit Report on State Administrative Agency management of homeland security grants, the Montana Legislative Audit Division noted that in FY 2008, the Montana State Administrative Agency failed to monitor any of its subgrantees. Moreover, the report noted that, in FY 2007, the State Administrative Agency received notification of seven audit findings in

subgrantee audit reports. Additionally, the Legislative Audit report found that the department's subgrantee monitoring tracking spreadsheet did not include six[1] subgrantees. The Legislative Audit Division recommended that the State Administrative Agency implement effective subgrantees monitoring controls to ensure its subgrantees comply with the federal requirements. However, the department did not issue management decisions or require corrective action on five of the audit findings within the required timeframe.

According to the Code of Federal Regulations Title 44 §13.40, *Monitoring and Reporting Program Performance*, grantees are required to provide day-to-day management of all grants and subgrant supported activities, and ensure that grant recipients comply with applicable federal requirements and achieve program performance goals. This regulation also specifies that grantee monitoring programs cover each program, function or activity, and require subgrantees to adhere to the same performance monitoring and reporting standards as required of grantees. The Montana State Administrative Agency also recommends that grant recipients provide various documents to describe their activities and expenditures.

Office of Management and Budget Circular A-133, Part 3-M, *Subrecipient Monitoring,* also includes grantee monitoring requirements. Part 3-M states that grantees are responsible for monitoring subgrantee use of federal awards through reporting, site visits, regular contact, or other means. Grantee monitoring should provide reasonable assurance that the subgrantee administers federal awards in compliance with laws and regulations, as well as the provisions of contracts or grant agreements.

The Montana State Administrative Agency management informed us that no subgrantee site visits were made during the grant years that we reviewed. Minimal oversight was accomplished through periodic contact with subgrantee staff, review of subgrantee grant applications, and processing of reimbursement requests. Montana State Administrative Agency officials said that considerable staff turnover, including the State Administrative Agency Director's position, had been experienced in the last several years. In addition, the officials said that the State Administrative Agency's ability to monitor subgrantees has been affected by the limited number of staff available to do the monitoring. The three fiscal year grants included in our review were essentially managed by one individual.

[1] The scope of the Legislative Division audit included 84 subgrantees for all Homeland Security Grant Programs including State Homeland Security Program. However, the State Administrative Agency only accounted for 78 of the 84.

For the three fiscal years we examined, Montana's monitoring program procedures did not indicate how often monitoring visits would be conducted. Even as late as March 2011, no action had been taken on when site visits would begin nor had the State Administrative Agency made any site visits. However, in February 2011, a monitoring policy revision indicated that the State Administrative Agency would perform on-site visits for two separate subgrantees each fiscal year. State Administrative Agency officials said they have considered involving their six Montana state district representatives as more active participants in overall management. The Montana State Administrative Agency did hire a part-time contractor to monitor its largest subgrantee, Interoperability Montana in August 2010. The contractor worked four hours per day but had not visited the Interoperability Montana subgrantee as of April 2011.

The State Administrative Agency's sporadic contacts with subgrantee staff, the review of subgrantee grant applications, and processing of reimbursement requests are not sufficient to:

- Observe local administrative practices,
- Evaluate whether grant funds are being used effectively and efficiently,
- Determine whether subgrantees are complying with grant requirements and associated federal regulations, and
- Assess subgrantee progress in achieving preparedness goals and objectives.

Montana's on-site monitoring program was hampered because the State had not dedicated the necessary resources to monitor the subgrantees' performance. Moreover, the State Administrative Agency did not have adequate information to assess whether or not the subgrantees were efficiently and effectively using State Homeland Security Program grant funds to accomplish program objectives. Consequently, the State Administrative Agency did not provide necessary management support at the planning, execution, or review levels to enable consistent and responsible grant oversight.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Administrator, Montana Disaster and Emergency Services to:

Recommendation #8: Establish policy and monitoring procedures that include the frequency of visits, methodology for

selecting subgrantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

Recommendation #9: Develop a uniform set of procedures for monitors to use during evaluations of subgrantee program performance to ensure consistency in the scope and methodology of the evaluations from subgrantee to subgrantee.

Management Comments and Auditors' Analysis

FEMA concurred with the findings and recommendations. According to FEMA, subgrantee monitoring is critical to ensuring that projects are executed as planned and that subgrantees are in compliance with the terms of their grant agreements. FEMA will request that Montana, within 90 days of receipt of the final report, establish policy and monitoring procedures that will include, among other requirements:

- A clear method for selecting subgrantees to be visited,
- Frequency of monitoring visits each year, and
- Processes to review and conduct analyses of subrecipients' financial, programmatic, and administrative policies and procedures.

FEMA also said the State will be requested to establish a uniform set of monitoring procedures to facilitate consistency in the scope and methodology of the evaluation of subgrantees. The protocols are to be completed within 90 days of receipt of the final report. FEMA requested that recommendations 8 and 9 be resolved and open pending implementation of the stated corrective actions.

Montana Disaster and Emergency Services officials also agreed with the findings and recommendations, and commented that the State had been monitoring subgrantees when the fiscal years 2007 through 2009 grant awards were made and will continue to do so, as required. In this regard, our report and the Montana Legislative Audit Division found that subgrantee performance monitoring needed to be improved. Resource issues, incomplete monitoring procedures, and sporadic subgrantee contacts all contributed to inefficient monitoring.

Montana noted that active monitoring, with both desk-top and site visits, has greatly increased in the last year (i.e., during fiscal year 2010). Monitoring documentation has been enhanced and a grant monitoring cycle will be developed to include scheduled

monitoring, using both desk-top and site visits. The State will review and revise its standardized monitoring procedure, and use improved monitoring forms, designed during FEMA-provided technical assistance training in September 2011, during all monitoring visits.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. The recommendations are considered resolved, but will remain open until the corrective actions have been implemented.

Financial Management Controls

The Montana Disaster and Emergency Services did not comply with federal requirements for financial grant management. We noted deficiencies which included (1) incomplete subgrantee file information regarding award letters and supporting documentation for reimbursement requests and (2) inadequate coordination between the State Administrative Agency and the supporting administrative office responsible for paying subgrantee invoices submitted for payment. As a result, Montana was not in compliance with federal financial management requirements, was not aware of the status of grant awards and expenditures, and could not assess the true costs of program performance.

Code of Federal Regulations Title 44 §13.20, *Standards for financial management systems* and the Department of Homeland Security Financial Guide require that grantees maintain an accounting system together with adequate internal controls to assure grant expenditures are allowable, allocable, authorized, and consistent with federal, State, and grant requirements. The standards require also that the fiscal controls and accounting procedures:

- Permit preparation of reports required by federal laws and regulations authorizing the grant,
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes,
- Provide for source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, and subgrant award documents, and
- Enable actual expenditures to be compared with budgeted amounts.

Montana State Administrative Agency subgrantee files were not always complete and did not permit corroboration with other documents. For

example, State Administrative Agency officials could not provide supporting grant award letters that totaled $477,000 out of $3.4 million in awards which was selected for testing for fiscal years 2007 through 2009. Additionally, State Administrative Agency had difficulty reconciling subgrantee award amounts with expenditures even though State Administrative Agency prepared its budgets by these expense categories. We asked State Administrative Agency officials to prepare a schedule comparing the award amount with expenses classified as equipment, training, or exercises. A State Administrative Agency official stated that the schedule could not be completed in full because State Administrative Agency internal financial documents could not produce the necessary data.

Concerning invoices, State Administrative Agency did not always have documentation in its files to support subgrantee reimbursement requests even though subgrantees were required to submit invoices. For fiscal years 2007 through 2009, State Administrative Agency officials could not provide supporting documents (i.e., invoices, payroll, or other relevant information) to support expenditures incurred by four subgrantees which totaled $938,601 as shown in the following table.

Table 3: Unsupported Subgrantee Requests for Reimbursement Made to Montana State Administrative Agency

Subgrantee	Expense Type	Amount
1	Invoices	$39,294
2	Payroll	$72,000
3	Payroll	$159,175
4	Invoices	$668,132
Total		**$938,601**

Notwithstanding the issues with maintaining supporting documentation in its files, the State Administrative Agency revised its policy in July 2010 and stipulated that subgrantees were no longer required to submit invoices as support for their reimbursement requests. The invoices were to be kept by the subgrantees and made available if requested by the State Administrative Agency.

The State Administrative Agency did not keep its designated payment office, the Centralized Services Division, informed of the award amounts to individual subgrantees. Without this basic information, the Centralized Services Division did not know the current status of subgrantees' accounts even though it was responsible for payment.

The State Administrative Agency did not provide copies of subgrantee award letters to its Centralized Services Division that showed how much each subgrantee was awarded. This information would have allowed the Centralized Services Division to keep a running comparison on budgeted amounts against actual subgrantee reimbursement requests. Without this information, the possibility existed that a subgrantee could be reimbursed for an amount larger than was awarded. In this regard, during our visits, we found one subgrantee that had actually been reimbursed $3,562 more than was initially awarded. The additional amount was taken from the State Administrative Agency's management and administration account to supplement the subgrantee's request and Centralized Services was not advised.

According to the Centralized Services Administrator, the State Administrative Agency did not always compare submitted invoices with the award amount and overpayments could be made. If State Administrative Agency judged an invoice as proper for payment, State Administrative Agency directed the Centralized Services Division to reimburse the subgrantee. Additionally, according to a June 30, 2009, Single Audit Report performed by the Montana Legislative Audit Division, the State Administrative Agency did not follow department controls. These included project management invoices that were not approved by a project director and $4,654 of costs which were paid without meeting documentation requirements.

The State Administrative Agency did not place sufficient priority on adherence to required internal control procedures. This lack of attention was confirmed as the State Administrative Agency did not maintain an up-to-date and complete subgrantee filing system, did not perform reconciliations between award amounts and invoices, and did not share needed information with the Centralized Services Division as the designated payment office.

Because the Montana State Administrative Agency did not exercise financial management of all subawards including compliance with applicable federal requirements, the State of Montana was unable to determine the actual status of State Homeland Security Program grant funding. The danger of overdrawing accounts was clearly present without a working subgrantee fund balance. In addition, without obtaining supporting documentation before paying subgrantees, $938,601 was unsupported. With no clear indication by type of expenditure, neither the State Administrative Agency nor DHS could assess the true costs of program performance.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Administrator, Montana Disaster and Emergency Services to:

Recommendation #10: Revise the State Administrative Agency's existing financial internal control system to ensure that policies and procedures enable a comprehensive accounting of individual subgrantee finances from initial award to grant closeout.

Recommendation #11: Establish procedures to ensure that the Centralized Services Division receives all financial information necessary to ensure that payments are properly authorized and that account balances are kept current.

Recommendation #12: Establish procedures to include periodic inspections of subgrantee supporting documentation for reimbursement requests.

Recommendation #13: Provide adequate documentation for the unsupported subgrantee reimbursements or recover the $938,601 in State Homeland Security Program grant funds for return to FEMA.

Management Comments and Auditors' Analysis

FEMA concurred with the findings and recommendations. FEMA stated that Montana Disaster and Emergency Services should review drawdown subgrantee requests to ensure that costs are allowable, allocable, and reasonable within the grant funded projects. FEMA will request that the Montana Disaster and Emergency Services, within 60 days of receipt of the final report, revise its existing financial internal control system to ensure that policies and procedures enable a comprehensive accounting of individual subgrantee finances from initial award to grant closeout.

FEMA will also request the State to establish procedures to ensure that the Centralized Services Division receives all financial information necessary to ensure that payments are properly authorized and that account balances are kept current. The State will also be requested to establish procedures to include periodic inspections of subgrantee supporting documentation such as time allocation sheets, receipts, and contracts. Both actions are to be completed within 60 days of receipt of the final report.

Regarding the $938,601 in unsupported subgrantee requests, FEMA agrees that Montana should provide adequate documentation or return the questioned amount. FEMA has requested that Montana Disaster and Emergency Services provide, within 90 days of receipt of the final report, adequate supporting records which FEMA will review for reasonableness. FEMA requested that recommendations 10 through 13 be resolved and open pending implementation of the stated corrective actions.

Montana Disaster and Emergency Services officials also agreed with the finding and recommendations, noting that the State has followed and been in compliance with federal requirements for financial grant management. The officials stated that a full review of State and federal financial requirements, in addition to utilizing current and future technologies and any necessary revisions of internal financial controls, was being conducted.

State officials also said that the sharing of award and programmatic information with its centralized payment office has been enhanced via a shared computer drive and more frequent electronic communication. State officials stated they will also review and make necessary changes to their policies, specifically requiring supporting documentation for all expenditures, and that an electronic file management system was being developed to store and access documents.

Concerning our recommendation relating to the unsupported subgrantee reimbursements of $938,601, Montana Disaster and Emergency Services officials provided documentation in conjunction with their comments on the draft report. Our review of the submitted purchase orders, invoices, vouchers, and payroll timesheets concluded that the reimbursements were fully supported by appropriate documentation. As a result, we consider the $938,601 fully accounted for and no longer questioned.

If properly implemented, the corrective actions proposed by FEMA and the State will resolve the condition identified during the audit. Recommendations 10, 11, and 12 are considered resolved, but will remain open until the corrective actions have been implemented. Recommendation 13 is considered resolved and closed.

Appendix A
Purpose, Scope, and Methodology

The objective of this audit was to determine whether the State of Montana distributed and spent State Homeland Security Program grant funds strategically, effectively, and in compliance with laws, regulations, and guidance. The goal of this audit is to identify problems and solutions in order to assist FEMA and the State to improve the nation's ability to prevent and respond to all hazards on a local as well as a statewide level.

The scope of this audit included the plans developed by the State to improve preparedness and all hazards response, the goals set within those plans, the measurement of progress towards the goals, and the assessments of performance improvement that result from this activity. Further, the scope included the assessment of these activities within the context of risk to determine if the State's plans produced strategic performance improvements related to the highest areas of risk rather than merely producing improvements in a broader sense.

Together, the entire Homeland Security Grant Program and its five interrelated grant programs fund a range of preparedness activities, including planning, organization, equipment purchase, training, exercises, and management and administration costs. Because of the interrelationship of these grant programs, all were considered when evaluating the planning cycle and the effectiveness of the overall grant program. However, only State Homeland Security Program funding together with the equipment and programs supported by that funding was reviewed for compliance.

Within Montana, we visited 22 total sites which included the State Administrative Agency and 21 subgrantees as shown below:

Montana Disaster and Emergency Services, State Administrative Agency

Montana State Agencies

- Department of Administration
- Department of Corrections
- Department of Justice
- Governor's Office of Community Service
- Interoperability Montana
- Montana Highway Patrol

Cities

- Billings
- Helena

Counties

- Flathead
- Gallatin
- Hill
- Jefferson
- Judith Basin
- Lewis and Clark
- Missoula
- Park
- Pondera
- Richland
- Roosevelt
- Yellowstone

Native American Tribe

- Confederated Salish and Kootenai Tribes

The HSGP awards to Montana for fiscal years 2007 through 2009 included the following programs and awards:

Homeland Security Grant Program FYs 2007 through 2009				
Funded Activity	**FY 2007**	**FY 2008**	**FY 2009**	**Total**
State Homeland Security Program	$3,820,000	$6,170,000	$6,524,500	$16,514,500
Law Enforcement Terrorism Prevention Program	$2,730,000	Not Applicable	Not Applicable	$2,730,000
Citizen Corps Program	$136,289	$136,893	$136,658	$409,840
Grand Total	$6,686,289	$6,306,893	$6,661,158	$19,654,340

Source: Federal Emergency Management Agency

The 22 sites visited received:

- 90% of the 2007 SHSP grant,
- 99% of the 2008 SHSP grant, and
- 83% of the 2009 SHSP grant.

At each location, we interviewed responsible officials, reviewed documentation supporting State and subgrantee management of the awarded grant funds (including expenditures for equipment, training, and exercises), and at each location where grant funds were used to procure equipment, physically inspected some of the items. In addition, we met with first responder representatives, such as police and sheriffs' departments, to discuss grant processes and the benefits that grant funds have brought to their organization and communities.

We conducted reviews at FEMA headquarters, State of Montana offices, regional law enforcement organizations, county and city subgrantee organizations, and a Native American tribe. At these locations, the audit team conducted interviews with key officials directly involved in the management and administration of the State of Montana Homeland Security Grant Program. To determine the effectiveness of Montana's grant program as well as compliance with Montana's Homeland Security Strategy and applicable grant requirements, the team reviewed and analyzed data related to grant management and associated processes identified by the team and discussed with Montana state officials during the audit.

We conducted the audit between December 2010 and May 2011, in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (2007 Revision). 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 upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. This was a performance audit as defined by Chapter 1 of the *Standards*, and included a review and report of program activities with a compliance element. Foxx & Company was 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, Foxx & Company was neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had Foxx & Company been required to perform additional procedures, or conducted an audit of

the financial statements in accordance with generally accepted auditing standards, other matters might have come to their attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of Montana.

While the audit was being performed and the report prepared under contract, the audit results are being reported by the DHS Office of Inspector General to appropriate Federal Emergency Management Agency and State of Montana officials.

Appendix B
Management Comments to the Draft Report

U.S. Department of Homeland Security
Washington, DC 20472

FEMA

OCT 05 2011

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: David J. Kaufman
Director
Office of Policy and Program Analysis

SUBJECT: Federal Emergency Management Agency's (FEMA's) Response to Draft OIG Report, *The State of Montana Management of State Homeland Security Program (SHSP) and Urban Areas Security Initiatives (UASI) Grants Awarded during Fiscal Years 2007 through 2009*

Thank you for the opportunity to comment on your draft report. The findings in the report will be used to strengthen the effectiveness and efficiency of how we execute and measure our programs. We recognize the need to continue to improve the process, including addressing the recommendations raised in this report. Our responses to the recommendations are as follows:

OIG Recommendation #1: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to develop strategic goals and objectives applicable to capabilities that are specific, measurable, achievable, results-oriented, and time limited.

FEMA Response: FEMA concurs with this recommendation.

It will benefit the State to be able to assess their capabilities on an ongoing basis if they have clearly stated strategic goals and objectives. FEMA will request the Director, Montana Disaster and Emergency Services (MT DES) develop strategic goals and specific objectives applicable to capabilities. The State should identify means of measurement for each goal and objective, ensure they are reasonably achievable within the time period allocated for each grant award and identify specific timeframes for completion and articulate end results.

The strategic goals and objectives should include:

a) Specific goals and objectives which directly relate to the State Homeland Security Strategy;

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b) Identify how each goal and objective will be measured for success and progress towards completion;
c) Identify a clear timeframe for achieving the goal and objective;
d) If the goal will span multiple years and longer term objectives, identify which grant programs might align to those goals and what plans are being developed to ensure the end goal or objective can be reached; and
e) Identify the end result of each goal and objective (i.e., what capability will be enhanced, how, for how long, who will be impacted, how will they be impacted).

This outline of strategic goals and objectives should be submitted to the assigned FEMA program analyst within 90 days of receipt of the final report via the grantee notification.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #2: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives.

FEMA Response: FEMA concurs with this recommendation.

At this time, there is not sufficient evidence that the State is aware of the progress subgrantees are making against the goals and objectives stated in applications. This is largely due to a shortage of staff assigned to financially and programmatically manage and oversee FEMA awards. Additional staff should be allotted to overseeing the programmatic implementation and administration of FEMA awards to enhance the State's abilities to effectively manage FEMA awards. FEMA will request the Director of MT DES develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives.

Further, FEMA will direct the Director of MT DES to ensure that there is sufficient qualified staff to programmatically and financially oversee and administer all awards issued by FEMA. Qualified staff assigned to oversee the implementation of FEMA programs should, at a minimum, include subject matter experts with experience in emergency planning, emergency operations, first responder equipment, first responder/emergency management training, first responder/emergency management exercises, and interoperable communications. Qualified staff assigned to oversee the management and administration of FEMA grant programs should include subject matter experts in the management of federal grant awards or be provided formal ongoing training to begin within 60 days of hire date.

The State of Montana's performance measurement of subgrantees should include:

a) Clearly stated milestones and timeframes for completion;
b) Progress toward meeting goals and objectives;
c) Challenges or delays in meeting goals and objectives;

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d) Actions the state is taking to assist with challenges, delays, or lack of progress; and
e) Anticipated completion date of each goal and objective.

These actions will be completed by MT DES within 90 days of receipt of the final report via the grantee notification. Updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #3: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to require sub-grantees to use the performance measures to report activity accomplishments in quarterly progress reports, including the status of goals, objectives, and milestone achievements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director, MT DES require subgrantees to use the performance measures to report activity accomplishments in quarterly progress reports, including the status of goals, objectives, and milestone achievements.

Quarterly reporting from subgrantees should include:

a) Clearly stated goals and objectives with milestones and timeframes for completion;
b) Progress toward meeting goals and objectives;
c) Challenges or delays in meeting goals and objectives and how these are being addressed; and
d) Anticipated completion date of each goal and objective.

These actions will be completed by MT DES within 90 days of receipt of the final report via the grantee notification. Updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #4: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to summarize the progress reported each quarter by program and incorporate the progress and projected funding needs into the State's process for preparing subsequent years' applications for Homeland Security Grant Program funds.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director, MT DES summarize the progress reported each quarter by program and incorporate the progress and projected funding needs into the State's process for preparing subsequent years' applications for Homeland Security Grant Program funds.

Application Review for subsequent years should include at a minimum:

a) Status of subgrantee programmatic and financial reporting (i.e., have reports been submitted? Have they been submitted on time?);
b) Progress of subgrantee on related projects (i.e., if the projects being proposed build on capabilities funded by earlier grant awards are those earlier projects complete? Incomplete? Is the completion contingent on the funding being requested?);
c) Is the applicant drawing funds down regularly? -- and
d) What capabilities are being built or enhanced?

These actions will be completed by MT DES within 120 days of receipt of the final report via the grantee notification. Updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #5: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to establish policies and procedures to enforce the property management requirements for equipment purchased with federal funds by subgrantees.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director, MT DES establish policies and procedures to enforce the property management requirements for equipment purchased with federal funds by subgrantees. Policies and procedures for property management of equipment purchased with federal funds should include at a minimum:

a) Processes for equipment control management to include DES responsibilities, sub-grantee responsibilities and property identification requirements;
b) Processes for equipment acquisition;
c) Process for transferring of property;
d) Process for disposition of property;
e) Process for lost, stolen, or damaged property; and
f) Annual inventory requirements and equipment inventory templates. Equipment inventory templates which identify date of inventory, equipment name, identifying information such as serial numbers, purchase date, purchase price, grant program equipment was purchased under, location of equipment, disposition of equipment, and name of individual taking the inventory.

These actions will be completed by MT DES within 45 days of receipt of the final report via the grantee notification and will be sent to the assigned FEMA Program Analyst.

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FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #6: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to require sub-grantees to furnish plans for performing biennial physical inventories within a specified timeframe and to provide details on how all subgrantees will become compliant with property management requirements.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director of MT DES to furnish plans for performing annual physical inventories within a specified timeframe and to provide details on how all subgrantees will become compliant with property management requirements.

FEMA will request the Director of MT DES, as a part of a comprehensive monitoring protocol, request subgrantees furnish copies of annual inventory templates, questions relating to the maintenance of equipment; location of equipment; labling of equipment; transfer of equipment; lost, stolen or damaged equipment; and disposition of equipment.

These actions will be completed within 60 days of receipt of the final report via the grantee notification and updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #7: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to clarify ownership of equipment furnished with federal funds particularly with arrangements between Interoperability Montana and its partner subgrantee jurisdictions.

FEMA Response: FEMA concurs with this recommendation.

During conference calls and follow-up correspondence on June 9, 2011, FEMA requested an inventory listing of all equipment purchased by Interoperability Montana since 2006. FEMA will request the Director of MT DES clarify ownership of equipment furnished with federal funds, particularly with arrangements between Interoperability Montana and its partner subgrantee jurisdictions.

FEMA will request the Director of MT DES provide the requested inventory of all equipment purchased by Interoperability Montana using any past or currently active FEMA Homeland Security Grant funds to include the following information:

a) Equipment name;
b) Identifying information such a serial numbers, etc.;

c) Purchase date;
d) Purchase price;
e) Grant program and applicable year equipment was purchased under;
f) Location of equipment;
g) Disposition of equipment; and
h) Jurisdiction responsible for equipment.

These actions will be completed within 30 days of receipt of the final report via the grantee notification and will be sent to the assigned FEMA Program Analyst.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #8: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to establish policy and monitoring procedures that include the frequency of visits, methodology for selecting sub-grantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

FEMA Response: FEMA concurs with this recommendation.

Monitoring subgrantees is critical to ensuring that projects are being executed as planned and that subgrantees are within compliance of the terms of their grant agreements. FEMA will request that the Director, MT DES establish policy and monitoring procedures that include the frequency of visits, methodology for selecting subgrantees to visit, and a protocol for reviewing financial and performance related activities during the visits.

The updated policy and monitoring procedures should include:

a) A clear method for selecting subgrantees to be visited;
b) The number or frequency of monitoring visits each year for all FEMA Homeland Security Grant Programs;
c) The protocols to be followed during the monitoring visits; and
d) Process to review and conduct analysis of subrecipient's financial, programmatic and administrative policies and procedures, such as:
    1. accounting for receipts and expenditures,
    2. cash management, maintaining adequate financial records,
    3. means of allocating and tracking costs,
    4. contracting and procurement policies and records,
    5. payroll records and means of allocating staff costs,
    6. property/equipment management system(s),
    7. progress of project activities.

These actions will be completed within 90 days of receipt of the final report via the grantee notification and updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

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FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #9: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to develop a uniform set of procedures for monitors to use during evaluations of subgrantee program performance to ensure consistency in the scope and methodology of the evaluations from subgrantee to subgrantee.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request that the Director, MT DES establish a uniform set of monitoring procedures to facilitate consistency in the scope and methodology of the evaluation of subgrantees.

The protocols to be followed during the monitoring visits should review subrecipient's financial, programmatic and administrative policies and procedures including:

1. Accounting for receipts and expenditures;
2. Cash management, maintaining adequate financial records;
3. Means of allocating and tracking costs;
4. Contracting and procurement policies and records;
5. Payroll records and means of allocating staff costs;
6. Property/equipment management system(s); and
7. Progress of project activities.

Within 120 days of receipt of the final report via the grantee notification, FEMA will require the MT DES to complete these protocols and send updates to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #10: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to revise the State Administrative Agency's existing financial internal control system to ensure that policies and procedures enable a comprehensive accounting of individual subgrantee finances from initial award to grant close-out.

FEMA Response: FEMA concurs with this recommendation.

Currently, funds are paid out by the Centralized Services Division without being first reviewed by the Office of Homeland Security (OHS) for programmatic compliance. The OHS should review the drawdown requests first to ensure costs are allowable, allocable, and reasonable within the grant funded projects.

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FEMA will request the Director, MT DES revise the State Administrative Agency's existing financial internal control system to ensure that policies and procedures enable a comprehensive accounting of individual subgrantee finances from initial award to grant close-out.

Policies and procedures for financial internal control should at a minimum include:

a) Who is responsible for programmatic review and approval of reimbursement requests;
b) Procedures to account for individual subgrantee finances for each separate grant award from initial award to grant close-out;
c) Identification and location of required supporting documentation (i.e., time allocation sheets, receipts, contracts);
d) Identification of match requirements;
e) Identification of program income;
f) Cross check of equipment purchased with the Responder Knowledge Base, Travel policies; and
g) Cross check of approvals for overtime & backfill, Environmental Historic Preservation requirements, training requests, and sole source contracts.

These actions will be completed by MT DES within 60 days of receipt of the final report via the grantee notification and updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #11: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to establish procedures to ensure that the Centralized Services Division receives all financial information necessary to ensure that payments are properly authorized and that account balances are kept current.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request that the Director, MT DES establish procedures to ensure that the Centralized Services Division receives all financial information necessary to ensure that payments are properly authorized and that account balances are kept current.

Procedures for distribution of FEMA award information should include:

h) Provide copies of award documents and any adjustments to awards to the Centralized Services Division; and
i) Provide copies of award documents and any adjustments to awards to any individual with programmatic or financial responsibility for FEMA awards administration or management.

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These actions will be completed by MT DES within 60 days of receipt of the final report via the grantee notification and updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #12: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to establish procedures to include periodic inspections of subgrantee supporting documentation for reimbursement requests.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director, MT DES establish procedures to include periodic inspections of subgrantee supporting documentation for reimbursement requests. As part of an ongoing comprehensive monitoring plan, MT DES should develop procedures to periodically and randomly request supporting documentation (i.e., time allocation sheets, receipts, contracts, etc.).

These actions will be completed by MT DES within 60 days of receipt of the final report via the grantee notification and updates will be sent to the assigned FEMA Program Analyst every 90 days until the corrective actions are complete.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

OIG Recommendation #13: We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to provide adequate documentation for the unsupported subgrantee reimbursements or recover the $938,601 in State Homeland Security Program grant funds for return to FEMA.

FEMA Response: FEMA concurs with this recommendation.

FEMA will request the Director, MT DES provide adequate documentation for the unsupported subgrantee reimbursements or recover the $938,601 in State Homeland Security Program grant funds for return to FEMA.

MT DES should provide the assigned FEMA program analyst with adequate supporting documentation for questioned costs identified below within 90 days of receipt of the final report via the grantee notification. Based on the documents provided, FEMA will review the $938,601 for reasonableness.

FEMA requests that this recommendation be resolved and open pending implementation of the stated corrective action.

We thank you, again, for the opportunity to review and update our comments to your recommendations contained in your final report. Should you have further questions regarding our response, please do not hesitate to call FEMA's Chief Audit Liaison, Brad Shefka, at 202-646-1308.

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DEPARTMENT OF MILITARY AFFAIRS
DISASTER & EMERGENCY SERVICES DIVISION
www.montanades.org Brian Schweitzer, Governor

STATE OF MONTANA

(406) 324-4777 1956 Mt. Majo Street, P.O. Box 4789 Fort Harrison, Montana 59636-4789

September 30, 2011

Ms. Rhonda Honegger
Program Analyst, Western Division
DHS/FEMA
800 K Street, NW
Washington D.C. 20472-3625

RE: Office of Inspector General Audit Response

Dear Ms. Honegger:

On behalf of the Montana Department of Military Affairs, Disaster and Emergency Services Division (DES), this letter is intended to serve as response to the recommendations made by the Department of Homeland Security (DHS), Office of Inspector General relative to their audit of the State of Montana's management of the State Homeland Security Program that were awarded during the Federal Fiscal Year 2007 through 2009.

Montana Disaster and Emergency Services would like to express our sincere appreciation for the efforts of all of the representatives of the Department of Homeland Security Office of Inspector General's Office and Foxx and Company for their dedication in assisting Montana with its efforts to improve processes and procedures for the effective and efficient management of the Homeland Security Grant Programs. It has truly been a pleasure working with all of the parties involved and an education for me personally, as the new administrator for Montana DES.

Measurement of Goals and Objectives

DES DIVISION NARRATIVE:

Montana DES updated the State Homeland Security Strategy in January of 2010. Montana DES continues its efforts in monitoring sub-recipients' goals and objectives using the sub-recipient's application, the award letter that identifies the goals, objectives and milestones, quarterly progress reports, implementing new policies and procedures and requiring sub-recipients to submit an After Action Report at the end of the grant performance period.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to:

***Recommendation #1**: Develop strategic goals and objectives applicable to capabilities that are specific, measurable, achievable, results-oriented, and time limited.*

Response:
Montana Disaster and Emergency Services (DES) agrees with this recommendation and has already taken steps to improve current procedures. Montana DES sets each sub-recipient's measurable goals and objectives using the individual sub-recipient's grant application submitted to the state. Each applicant must meet a number of requirements and set measurable goals and objectives that fit within the State Preparedness Report, Homeland Security Strategy goals and objectives, Target Capabilities and the National Priorities. Montana DES recognizes that the State's goals and objectives in the past have been too broad-based, and is in the process of making them more specific.

Montana DES participated in FEMA provided Technical Assistance Training September 27-30, 2011 to obtain guidance and suggestions to facilitate improvement. Redesigned grant forms such as applications detailing measurable objectives are to be used starting immediately. 2011 State Homeland Security Grantees will receive a conditional award letter until their applications are revised to meet grant requirements including specific measureable goals and objectives to be completed during the grant period and returned to the Division by December, 2011. These goals will include timelines and milestones as well as close-out and sustainment plans before grant projects can begin. All applications must include project plans linked to specified investment justifications.

In addition, Montana DES will begin the process to review and revise the State Strategic Plan in coordination with the Senior Advisory Committee (SAC) and the Governor's Office by March 31, 2012. The plan will be updated to include measureable objectives with specific results and timelines for work on identified capabilities.

Status: **Will be fully implemented by March 31, 2012**

***Recommendation #2**: Develop performance measures and collect and analyze performance data from subgrantees to measure progress towards achieving goals and objectives.*

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. The Technical Assistance held September 27-30, 2011, assisted DES to create improved applications, reporting, and grant management tools. Progress on the measurable objectives detailed during the application process will be reported to Montana DES by sub-recipients on a quarterly basis using expanded programmatic and financial reporting forms clearly demonstrating project progress. Progress will be specifically measured by a listing and percentage

of individual tasks completion, a reconciliation of financial status, and an explanation of challenges and any possible delays or changes.

During any grant application period, a panel (not the SAC) comprised of DES management personnel will review grant applications for completeness including measureable objectives tied to specific national and state priorities. Applications deficient in these areas will be returned to potential sub-recipients for revision prior to their presentation to the SAC for consideration. The SAC will include Subject Matter Experts that will review and make recommendations of applications in their area of expertise. Applications for review and consideration must fit within the state priorities.

Status: **Partially implemented, full implementation by December 31, 2011**

Recommendation #3: ***Require subgrantees to use the performance measures to report activity accomplishments in quarterly progress reports, including the status of goals, objectives, and milestone achievements.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. Progress on the measurable goals and objectives detailed during the application process will be reported to Montana DES by the sub-recipients on a quarterly basis using progress reports detailing project and milestone completion status. If the progress or the reporting of progress is not sufficient, the sub-recipient will be identified for monitoring, technical assistance, and/or up to withholding of funds until satisfactory progress is made.

Status: **Partially implemented, full implementation by October 31, 2011**

Recommendation #4: ***Summarize the progress reported each quarter by program and incorporate the progress and projected funding needs into the State's process for preparing subsequent years' applications for Homeland Security Grant Program funds.***

Response:
Montana DES agrees with this recommendation and has already taken steps forward to improve its current procedures. Improved reports summarizing the progress of subgrantee projects will be submitted quarterly to FEMA via email on a simple document as there is no opportunity to submit such reports via website portals. A projects' effectiveness and impact on Montana's security will be considered by DES and the SAC when preparing for future years' Homeland Security Grant Program applications.

Status: **Partially implemented, full implementation by October 31, 2011**

Compliance with Property Management Requirements

DES DIVISION NARRATIVE:

Montana DES requires the grant sub-recipients to follow all Code of Federal Regulations, grant guidance and Montana DES Division's internal policies and procedures. Montana DES includes federally provided Assurances and Conditions pertaining to property management on every award letter to sub-recipients. Montana DES also provides to the sub-recipients the proper Department of Homeland Security (DHS) markers to affix to equipment purchased with grant funds. Montana DES has in place an equipment tracking spreadsheet for the sub-recipient to use as a tool for their equipment management.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to:

Recommendation #5: ***Establish policies and procedures to enforce the property management requirements for equipment purchased with federal funds by subgrantees.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. A review and update of Montana DES's property management policies will be completed by December 31, 2011. Updates to the policies will include an inventory schedule and a listing of items requiring tracking such as all equipment over $5,000, radios, projectors, cameras, computers, printers, and other electronic items. DES will require a physical inventory of materials no less than every two years, but is considering an annual requirement. Improved inventory forms will be distributed to all sub-recipients to facilitate the physical inventory procedure.

Status: **Partially implemented, full implementation by December 31, 2011**

Recommendation #6: ***Require subgrantees to furnish plans for performing biennial physical inventories within a specified timeframe and to provide details on how all subgrantees will become compliant with property management requirements.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. Improved inventory forms will be distributed to all sub-recipients to facilitate the physical inventory procedure. A schedule of inventory due dates for subgrantees will be established for all ongoing grant years, with special emphasis on the current and future years' grants. Future subgrantees will be required to submit, with their application, inventory and control scheduling in accordance to grant requirements.

Status: **Partially implemented, full implementation by December 31, 2011**

Recommendation #7: ***Clarify ownership of equipment furnished with federal funds particularly with arrangements between Interoperability Montana and its partner subgrantee jurisdictions.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. An inventory of equipment purchased by Interoperability Montana with federal grant funds has already been obtained and verification has commenced. Interoperability Montana has also submitted equipment transfer letters outlining ownership, signed by their partner sub-grantees. The new inventory forms will be distributed to all interoperable communication sub-recipients to facilitate the physical inventory procedure, and equipment location will be monitored by Montana DES during the applicable grant period.

Status: **Partially implemented, full implementation by December 31, 2011**

Subgrantee Performance Monitoring

DES DIVISION NARRATIVE:

Montana DES maintains its compliance with all Federal requirements for sub-recipient monitoring, and as indicated in *2 CFR Part 215.51 and OMB Circular A-133 Compliance Supplement*, Montana DES has been monitoring sub-recipient activities in fiscal years 2007, 2008, 2009, 2010 and will continue to do so as required. Award letters to sub-recipients contain all required federal award information (e.g., catalog of Federal Domestic Assistance title and number, award name, name of the federal awarding agency). DES provides all sub-recipients with "Assurances and Certifications" attached to every award letter, a DES grant management handbook and the Grant Guidance. Montana DES sustains a financial management system to provide accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in §215.52. Circular A-133 allows a pass-through entity to use its discretion to determine how best to properly monitor their sub-recipients. Various techniques such as Desk Top monitoring, Site Visits monitoring, Quarterly Reports are used to meet the goals of monitoring. Montana DES has six (6) district representatives that regularly perform site visit monitoring and technical support to all sub-recipients. DES receives audit finding updates through the Centralized Services Division and will follow-up and give corrective guidance on those audits through monitoring within six months. If a sub-recipient continues to be out of compliance the DES Administrator will take these issues into consideration and take appropriate action.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to:

***Recommendation #8**: Establish policy and monitoring procedures that include the frequency of visits, methodology for selecting subgrantees to visit, and a protocol for reviewing financial and performance related activities during the visits.*

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. Active monitoring, both with Desk Top and Site Visits, have been greatly increased in the last year. The documentation of monitoring has been enhanced, with greater preparation and documentation to follow during future monitoring. Guidance on Monitoring was a large part of the Technical Assistance held for Montana DES on September 27-30, 2011. A grant cycle will be developed to include scheduled monitoring, both by Desk Top and Site Visits by December 31, 2011. This schedule will detail Desk Top monitoring of 100% of all Montana's subgrantees and Site Visits to one third of all subgrantees each year. Technology such as teleconferences, scanned documentation, photography and video will be used to combat geographic and climatic challenges, but will not replace scheduled personal visitation of subgrantees.

Status: **Partially implemented, full implementation by December 31, 2011**

***Recommendation #9**: Develop a uniform set of procedures for monitors to use during evaluations of subgrantee program performance to ensure consistency in the scope and methodology of the evaluations from subgrantee to subgrantee.*

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. The Division currently has a standardized monitoring procedure, however, these policies and forms will be reviewed and revised by March 31, 2012. Improved monitoring forms designed during FEMA provided Technical Assistance training in September 2011 will be used during all monitoring visits. A full monitoring schedule of all sub-grantees will be established by December 31, 2011.

Status: **Partially implemented, full implementation by March 31, 2012**

Financial Management Controls

DES DIVISION NARRATIVE:

Montana DES has followed and been in compliance with federal requirements for financial grant management. Montana DES partially relied on the assistance of the budget analyst staff person previously under the Centralized Services Division and understood the accounting requirements for the grants and financial management oversight.

Recommendations

We recommend that the Assistant Administrator, Grant Programs Directorate, require the Director, Montana Disaster and Emergency Services to:

Recommendation #10: ***Revise the State Administrative Agency's existing financial internal control system to ensure that policies and procedures enable a comprehensive accounting of individual subgrantee finances from initial award to grant close-out.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. A full review of state and federal financial requirements in addition to utilizing current and future technologies and any necessary revisions of internal financial controls will be completed by November 30, 2011.

Status: **Partially implemented, full implementation by November 30, 2011**

Recommendation #11: ***Establish procedures to ensure that the Centralized Services Division receives all financial information necessary to ensure that payments are properly authorized and that account balances are kept current.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. The sharing of award financial and programmatic information between DES's grant office and Centralized Services Division has been enhanced via a shared computer drive and more frequent electronic communication. The department is also in the process of establishing an electronic file management system to store and access grant documents. Three binders of supporting documentation have been recently provided to the auditors.

Status: **Partially implemented, full implementation by November 30, 2011**

Recommendation #12: ***Establish procedures to include periodic inspections of subgrantee supporting documentation for reimbursement requests.***

Response:
Montana DES agrees with this recommendation and has already taken steps to improve current procedures. Montana's six District Representatives routinely verify samplings of supporting documentation during their visits to subgrantees. Expenditures over $5,000 or of questionable nature currently require supporting documentation in order to be reimbursed. Montana DES will review and make any necessary revisions to their policies by October 31, 2011. One known policy change will be the requirement for supporting documentation for all expenditures.

Status: **Partially implemented, full implementation by November 30, 2011**

***Recommendation #13**: Provide adequate documentation for the unsupported subgrantee reimbursements or recover the $938,601 in State Homeland Security Program grant funds for return to FEMA.*

Response:
Montana DES agrees with this recommendation and has already taken steps to provide documentation to support the references expenditures. The Division is currently reviewing documentation procedures to ensure all invoices for reimbursement are associated with the sub-grantee's grant file. Invoices supporting the $938,601 of expenditures have been included in the three binders given to the auditors.

Status: **Supporting Documentation provided on September 26, 2011**

Sincerely,

Ed Tinsley

Ed Tinsley, Administrator of Montana Disaster & Emergency Services

Cc:
Adjutant General Walsh
Sheena Wilson
Bill Moore
John Yakaitas
Paul Grimstad
J.Lee Okeson
Steve Knecht
Jessica Davies

Appendix C
Homeland Security Grant Program Background

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, protect against, respond to, and recover from terrorist attacks, major disasters, and other emergencies. The Homeland Security Grant Program encompasses several interrelated federal grant programs that together fund a range of preparedness activities, including planning, organization, equipment purchase, training, and exercises, as well as management and administration costs. Programs include:

- **State Homeland Security Program** provides financial assistance directly to each of the states and territories to prevent, respond to, and recover from acts of terrorism and other catastrophic events. The program supports the implementation of the State Homeland Security Strategy to address the identified planning, equipment, training, and exercise needs.

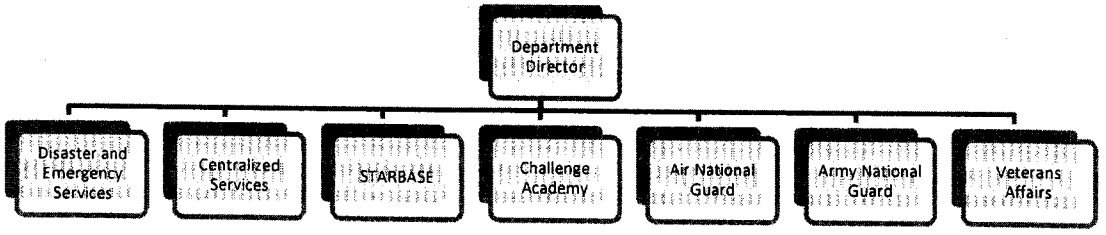
- **Urban Areas Security Initiative** provides financial assistance to address the unique planning, equipment, training, and exercise needs of high risk urban areas, and to assist in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism and other disasters. Allowable costs for the urban areas are consistent with the State Homeland Security Program. Funding is expended based on the Urban Area Homeland Security Strategies.

In addition, the Homeland Security Grant Program includes other interrelated grant programs with similar purposes. Depending on the fiscal year these include:

- Metropolitan Medical Response System
- Citizen Corps Program
- Law Enforcement Terrorism Prevention Program (through FY 2007)

Appendix D
Montana State Administrative Agency Organization Chart

Montana Department of Military Affairs



Source: Montana Department of Military Affairs
(as of February 25, 2011)

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff
Deputy Chief of Staff
General Counsel
Executive Secretariat
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs

Federal Emergency Management Agency

Administrator
Assistant Administrator, Grant Programs Directorate
Federal Emergency Management Agency Audit Liaison
Grant Programs Directorate Audit Liaison

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate

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