ASSURANCE MEMORANDUM

To: Sima Merick, Executive Director, Ohio Emergency Management Agency (EMA)
Stacie Massey, Administrative Officer, EMA
Dorothy Hayes-Long, Preparedness Grants Division, FEMA

Cc: John Born, Director, Ohio Department of Public Safety (DPS)

**From:** Cindy Klatt, Acting Chief Audit Executive, OBM Office of Internal Audit

Date: June 25, 2015

Subject: Assurance Engagement – FY2010 Homeland Security Grant Program

Thank you for requesting the Office of Internal Audit's (OIA) assistance to conduct an independent audit over the FY 2010 Homeland Security Grant Program funding administered by Department of Public Safety's Emergency Management Agency (EMA). Your agency and staff's cooperation was very helpful in responding to our information requests and providing us with timely information to complete our review.

BACKGROUND

The Department of Homeland Security provides federal funding through the Homeland Security Grant Program (HSGP) to assist state and local agencies in enhancing capabilities to prevent, prepare for, protect against, and respond to acts of terrorism, major disasters, and other emergencies. The Federal Emergency Management Agency (FEMA) awarded Ohio $16.6 million in Urban Areas Security Initiative (UASI) funding and $21.5 million in State Homeland Security Program (SHSP) funding for a total of $38.1 million for the FY2010 grant. Total expenditure activity through December 2014 equaled $21,146,215 for SHSP and $16,610,749 for UASI for a total of $37,756,964. See below for a depiction of the grant timeline, including the dates of the first draw request and expenditure made from the FY2010 grant.
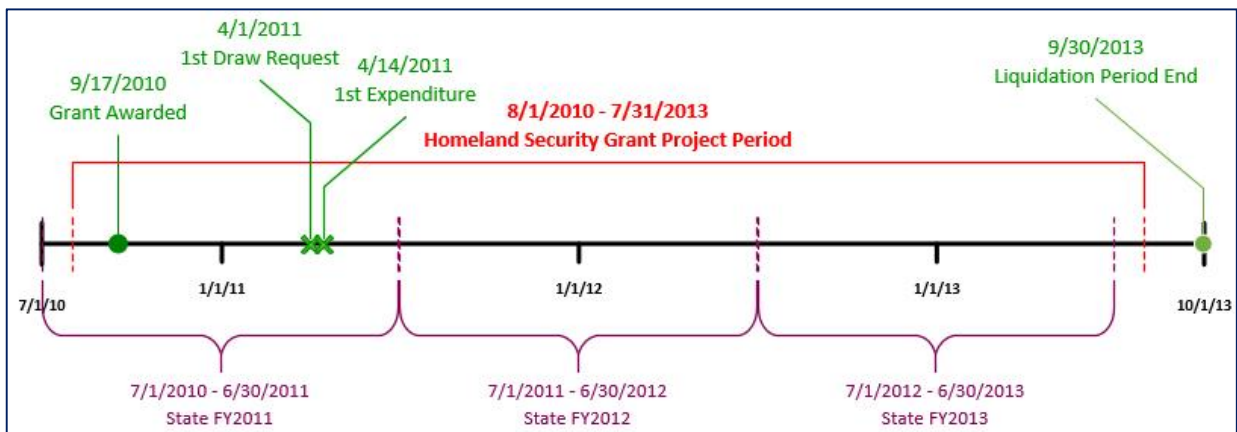
The Department of Homeland Security's Office of Inspector General (OIG) conducted a review of Ohio's HSGP awards for FY2010 through 2014, as documented within the report OIG-15-08 issued in November 2014. The OIG's audit objective was to determine whether Ohio used HSGP funds in accordance with the law, program guidance, state homeland security strategies, and other applicable plans. As a result of that review, one of the OIG's recommendations made was in regards to the FY2010 HSGP activity not matching to program and accounting ledgers. The Department of Public Safety's Emergency Management Agency (EMA) was required to have an independent audit conducted over its program and accounting ledgers for FY2010 HSGP, in order to reconcile all discrepancies and return funding for any unsupported transactions. OIA was engaged to perform this review and this engagement conforms with the *International Standards for the Professional Practice of Internal Auditing*.

This report is solely intended for the information and use of agency and federal management, and the State Audit Committee. It is not intended for anyone other than these specified parties.

SCOPE AND OBJECTIVES

The audit scope of this engagement was the FY2010 HSGP, and more specifically the SHSP and the UASI program which Ohio EMA administers with HSGP funds. The audit period includes all FY2010 HSGP grant activity from the date funds were first received by EMA, August 2010, through December 2014. As a result of control deficiencies noted in the OIG's November 2014 report on Ohio's Management of Homeland Security Grant Program Awards for 2010-2012 fiscal years, we did not evaluate or test the controls over the HSGP program. The objectives for this engagement included the following:

- Validate EMA's total FY 2010 grant expenditures (SHSP and UASI) through a reconciliation of program and accounting ledgers; any unsupported variances will be identified for potential refund to FEMA.

- Validate the allowability of SHSP and UASI expenditures in accordance with the HSGP program requirements.

We conducted interviews with EMA personnel and obtained program information available in the Electronic Grants Management System (EGMS) and financial information from the State's accounting system (Ohio Administrative Knowledge System (OAKS)) ledgers and EMA fiscal records. On the next page is a high level overview of EMA's federal grant process.

DPS – EMA Federal Grant Process
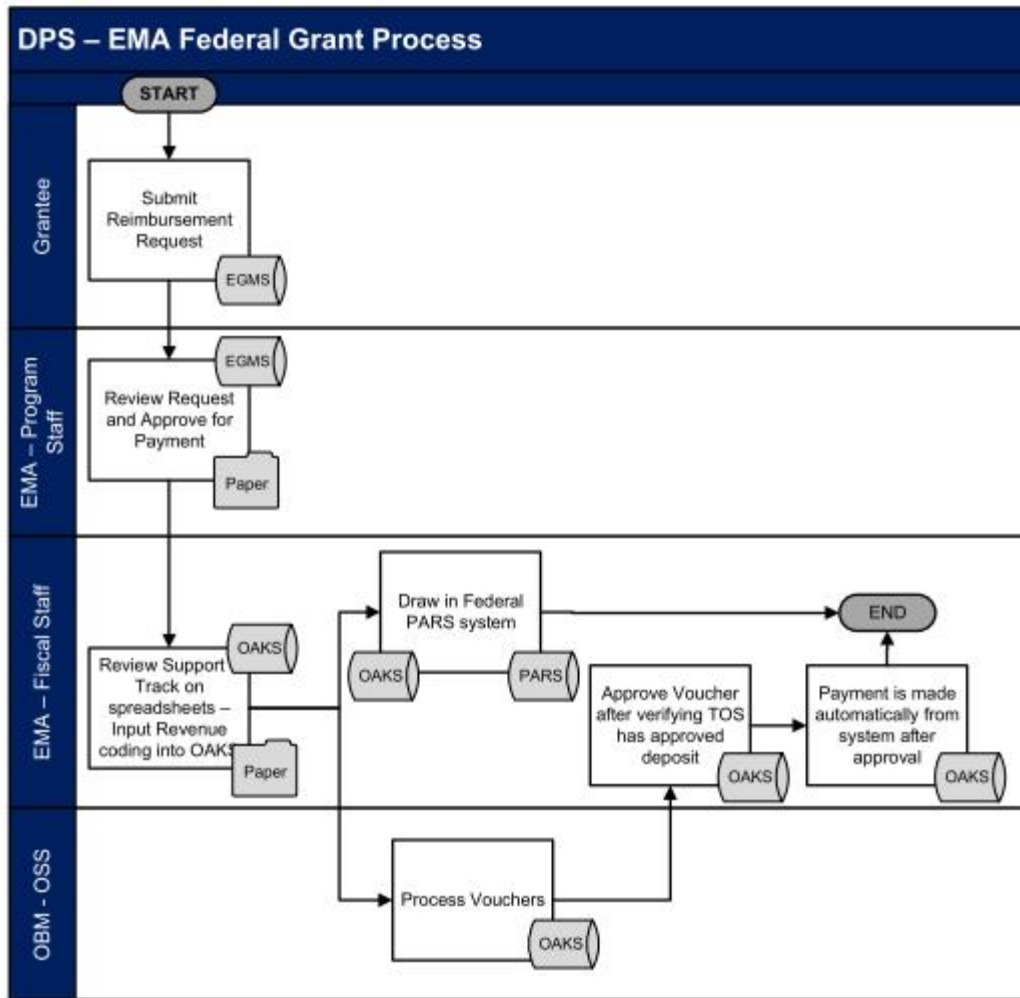
OIA reconciled OAKS revenue to the federal Payment and Reporting System (PARS) and the "Cash Draw for Grant Payments" spreadsheet maintained by EMA finance. Expenditures processed and paid in OAKS were reconciled to the Cash Draw spreadsheets and to EMA's grant management system (EGMS). OIA's audit approach also involved the random selection of items from the FY 2010 SHSP and UASI grants for substantive testing and did not include testing of all items. Below is the summary of the procedures performed and OIA's conclusion on each objective.

OBSERVATIONS AND CONCLUSIONS

Objective 1: *Validate EMA's total FY2010 grant expenditures (SHSP and UASI) through a reconciliation of program and accounting ledgers; any unsupported variances will be identified for potential refund to FEMA*

Items Reviewed and Considered

- OAKS revenue and expenditure reports for the HSGP grant numbers DPSFE154 through 158 ran for the period of July 1, 2010 through December 31, 2014
- "Cash Draw for Grant Payments" spreadsheets for SFY12, SFY13, SFY14 and SFY15 – maintained by EMA finance staff
- FEMA Payment and Reporting System (PARS) printout for the FY2010 HSGP grant number 2010SST00012
- Electronic Grants Management System (EGMS) – maintains individual grantee reimbursement requests
- FY2010 Grant Tracking spreadsheet - maintained by EMA program staff to assist in the tracking of administrative expenditures
- Grantee/Vendor files maintained by Finance - contained vouchers and invoices

Overview of Work Performed:

Grant Revenues

Revenues were reconciled from OAKS to the "Cash Draw for Grant Payment" tracking spreadsheets and then to the PARS report. OIA ran an OAKS revenue report for the period of July 2010 through December 2014 for the FY2010 SHSP and UASI grants. The revenue deposits from the OAKS report were then traced to the "Cash Draw for Grant Payments" spreadsheet. This spreadsheet is used by the EMA Finance Office to determine the appropriate amount of revenues to draw down for each individual grant. OIA noted a few instances where revenue was recorded in OAKS but there was no corresponding entry on the spreadsheet. Further research found that these deposits were a result of subgrantees returning funding to EMA therefore there would not be a corresponding draw. OIA also ran an OAKS revenue report for the period of January through March 2015 and found no further activity for the FY2010 SHSP and UASI grants.

Reimbursement requests are recorded on the cash draw spreadsheet by grantee/vendor and are subtotaled by grant. The reimbursement requests for grants DPSFE154 through DPSFE158 are subtotaled to identify the amount that should be drawn. Grants DPSFE154 through DPSFE158 are all state subgrants for the one federal HSGP grant, which is why they are totaled and drawn in one federal request. OIA traced all reimbursement requests

for those grants on the "Cash Draw for Grant Payment" spreadsheet to a printout of all grant activity from the federal PARS system.

Grant Expenditures

Expenditures were reconciled from OAKS to the "Cash Draw for Grant Payments" spreadsheets and then to EGMS for the period of July 2010 through December 2014. This period reflects the beginning fiscal year date of when the FY2010 HSGP funds were awarded through the start date of this engagement. All expenditures for grants DPSFE154 (SHSP) and DPSFE155 (UASI) recorded in OAKS were traced to the "Cash Draw for Grant Payment" spreadsheets. During the review, OIA found two expenditures which were not listed on the cash draw spreadsheets; after further research, it was noted that these expenditures were initially expensed incorrectly out of the SHSP grant, but were drawn from the correct fund. These transactions were subsequently corrected by EMA to be expensed correctly. OIA also ran an expenditure report for the FY2010 SHSP and UASI grants for the period of January through March 2015 and found no further activity had occurred.

In order to easily trace transactions on the spreadsheets to EGMS, OIA combined the four state fiscal year cash draw spreadsheets and created a pivot table to group the transactions by grantee/vendor. For this objective, OIA only verified the reimbursement request in EGMS was for the same amount that was recorded on the "cash draw for grant payment" spreadsheets and did not review invoices to ensure the reimbursement request was accurate. For administrative (including travel and payroll) and state project expenditures, OIA obtained the FY2010 Grant Tracking spreadsheet maintained by program staff. This spreadsheet only contained amounts by project or type of administrative expenditure and did not always include all expenditures. OIA was able to trace a limited number of OAKS expenditures to this grant tracking spreadsheet. However, for those expenditures not listed, or easily traced to the grant tracking spreadsheet, OIA pulled the vendor files maintained by EMA Finance and verified there was an invoice present for each expenditure in the same amount as requested. There were several transactions that required additional explanation and support from the EMA finance staff. Below is a listing of some of the items noted when comparing the cash draw spreadsheets to EGMS:

- Three transactions identified on cash draw spreadsheets but not in EGMS for the FY2010 SHSP or UASI grants:
  - Expenditure was initially drawn incorrectly from the UASI grant and excess cash was subsequently established for that fund;
  - Subgrantee submitted a request for partial payment on an invoice, but EMA drew the full invoice amount, resulting in an overpayment to the subgrantee. However, this subgrantee subsequently submitted a refund for the full overpayment amount and excess cash was subsequently established by EMA;
  - Request was submitted against the 2009 grant but EMA drew against the 2010 grant. EMA subsequently corrected the accounting ledgers to accurately reflect activity.

- Two transactions identified in EGMS but were not on cash draw spreadsheets:
  - Item was incorrectly named on the cash draw spreadsheet, but was correctly drawn.
  - Subgrantee submitted original request to be split between two grant years (2010 and 2011), but EMA processed entire request against 2011 grant. This was subsequently corrected by EMA and appeared allowable based on support provided.

Conclusion:

Revenues

Based on the procedures performed and documentation obtained, OIA was able to reconcile grant revenues through OAKS, PARS and agency cash draw spreadsheets with no exceptions noted.

Expenditures

Based on the procedures performed and documentation obtained, OIA was able to reconcile grant expenditures through OAKS, EGMS, agency cash draw and grant tracking spreadsheets, and vendor files, with no exceptions noted.

Process Improvement Recommendations

During the reconciliation, OIA noted several instances where EMA could make improvements to their processes.

- There was one instance where the full invoice amount was paid using the state procurement card, despite part of the goods being on back order. This later caused an adjustment to be made as the vendor attempted to charge payment again once the back-ordered goods were shipped; however, the latter charge was detected by EMA and adjusted out to ensure proper payment for the goods received. Grant Administrators and Finance staff should ensure that payment is only being made for goods that were actually received.

- Currently, EMA is utilizing a grant tracking sheet maintained by the program grant administrators to track grant totals as EGMS does not have the ability to give a point-in-time snapshot of total grant funds remaining. The grant tracking sheet is manually updated to capture grantee requests/expenditures by quarter for all grantees, state projects and administrative expenditures. It was noted during testing that this spreadsheet is not always accurate and does not allow someone to easily determine if expenditures have already been recorded. The current EMA program grant administrator indicated the grant tracking sheet is not an official spreadsheet but is relied upon when giving updates to management on the remaining balance by grantee and for the grant as a whole. This grant tracking sheet is also the only way state projects and administrative expenditures are tracked; state projects are not

currently maintained in EGMS. EMA should evaluate the business need for this spreadsheet. If it is determined that this spreadsheet is beneficial, EMA could consider revising the format of this spreadsheet by creating separate tabs for each grantee, state project and administrative expenditure. This would allow for more details to be recorded for each expenditure, such as invoice number, date, etc. A summary tab could then be created to automatically pull totals from the individual tabs into a quick overview of the grant activity and balances as a whole.

- Since EGMS only tracks grantee activity, consider creating a state project "grantee" so that state projects can also be tracked and approved through EGMS. This would also help to reduce the manual tracking being done on the grant tracking spreadsheet.

- In instances where a grantee submits a reimbursement request against the wrong grant within EGMS, consider rejecting the request and require the grantee to resubmit the request for the correct grant. This will help to ensure information within EGMS is accurate and reduce the number of adjusting entries that are needed.

- Consider creating and implementing a standard naming mechanism for state grants within EGMS. During this review, OIA observed various naming conventions to reflect the FY2010 SHSP and the FY2010 SHSP set asides (i.e., law enforcement, training, etc.). Having standard grant names available to record in EGMS makes it easier to locate and compare specific grants.

Objective 2: *Validate the allowability of SHSP and UASI expenditures in accordance with the HSGP program requirements.*

Items Reviewed and Considered

- OAKS expenditure report for the HSGP grant numbers DPSFE154 and DPSFE155 ran for the period of July 1, 2010 through December 31, 2014
- Reimbursement requests within EGMS with attached invoices
- DHS Authorized Equipment List website - provided by EMA grant administrator
- Vendor files maintained by EMA Finance for administrative and state project expenditures
- Payroll data maintained by EMA Finance including Time and Effort reporting

Overview of Work Performed:

OIA identified approximately 1,877 expenditure transactions out of the FY2010 SHSP and UASI grants for the period July 1, 2010 through December 31, 2014. After analysis of the expenditures, OIA found that 84 percent of the transactions were from SHSP and the

remaining 16 percent were from UASI. Based on the population size, OIA determined to select a total sample of 60 transactions over the period noted above. Based on the allocation of expenditures between the two grants, 50 transactions were selected and tested from SHSP expenditures and 10 transactions were selected and tested from UASI expenditures. OIA randomly selected the 60 transactions utilizing the sampling function within ACL software.

Selected transactions were located in EGMS (if a grantee reimbursement) and attached support documentation (i.e., grantee request, invoice, etc.) was reviewed to validate the allowability of the expenditure. During the sample selection, there were administrative and travel costs (made using the state purchase card) selected which were not maintained within EGMS. For these items, OIA pulled the vendor file and reviewed the voucher and attached support. Each expenditure was tested for the following attributes:

- Payment Amount agreed to Invoice
- Payment coded to correct project ID (SHSP = DPSFE154 and UASI = DPSFE155)
- Purchase was on the allowed equipment listing, if applicable
- Purchase deemed reasonable and in line with grant purpose
- EMA draw date was after the invoice date
- Adequate support maintained for expenditure
- There were less than 120 days between the draw date and accounting date

Travel expenditures (reflecting reimbursement to employees for travel costs associated with these grants) were sampled separately, as they were not included in the original grant expenditure report (OAKS maintains separate modules and reports for travel and general ledger transactions, which is how the state's payroll transactions are recorded). As such, they were not included in the sample of 60, but were sampled and tested separately. For the 15 travel expenditures identified, OIA pulled a separate sample of two transactions, testing for the same attributes above. Support for all payroll transactions paid with FY2010 HSGP funding was reviewed during the reconciliation in objective one; therefore, no substantive testing was re-performed.

Conclusion:

*During testing, there was one error noted. The payment, "Cash Draw for Grant Expenditure" spreadsheet, and EGMS reimbursement request all indicated a reimbursement of $429.65, however the attached invoices totaled to $419.70. The variance of $9.95 was discussed with EMA who had no additional support available to explain this variance. Therefore it was determined that there was an **overpayment of $9.95** made to Montgomery County on April 12, 2013. No other errors were noted during the testing of expenditures.*

There were no errors noted during the testing of travel or payroll transactions for the review period.

Should you have questions or desire further consulting services, please contact me. A written response is not required for this memorandum.

Interim summary results were provided to the State Audit Committee in executive session at their March 26, 2015 meeting. After the June 2015 committee meeting, deliverables are considered public records in accordance with Ohio Revised Code Section 149.43, and will be posted to OIA's website.