



# Department of Homeland Security Office of Inspector General

**The State of California's Management of  
State Homeland Security Program Grants  
Awarded During  
Fiscal Years 2004 through 2006**





Homeland  
Security

February 20, 2009

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.

The attached report presents the results of the audit of the State of California's management of State Homeland Security Program grants awarded during Fiscal Years 2004 through 2006. We contracted with the independent public accounting firm Foxx and Company to perform the audit. The contract required that Foxx and Company perform its audit according to generally accepted government auditing standards. Foxx and Company's report identifies 10 reportable conditions where State management of the grant funds could be improved, resulting in 21 recommendations addressed to the Administrator, Federal Emergency Management Agency. Foxx and Company also identified a best practice that should be considered for use by other jurisdictions. Foxx and Company is responsible for the attached auditor's report dated February 3, 2009, and the conclusions expressed in the report.

The recommendations herein have been discussed with those responsible for implementation. We trust that 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.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



February 3, 2009

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 California's management of the Department of Homeland Security's State Homeland Security Program grants for Fiscal Years 2004 through 2006. The audit was performed in accordance with our Task Order No. TPD-ARC-BPA-07-0013 dated September 21, 2007. This report presents the results of the audit and includes recommendations to help improve California's management of the audited State Homeland Security Programs.

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 California'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*

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## **Executive Summary**

Foxx and Company completed an audit of the State of California's Management of State Homeland Security Program grants awarded during fiscal years 2004 through 2006. The audit objectives were to determine whether the State Administrative Agency (1) effectively and efficiently implemented the programs, (2) achieved program goals, and (3) spent funds in accordance with grant requirements. The State received about \$690 million for six activities funded under the Homeland Security Grant Program during this period. The State Homeland Security Program, one of the six funded activities, received about \$265 million.

Overall, the State Administrative Agency did an efficient and effective job of administering the program requirements, distributing grant funds, and ensuring that all of the available funds were used. The State used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and complied with cash management and status reporting requirements. Also, the State generally spent the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities and priorities. The procurement methodology was in conformance with the State's strategy.

However, improvements were needed in California's management of the State Homeland Security Program grants to strengthen grant fund reallocations, better measure subgrantee preparedness, increase the frequency and scope of subgrantee oversight, strengthen internal controls over funds management, assure compliance with federal purchasing requirements, utilize equipment purchased with grant funds, and assure full and fair competition in procurement. We identified a best practice that should be considered for sharing with other states. Our 21 recommendations call for the Federal Emergency Management Agency to initiate improvements to strengthen management and improve oversight. Concurrences or non-concurrences from Federal Emergency Management Agency and California officials are included, as appropriate.

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## Background

The Homeland Security Grant Program is a federal assistance grant program administered by the U.S. Department of Homeland Security (DHS), Grant Programs Directorate within the Federal Emergency Management Agency (FEMA). The current Grant Programs Directorate, hereafter referred to as FEMA, began with the Office of Domestic Preparedness, which was transferred from the Department of Justice to DHS in March 2003. The Office of Domestic Preparedness was subsequently consolidated into the Office of State and Local Government Coordination and Preparedness which, in part, became the Office of Grants and Training, and which subsequently became part of FEMA.

Although the grant program was transferred to DHS, applicable Department of Justice grant regulations and legacy systems still were used as needed to administer the program. For example, the State Administrative Agency entered payment data into the Office of Justice Programs' Phone Activated Paperless Request System, which was a drawdown payment system for grant funds.

### Homeland Security Grant Programs

The Homeland Security Grant Program provides federal funding to help state and local agencies enhance their capabilities to prevent, deter, respond to, and recover from terrorist attacks, major disasters, and other emergencies.<sup>1</sup> The Homeland Security Grant Program encompasses several different federal grant programs, and depending on the fiscal year, included some or all of the following programs: the State Homeland Security Program, the Law Enforcement Terrorism Prevention Program, the Citizen Corps Program, the Urban Areas Security Initiative, the Metropolitan Medical Response System Program, and the Emergency Management Performance Grants.

**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. The program supports the implementation of the State Homeland Security Strategy to address the identified planning, equipment, training, and exercise needs.

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<sup>1</sup> The goal of the FY 2006 Homeland Security Grant Program included all activities necessary to address the entire range of threats and hazards. The FYs 2004 and 2005 Programs addressed only threats and incidents of terrorism.

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**Law Enforcement Terrorism Prevention Program** provides law enforcement communities with funds to support the following prevention activities: information sharing to preempt terrorist attacks, target hardening to reduce vulnerability of selected high value targets, recognition and mapping of potential or developing threats, counterterrorism and security planning, interoperable communications, interdiction of terrorists before they can execute a threat, and intervention activities that prevent terrorists from executing a threat. These funds may be used for planning, organization, training, exercises, and equipment.

**Citizen Corps Program** is the department's grass-roots initiative to actively involve all citizens in hometown security through personal preparedness, training, and volunteer service. Funds are used to support Citizen Corps Councils with efforts to engage citizens in preventing, preparing for, and responding to all hazards, including planning and evaluation, public education and communication, training, participation in exercises, providing proper equipment to citizens with a role in response, and management of Citizen Corps volunteer programs and activities.

**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. 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.

**Metropolitan Medical Response System Program** supports jurisdictions in enhancing and sustaining integrated, systematic, mass casualty incident preparedness to respond to mass casualty events during the first hours of a response. This includes the planning, organizing, training, and equipping concepts, principles, and techniques, which enhance local jurisdictions' preparedness to respond to the range of mass casualty incidents – from chemical, biological, radiological, nuclear, and explosive events to epidemic outbreaks, natural disasters, and large-scale hazardous materials incidents.

**Emergency Management Performance Grant** funds are used to support comprehensive emergency management at the state and local levels and to encourage the improvement of mitigation, preparedness, response, and recovery capabilities for all hazards.

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DHS is responsible for leading and supporting the nation in a comprehensive, risk-based, all-hazards emergency management program, and these performance grant funds are a primary means of ensuring the development and maintenance of such a program. Funds may also be used to support activities for managing consequences of acts of terrorism.

### **State Administrative Agency**

The governors of each state appoint a State Administrative Agency to administer the Homeland Security Grant Programs. The State Administrative Agency is responsible for managing these grant programs in accordance with established federal guidelines. The State Administrative Agency is also responsible for allocating funds to local, regional, and other state government agencies.

In 2004, California's Governor designated the Office of Homeland Security to be the State Administrative Agency for the Homeland Security Grant Programs. The California Office of Homeland Security administered all of the Homeland Security Grant Programs grants included in our audit scope. The Office of Homeland Security's organizational structure is depicted in the organizational chart in Appendix B.

### **Grant Funding**

The State of California received approximately \$690 million in funds from the Homeland Security Grant Programs during Fiscal Years (FYs) 2004 through 2006. Table 1 displays a breakdown of the grant funds by year and funded activity. Not all funded activities were part of the Homeland Security Grant Programs during each of the fiscal years.

**Table 1**

<b>California Homeland Security Grant Awards</b>				
<b>Fiscal Years 2004 through 2006</b>				
<b>Grant Programs ('000s)</b>				
<b>Programs</b>	<b>2004 Homeland Security Grant Program</b>	<b>2005 Homeland Security Grant Program</b>	<b>2006 Homeland Security Grant Program</b>	<b>Total</b>
State Homeland Security Program	\$133,174	\$ 84,614	\$ 47,580	\$265,368
Law Enforcement Terrorism Protection Program	\$ 39,517	\$ 30,769	\$ 42,370	\$112,656
Citizen Corp Program	\$ 2,766	\$ 1,074	\$ 1,528	\$ 5,368
Metropolitan Medical Response System Program	Not Included	\$ 4,097	\$ 4,181	\$ 8,278
Urban Areas Security Initiative	Not Included	\$148,279	\$136,290	\$284,569
Emergency Management Performance Grant	Not Included	\$ 13,790	Not Included	\$ 13,790
<b>Total</b>	\$175,457	\$282,623	\$231,949	\$690,029

Foxx and Company completed an audit of the State of California's Management of DHS' FYs 2004 through FY 2006 State Homeland Security Programs. The objectives of the audit were to determine whether the State Administrative Agency (1) effectively and efficiently implemented State Homeland Security Programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that could help the State of California prepare for and respond to terrorist attacks and other hazards, as applicable to the goals of the Programs. Nine researchable questions provided by the DHS OIG established the framework for the audit. The researchable questions were related to the State Administrative Agency's planning, management, and results evaluations of grant activities. Appendix A provides additional details on the objectives, scope, and methodology of this audit, including the nine researchable questions.

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## Results of Audit

Overall, the State Administrative Agency did an efficient and effective job of managing over \$265 million dollars in State Homeland Security Program grant funds received for FYs 2004 through 2006. The California Office of Homeland Security appropriately distributed the grants, and ensured that all of the available funds were used. The State used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and complied with cash management and status reporting requirements. Also, the State generally spent the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities, and priorities. The procurement methodology was in conformance with the State's strategy.

However, improvements were needed in California's management of State Homeland Security Program grants to strengthen grant fund reallocations, better measure subgrantee preparedness, increase the frequency and scope of subgrantee oversight, strengthen internal controls over funds management, assure compliance with federal purchasing requirements, utilize equipment purchased with grant funds, and assure full and fair competition in procurement. We identified a best practice that should be shared by FEMA with other states.

### Reallocated Grant Funds Not Documented

The State Administrative Agency reallocated millions in grant funds from one subgrantee to another without documenting this change in the grant files. As a result, the State's reallocation system did not include sufficient controls to assure that redirected funds were used in accordance with grant guidelines.

The Department of Homeland Security Financial Management Guide states that funds specifically budgeted and/or received for one project may not be used to support another without prior written approval by the awarding agency. All requests for programmatic or administrative changes must be submitted in a timely manner by the grantee/subgrantee. Also, DHS Information Bulletin No. 216, dated August 11, 2006, approved the use of FYs 2004 through 2006 grant funds to reimburse state organizations for operational costs associated with DHS-announced elevated threat levels. Grants approved for this use

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were limited to the Urban Areas Security Initiative and the Law Enforcement Terrorism Prevention Program. Use of State Homeland Security Program grant funds for the purpose of reimbursing state organizations for operational costs associated with elevated threat levels was not approved.

Near the end of the FY 2004 grant performance period, the State identified funds that subgrantees had not expended and reallocated the funds to other subgrantees who could expend the funds within the remaining performance period of the grant. State Administrative Agency grant managers stated they wanted to use all available grant funds to enhance first responder preparedness. Although some subgrantees stated that some of their grant funds were reallocated, we found no record of these changes in the State Administrative Agency's grant files. Other subgrantees told us they had received redirected grant funds, but again no records of these changes were present in the grant files. In a document prepared for us by the State, we noted that for FY 2004, the State recalled Law Enforcement grant funds from 28 subgrantees and State Homeland Security Program grant funds from 20 subgrantees.

Some of these funds, as well as \$1,000,000 in FY 2006 State Homeland Security Program funds, were used to reimburse a State agency that spent more than \$4,000,000 providing security for major California airports during an extended terrorist alert announced by DHS. The California Office of Homeland Security approved reimbursement of these operational costs using Homeland Security grant funds. Accounting system reimbursement records showed that \$1,111,966 of these funds were State Homeland Security Program grant funds. As stated in Bulletin No. 216, State Homeland Security Program grant funds were not authorized to be used for this purpose.

Undocumented reallocations of grant funds represented an internal control weakness that resulted in at least one unauthorized use of grant funds. The State accounting system's internal controls did not require that funds reallocated from one subgrantee to another be documented in the grant files. Documentation supporting the purpose for which the reallocated funds were to be used as well as the source of the grant funds should have been maintained when reallocations occurred.

Without supporting documentation, controls were not sufficient to ensure that redirected funds were used in accordance with grant

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guidelines. The use of the State Homeland Security Program grant funds for operational costs associated with DHS announced elevated threat levels was not in compliance with DHS Information Bulletin No. 216. As a result, we consider the use of the \$1,111,966 claimed for this purpose to be a questioned cost.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #1:** Strengthen and implement the State Administrative Agency's internal controls concerning the documentation of grant fund reallocations and include controls to ensure that the reallocated funds will be used consistent with applicable grant guidelines,

**Recommendation #2:** Unless appropriately resolved, disallow the \$1,111,966 used to reimburse a State agency for heightened alert costs, and

**Recommendation #3:** Determine if other instances of unauthorized redirection of grant funds have occurred.

## **Management Comments and Auditor's Analysis**

FEMA Grant Programs Directorate verbally concurred at the exit conference with this finding. However, the FEMA officials did not address recommendations 1 through 3 in their written comments.

California Office of Homeland Security officials concurred with the finding and the recommendations. The officials said that "...in this instance the funds were inadvertently used for heightened alert costs that should not have been. However, the total award to the Military Department for that grant year will allow for the costs to be charged to a grant where they were eligible and replaced by costs that are eligible under the State Homeland Security Program." The California officials agreed to adjust the accounting records to assure the questioned costs are charged to the proper grant accounts. Further, California will perform additional training and improve controls in the reallocation process to ensure reallocated funds are documented in the grant files. California officials said that a thorough review of the entire grant process has

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shown that there were no other cases of unauthorized redirection of grant funds.

If properly implemented, the actions California has agreed to take will resolve the problem identified during the audit. However, documentation will be needed from the State officials to confirm that there were no other cases of unauthorized redirections of grant funds. In addition, FEMA needs to ensure that the State's realignment of costs is adequately supported as eligible under the State Homeland Security Programs. The recommendations will remain open until the actions are completed.

Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

### **Improved Measurement of Subgrantee Preparedness Was Needed**

Goals and objectives established by the State Administrative Agency did not provide an adequate basis for measuring preparedness improvements resulting from grant program funding.

California's goals and objectives, approved by FEMA as a part of its State's preparedness strategy in FY 2004, were expanded in FYs 2005 and 2006. However, the objectives, especially for subgrantee first responders, were not specific, measurable, results-oriented, or time limited as required. As a result, the State was unable to systematically measure improvements in subgrantee capabilities and State-wide preparedness.

Code of Federal Regulation Title 28 § 66.40, *Monitoring and reporting program performance*, requires grantees to establish goals and measure and report grant program performance. These requirements also extend to subgrantees. DHS grants management guidance from 1999 through 2007 has emphasized the importance of measurable program objectives for equipment, exercise, and administrative allocations.

The DHS 2003 guidance for the Needs Assessment process specified that a state's new or updated strategy should include broad-based goals with objectives that were "specific, measurable, achievable, results-oriented, and time limited." A DHS-approved Strategic Plan based upon this Assessment was required as a precursor to the award of the FY 2004 State Homeland Security Program grant. The DHS also required the state to link the use of

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FY 2005 and 2006 grant funds to the goals and objectives in the DHS-approved strategy.

During our visits to subgrantee locations, we asked if the State or the local jurisdiction were measuring preparedness improvements resulting from the grant program. We were told that there were significant preparedness improvements, but neither the State nor the local jurisdictions had systematically quantified or measured the improvements.

State Administrative Agency officials said that the development of measurable goals and objectives was difficult and that helpful guidance was not received from FEMA until November 2007. Additionally, the officials cautioned that performance measures must be carefully developed, specifically tied to the State's strategy, goals, and objectives, and consistent with resource availability and allocation. The officials believe that measurable goals and objectives would be best accomplished with the planned performance measures still under development. Although the State had multiple goals and supporting objectives for FYs 2004, 2005, and 2006, the objectives for the most part were not specific, measurable, achievable, results oriented, and time limited. Some of the objectives did satisfy these criteria, but these objectives mostly related to State-level plans, activities, and uses of resources. The objectives related to subgrantee preparedness generally did not satisfy the criteria.

At the conclusion of our audit field work, the State Administrative Agency was developing performance measures, consistent with FEMA's latest guidance issued in November 2007. According to Agency officials, the performance measures might be ready for use during the FY 2009 grant year.

Without specific measurable goals and objectives linking the State's strategy and subgrantees' use of grant funds to acquire equipment, training, and exercises, the State (1) could not adequately evaluate the relative impacts that grant funds had on first responders' ability to respond to terrorist attacks or natural disasters, (2) lacked important tools for allocating grant funds and providing oversight to subgrantees, and (3) was not able to assess first responder capabilities or justify continued grants.

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## Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #4:** Establish measurable goals and objectives that will enable the State to systematically measure improvements in first responder capabilities and State-wide preparedness,

**Recommendation #5:** Promptly complete performance assessment metrics to assist the State and subgrantees in measuring current capabilities and improvements, and

**Recommendation #6:** Develop a statewide performance assessment system incorporating these metrics for local jurisdictions to measure and report progress toward achieving the State's goals and objectives.

## Management Comments and Auditor's Analysis

In written comments, FEMA neither concurred nor non-concurred with the three recommendations concerning the need for improved measurement of subgrantee preparedness. However, during the exit conference, FEMA officials verbally concurred with the three recommendations and acknowledged that FEMA did not have good visibility of how the State assessed subgrantee preparedness. Nevertheless, in both the written comments and during the exit conference, the FEMA officials said that California had complied with all reporting requirements called for in the Homeland Security Grant guidance including the State's Strategy, Interoperable Communications Plan, and the State Preparedness Report, among others.

In written comments, California officials concurred with neither the finding nor the three recommendations. The officials contended that the State already had measurable goals and objectives. The officials also contended that the audit report indicated that preparedness improvements were not met. However, the audit found that California had not measured preparedness, not that the preparedness improvements were not met.

During the exit conference, California officials said that FEMA had neither specifically directed them to assess subgrantee

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preparedness improvement nor provided guidance or training on how to conduct these assessments during the years of the audit. The State officials said they assessed subgrantee improvements during investment justification conferences. Further, the officials said that in 2006 the State began to use FEMA's Target Capabilities List and Universal Task List, identifying specific improvement areas. During the exit conference the California officials said that they routinely reported on the State's preparedness improvements and the status of Homeland Security grants in their annual and semi-annual progress reports.

In the written comments and during the exit conference, California officials said that the State is now engaged in developing a detailed measurement system that should, when it is deployed, provide more detailed measures of preparedness improvements for specific areas. The State officials acknowledged that they were still in the process of implementing the statewide metrics data collection project for emergency resources and capabilities, but expected to have most of the data collected by January 2009 and then available for measuring further preparedness improvements in very specific areas.

In response to the State's comments concerning the criteria used for this finding, we added a paragraph to the report that specifically identifies the documented source of the DHS requirement that the State's strategy include broad-based goals with objectives that were "specific, measurable, achievable, results-oriented, and time limited." In addition, we reviewed goals and associated objectives in the State's strategy and compared the goals and objectives to related annual reports, as well as subgrantee-related excerpts from the State's semi-annual progress reports. For the most part, the State's fiscal years 2004, 2005, and 2006 multiple goals and numerous supporting objectives were not specific, measurable, achievable, results-oriented, or time limited. Some objectives did satisfy these criteria, but were mostly related to State-level plans, activities, and uses of grant funds as opposed to subgrantee activities.

As a result, the State's assessments in annual reports and other documents for these years did not specify subgrantee (first responder) preparedness improvements, remaining capability gaps, or details on how the gaps would be filled. Clearly, California has benefited from the hundreds of millions of dollars the State's subgrantees were awarded during the years audited. However, we believe more precision in assessing subgrantee improvements

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would have helped the State and FEMA officials ensure that grant funds were efficiently and effectively used in accordance with approved goals and objectives.

In this regard, we observed a continuing effort by State officials to establish more detailed objectives and develop better ways to measure preparedness improvements, including a State metric system which was still being developed. Continued emphasis on these initiatives may be responsive to recommendations 4, 5, and 6 and should resolve the finding. However, the recommendations will remain open until the actions are fully implemented. Within 90 days, the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations .

### **Timely Monitoring of Subgrantees Was Absent**

The State Administrative Agency did not monitor subgrantee performance until late 2005. When monitoring started, the frequency and scope of the subgrantee visits did not ensure that (1) program goals were being achieved and (2) funds were being expended as intended. As such, the State Administrative Agency did not have sufficient oversight of the subgrantees grant management activities.

According to Code of Federal Regulations Title 28 § 66.40, *Monitoring and reporting program performance*, grantees are required to provide day-to-day management of all grants and subgrant supported activities, and ensure that subgrantees comply with applicable federal requirements and achieve program performance goals. The regulation also specifies that grantees' monitoring programs must cover each program, function, or activity, and requires subgrantees to adhere to the same performance monitoring and reporting standards required of grantees.

As of December 2007, monitoring activities had been performed once for just over 50 % of the subgrantees. Between November 2005 and December 2007, the State Administrative Agency's Monitoring and Audit Unit focused on closing out grants awarded prior to 2005. The Monitoring and Audit Unit completed either a site visit or a desk audit for 82 of the 155 subgrantees that received funds from DHS grants prior to FY 2005.

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Grant monitors focused on compliance with grant-related requirements, but not on the achievement of program goals. The monitors also did not ensure that all grant funds were being expended as intended. For example, we noted that completed monitoring visits had not identified any of the procurement-related problems we identified during our visits. As of the completion of our field work, the agency's monitoring unit had yet to finish its work on the State's pre-2005 grants, and had not started work on the FYs 2005 through 2006 grants. The FYs 2005 through 2006 grants had a total dollar value of \$514.6 million.

State Administrative Agency officials did not establish a monitoring unit until November 2005 because the agency was not adequately staffed. Once established, the focus of the monitoring visits was on closing out older grants and not on achieving goals or grant objectives. In addition, the monitoring positions were temporary and classified for the State's entry-level employees. According to State officials, the monitoring unit experienced a significant turnover of personnel during FY 2006 and FY 2007 as staff sought higher paying, permanent positions. During the first quarter of FY 2008, the monitoring unit suffered additional significant leadership and staff vacancies.

Monitoring is a key oversight tool. However, the backlog of unmonitored subgrants continued to grow as staffing issues limited the effectiveness of the State Administrative Agency's monitoring unit. As a result, the Agency had insufficient assurance that program goals were being achieved or that grant funds were being properly expended.

## Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #7:** Increase the frequency of visits to subgrantee locations to assure that subgrantee activities are in compliance with federal requirements,

**Recommendation #8:** Improve monitoring procedures to include assessments of the subgrantees' achievement of program goals, and ensure that grant funds are being expended as intended.

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## Management Comments and Auditor's Analysis

At the exit conference, FEMA concurred with the finding and recommendations 7 and 8 concerning the need for timely monitoring of subgrantees. In its written comments, FEMA neither concurred nor non-concurred with the recommendations, but agreed that a formal financial and programmatic subgrantee monitoring schedule be established and regular monitoring visits be conducted of subgrantees for more recent fiscal year programs (FY 2006 and beyond). With respect to recommendation 8, FEMA stated that California has established a comprehensive subgrantee monitoring tool, which is an exemplary document.

In their written comments, California officials concurred with recommendation 7 that they would like to increase the frequency of visits to subgrantee locations to ensure that funds are being expended as intended, and to confirm that policies regarding competitive and sole source bid procurements are being followed. The State officials said they will begin instituting a program of on-site compliance visits to subgrantees in September 2008. State officials said these on-site visits will be in addition to the on-site monitoring visits already being conducted. The State added that these visits will ensure that the programmatic goals of the subgrantees are being addressed with the funding. The State officials also said in the written comments that since November 2005, the State Administrative Agency had monitored over \$600 million in homeland security grants and ensured that all of those funds were used appropriately by subgrantees.

In written comments for recommendation 8, the State officials said they did not concur with monitoring program goals against a standard that is a moving target related to preparedness. However, recommendation 8 was that the State should develop standard monitoring procedures to include assessments of the subgrantee's achievement of program goals, and ensure that funds are being expended as intended. The recommendation did not address monitoring program goals to a standard that is a moving target related to preparedness. In its written comments, the State said it already monitors to ensure that funds are being expended as intended and that its monitoring process has been held up as a best practice "both inside the State of California by the California Bureau of State audits and by the federal grant monitoring program now in FEMA."

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However, during the exit conference, State officials acknowledged that the State's monitoring program provided "insufficient" assurance that program goals were being achieved. Officials concurred that the State's monitoring procedures could be improved. It was agreed during the exit conference that the recommendation would be changed from "developing monitoring procedures" to "improving monitoring procedures." With this change, the officials concurred with the recommendation.

As disclosed during the audit, monitoring staff did not ensure that all grant funds were expended as intended. The monitoring focused on closing out grants awarded prior to 2005. Grant monitors focused on compliance with grant-related requirements, but not on the achievement of program goals. By the conclusion of our field work, the State had not reviewed any of the 2005 through 2007 subgrants; a backlog of pre-2005 subgrants still existed. The over \$600 million of grants referred to in the State's written comments related to the catch up monitoring being done on the backlog of pre-2005 subgrants. The State acknowledged that beginning in September 2008 a program was being initiated to address the intent of recommendations 7 and 8.

If appropriately implemented, the program may be sufficient to resolve the finding. However, the recommendations will remain open until the actions are fully implemented. Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

## **Financial Status Reports Were Inaccurate**

The expenditures and unliquidated obligations reported on the Homeland Security Grant Financial Status Reports did not always agree with the State's accounting system records. Most of the 18 Financial Status Reports reviewed did not reconcile to the State's accounting system. This occurred because the State's accounting system and the Financial Status Reports used different reporting periods, and personnel were not sufficiently trained. As a result, there was little assurance that the expenditures and unliquidated obligations reported to DHS were correct.

Code of Federal Regulations Title 28 § 66.20, *Standards for financial management systems*, and the DHS Financial Guide require all grantees to maintain records which permit preparation

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of reports and adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grants or sub-awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be sufficient to permit preparation of reports required by these regulations and the statutes authorizing the grants.

Homeland Security Grant Program guidance requires grantees to submit quarterly Financial Status Reports. These reports are designed to provide DHS with financial information about the activities (expenditures and unliquidated obligations) of the grant programs, as reflected in the grantees' official accounting records.

To verify their accuracy, we selected 18 of the Financial Status Reports for the Homeland Security Program Grants included in our review. Our analysis showed that cumulative outlays reported in 3 of the 18 Financial Status Reports did not agree with the expenditures recorded in the State's accounting system. Our analysis also showed that unliquidated obligations reported in 15 of the 18 Financial Status Reports did not agree with the unliquidated obligations recorded in the accounting system.

According to State officials, the following conditions contributed to the State's inability to accurately report the expenditures and unliquidated obligations of the homeland security grant program:

- The State's accounting office had no written procedures for preparing the Financial Status Reports.
- No one person had been assigned the responsibility for preparation of the Financial Status Report because of staffing shortages. Therefore, when the reports were due, any employee who was available prepared the report. The employee may have had no training, and as a result, possibly prepared the report incorrectly.
- The State's accounting system and the Financial Status Reports used different reporting periods.
- Accounting staff prepared the Financial Status Reports without resolving and documenting why differences existed.

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When unliquidated obligations recorded in the accounting system are incorrect, the potential exists for the State to obligate and expend funds it does not have. In addition, incorrect Financial Status Reports resulted in the State providing FEMA with inaccurate financial information about the activities (expenditures and unliquidated obligations) of the grant programs.

## **Recommendation**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director, California Office of Homeland Security to:

**Recommendation #9:** Develop written procedures for preparing Financial Status Reports, train employees to use these procedures, and assure the reports are reviewed and reconciled to the accounting system prior to submission.

## **Management Comments and Auditor's Analysis**

At the exit conference, the FEMA Grant Programs Directorate officials concurred with this finding and recommendation 9 concerning inaccurate Financial Status Reports. However, in its written comments, FEMA did not address this finding.

In written comments, the California Office of Homeland Security officials concurred with the finding and recommendation. California officials stated that they were in the process of implementing a series of corrective actions to ensure uniformity and consistency in the preparation of financial status reports. Among these actions are improved policies and procedures for report preparation and additional training for the staff that prepare the reports.

If properly implemented, the actions California has agreed to take would resolve the finding. However, the recommendation will remain open until the action is fully implemented. Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

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## Reimbursements Did Not Require Documentation

The State Administrative Agency did not review supporting documentation for grant expenditures before reimbursing subgrantees. The State's internal control procedures did not require subgrantees to submit supporting documentation along with the reimbursement requests. As a result, the State had no assurance that subgrantee requests for grant funds were valid, eligible, and appropriately supported.

Code of Federal Regulations Title 28 § 66.20, *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.

Our reviews of several grant files disclosed that documents such as purchase orders, receipts, or delivery notices, were not present to support millions of dollars in grant expenditures. State officials explained that, in an effort to improve operational efficiency of grant management, subgrantees were not required to provide supporting documentation together with their reimbursement requests. State officials stated the Agency was not staffed to collect, review, manage, or store the thousands of pages of supporting documentation that subgrantees generated in the course of expending grant funds. Instead, State officials relied on subgrantees' self-certifications and the Monitoring Unit's periodic visits for assurance that grant funds were properly expended. The State Administrative Agency justified this procedure on the basis that:

- The documents were already present and maintained at the subgrantee locations,
- Subgrantees certified that grant expenditures satisfied federal, State, and grant requirements when requests for reimbursement were submitted, and
- The Monitoring Unit verified that appropriate supporting documentation was retained at the subgrantees location as part of the State's oversight and grant close-out process.

However, because the Monitoring Unit only infrequently visited subgrantee locations, the State Administrative Agency's oversight

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was not sufficient to assure grant funds were spent properly. Just over 50% of the subgrantees had been visited as of December 2007. In addition, the monitoring unit had not examined grant expenditures for FY 2005 or FY 2006 for any of the subgrantees.

Our review of the largest subgrantee among State agencies disclosed that this agency did not certify grant expenditures or apply for reimbursements as did other subgrantees. The officials said reimbursement requests were not required from this subgrantee because this subgrantee provided accounting services and was the fiscal agent for the State Administrative Agency. Therefore, its reimbursements did not receive oversight by the State Administrative Agency.

The State Administrative Agency's weak internal controls over grant expenditures did not provide assurance that expenditures reimbursed to subgrantees were eligible, allowable, and supportable in accordance with federal requirements. We believe controls such as self-certifications of grant expenditures by subgrantees without verification and supporting documentation are too weak to satisfy federal regulations or the DHS Financial Guide.

## Recommendation

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #10:** Strengthen internal controls over subgrantee grant expenditure reimbursements by:

- a. Requiring subgrantees to submit the minimum documentation necessary to support grant expenditures for specific invoices exceeding \$100,000<sup>2</sup>, and
- b. Ensuring that State Administrative Agency officials review supporting documentation before approving subgrantee reimbursement requests.

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<sup>2</sup> The threshold of \$100,000 was selected by the audit team based on the federal procurement regulations. Also, using the \$100,000 assures that large purchases are reviewed prior to approval and provides a good and manageable test of subgrantee controls applied to all expenditures.

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## Management Comments and Auditor's Analysis

At the exit conference, the FEMA Grant Programs Directorate officials agreed with this finding and its recommendation. However, the FEMA officials did not address this finding in their written comments.

In written comments, California officials said they concurred with neither the finding nor recommendation 10. The California officials said the use of Financial Management Forms Workbook provides the opportunity for the State to approve local expenditures and maintain a positive control over subgrantee activities. The officials also said that State Administrative Agency staff conduct on-site workshops, meetings, and conferences throughout the State.

In writing, the State officials acknowledged the need to increase the frequency of on-site visits to subgrantee locations to ensure that funds are being expended as intended. In addition, the California officials said that the program regarding on-site compliance visits being initiated in September would provide opportunities for the State Administrative Agency to review supporting documentation for major projects being performed by subgrantees. The officials said that the site visits ensure that subgrantees are properly tracking their major projects and have maintained adequate levels of documentation for those projects and costs.

At the time of our audit, the State's monitoring efforts had only included about 50 % of the subgrantees that received funds prior to fiscal year 2005. Although the State claimed during the exit conference that it completed the remaining 50 % subsequent to our fieldwork, no support for this statement was provided. The officials said during the conference that the enhanced on-site visit program scheduled for initiation in September 2008 will increase State visibility over subgrantee activities. However, based upon the State's prior record in conducting on-site visits in a timely manner, and the existing backlog of visits for fiscal years 2005 and beyond, there is no assurance that the enhanced program will provide the required internal controls.

Accordingly, we believe the State should reconsider implementing recommendation 10 and institute appropriate internal controls such as requiring documentation for large expenditures prior to approving reimbursements to the subgrantees. There are

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alternatives to the massive collections of documentation, including electronic options that are readily available to avoid the significant costs associated with paper documents. We also believe concentrating on the larger disbursements can improve the State's confidence that most of its grant funds are spent properly and that subgrantee procedures are working.

The recommendation will remain open until actions are fully implemented. Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

### **Direct and Indirect Cost Claimed By State Not Properly Documented**

Direct and indirect costs charged to the Homeland Security grants were not properly documented. This occurred because the State Administrative Agency (1) did not require employees to prepare timesheets showing time spent on each of multiple grants, and (2) did not adopt a cost allocation plan to assign indirect costs to each grant. As a result, the accuracy of the management and administrative costs charged to the grants could not be verified.

According to Code of Federal Regulations Title 2 § 225, *Cost Principles for State, Local, and Indian Tribal Governments*, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or time sheets. Personnel activity reports must reflect an after-the-fact distribution of the actual activity, must account for the total activity for each employee, must be prepared at least monthly, and must be signed by the employee.

According to Code of Federal Regulation Title 2 § 225, Appendix E, *State and Local Indirect Cost Rate Proposals*, all state departments or agencies that claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. Indirect costs are those costs incurred which benefit more than one cost objective and are not readily identified with a particular final cost objective. After direct costs have been determined and assigned, indirect costs are those remaining to be allocated.

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The State Administrative Agency managed multiple grants for DHS, including the Homeland Security Grants we reviewed. The State employed about 40 staff to administer these grants, but did not require the individual staff to prepare timesheets capturing the time spent on each grant. In addition, the agency did not prepare a cost allocation plan specifying how the Office of Homeland Security's indirect costs were allocated to the grants.

A State Administrative Agency official stated that employees' allocated direct time to the various grants based on knowledge of the activities they performed. Indirect costs were allocated based on judgment and the applicability of indirect costs to open grants.

The State Administrative Agency did not have documentation to support direct and indirect costs charged to the Homeland Security grants. Because employees did not document their time based on the activities performed while working on multiple grants, and because indirect costs were not allocated in accordance with an indirect cost allocation plan, the costs charged to the grants may not have been appropriate.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director, California Office of Homeland Security to:

**Recommendation #11:** Develop and use a cost allocation plan to assign Office of Homeland Security indirect costs to appropriate State Homeland Security Program grants.

**Recommendation #12:** Develop and implement written procedures for personnel activity reports for employees working on federal grants, and

**Recommendation #13:** Determine whether direct and indirect costs charged to the FYs 2004 through FY 2006 State Homeland Security Program grants were reasonable and disallow any claimed costs determined to be unreasonable.

## **Management Comments and Auditor's Analysis**

At the exit conference, the FEMA Grant Programs Directorate officials agreed with this finding and its recommendations.

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However, the FEMA officials did not address this finding in their written comments.

In written comments, California officials concurred with the finding and recommendations. California will prepare a plan to allocate homeland security indirect costs to appropriate grants. The State will also develop and implement written procedures for personal activity reports.

If properly implemented, the actions California has agreed to take will resolve the problems identified during the audit. However, the State will still have to provide documented evidence that the direct personnel costs and the indirect costs claimed during FYs 2004 through 2006 were reasonable and allowable.

The recommendations will remain open until the actions are fully implemented and documented. Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

## **Questionable Equipment Purchased by Subgrantees**

Our visits to 30 subgrantee organizations identified two instances where equipment purchased with FY 2005 Homeland Security grant funds were not eligible or were not being utilized as intended. One subgrantee purchased audio recorders and witness interview room equipment that did not enhance preparedness for terrorists' attacks or natural disasters. Another subgrantee purchased an emergency generator, but significantly underestimated the installation costs by \$135,000. The County has not provided funds for the installation costs, and the generator has remained unused for nearly 2 years. Accordingly, we consider the \$589,350 for the audio recorders and witness interview room equipment, and the \$96,605 for the generator to be questioned costs.

### **Equipment Purchased Did Not Enhance Preparedness.**

A subgrantee we visited purchased 3,000 digital audio recorders and installed new video and audio devices in 18 witness interview rooms in 6 of the County's law enforcement facilities. The digital audio recorders cost \$383,500 and the interview room improvements cost \$205,850. The procurements were made at the request of the County's District Attorney who sought grant

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assistance because too many cases were being lost due to poor quality witness statements. Both the digital recorders and the witness room equipment were on the FEMA authorized equipment list. Although the procurement was initially questioned by the State Administrative Agency grant representatives, it was subsequently approved when the subgrantee said it was one of the Sheriff's priorities.

DHS Grant Program Guidelines for FY 2004 and FY 2005 require that grant funds awarded to local jurisdictions be used to prevent, deter, respond to and recover from threats and incidents of terrorism. The FY 2006 Program extended the use of the funds to all hazards, including natural disasters.

Discussions with the County Emergency Service Director and the Sheriff's Office representative who managed this procurement confirmed that the purpose of this purchase was improved law enforcement practice, but not terrorism prevention, response, or disaster preparedness.

**Emergency Generator Was Not Installed.** A subgrantee used \$96,605 in FY 2005 Homeland Security Grant funds to buy a large, stationary generator to provide emergency power for the County Public Works Department. The power was needed to ensure the operation of diesel fuel storage pumps and critical office equipment in the event of a general electrical power failure. The generator was on the approved equipment list and purchased through a DHS national contract. The installation was to be completed by the County's Department of Public Works.

DHS Grant Program Guidance for FY 2005 requires that equipment purchased with grant funds be limited to items needed to respond to incidents of terrorism or natural disaster. Such equipment must be necessary, maintained, and ready for use when needed.

When installation began, maintenance staff realized the installation work was too complicated for the local staff and called in an engineering firm for assistance. The engineering firm concluded that a major renovation of the department's electrical system was needed before installation of the emergency generator could be accomplished. The major renovation was estimated to cost \$130,000. After 19 months, the County still had not appropriated the additional \$130,000 and the Public Works Department Director did not expect the County to do so.

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These two instances resulted from not following eligibility requirements for the use of grant funds or not properly considering all costs when acquiring equipment. Accordingly, we consider the total \$685,955 expended for the equipment a questioned cost.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #14:** Disallow and recover the \$589,350 claimed by the subgrantee for the equipment purchased that was not within the intent of the State Homeland Security Program grant.

**Recommendation #15:** Disallow the purchase and recover the \$96,605 in State Homeland Security Program grant funds if the emergency generator cannot be installed.

## **Management Comments and Auditor's Analysis**

FEMA Grant Programs Directorate officials agreed with the finding and concurred with the recommendations. FEMA affirmed that both the digital recorders and the interview room equipment were approvable items for subgrantees to purchase using grant funds. However, FEMA stated that they neither endorse nor condone the misuse of allowable equipment that does not meet the true intent and scope of the Homeland Security Grant Program. FEMA officials agreed that these purchases were beyond the intent of the grant in light of the information gathered during the audit. FEMA stated that it will not support deliberate and/or intentional misrepresentation of facts when requests for equipment are submitted for review and approval. In the case of the emergency generator, FEMA wants the State to ensure that the unit is installed and fully operational.

California did not concur with the finding or the recommendations. In its written comments, the State asserted that the equipment purchased serves the broad scope of the grant's prevention and protection focus and could be used to monitor and record suspects and witnesses involved in a terrorist event. Additionally, State officials confirmed that the equipment was on the Authorized Equipment List. Regarding the emergency generator, while State

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officials did not concur with the recommendation, they said they will assure that the emergency generator is installed.

California's comments are not fully responsive to recommendation 14. We believe the County's purchase of 3,000 digital recorders and equipping 18 witness rooms to improve the success of local law enforcement agencies in the local courts is beyond the intent of the grant program even if the equipment was authorized as individual purchases. The State has not provided evidence to show that these expenditures are beneficial to the objectives of the Homeland Security Grant Program. The magnitude of these expenditures to support a purpose unrelated to the Homeland Security Grant Program should be challenged by FEMA and the funds recovered. Accordingly, we reaffirm our recommendation that the \$589,350 questioned cost for the digital audio recorders and the interview room equipment be disallowed and recovered.

Regarding recommendation 15, if the emergency generator is installed and made fully operational, then this recommendation can be resolved and closed. If it is not installed and made fully operational, the questioned cost of \$96,605 for the emergency generator should be recovered.

Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

## **Federal Procurement Requirements Not Followed**

Subgrantee grant managers and county procurement authorities were not familiar with and did not always comply with federal requirements in procuring equipment. We observed multiple noncompetitive procurements without notification to or authorization from the State Administrative Agency. When using noncompetitive procedures, procurement officials did not perform cost analyses to ensure fair and reasonable prices. As a result, the grants' requirements for fair and open competition in procurement were not always practiced and subgrantees may have paid more than was necessary.

Code of Federal Regulations Title 28 § 66.36, *Procurement*, provides uniform administrative requirements for grants and cooperative agreements awarded to state and local governments.

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These regulations direct the state and local governments to use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procedures conform at a minimum to applicable federal procurement regulations. Federal procurement requirements require that grantees and subgrantees:

- Provide full and open competition,
- Obtain approval from the State Administrative Agency for non-competitive procurements,
- Perform cost analyses for non-competitive procurements, and
- Maintain records sufficient to detail the significant history of the procurements.

In particular, the regulations discourage noncompetitive procurements unless the item or service is only available from a single source, or if a public exigency or an emergency exists that precludes competition. In such cases, regulations require that the awarding agency authorize noncompetitive procurements in writing and that cost analyses be performed to assure the noncompetitive price is fair and reasonable.

During our visits to California subgrantees, we identified large equipment procurements that failed to meet federal competitive procurement requirements. Some subgrantees did not have or could not produce procurement records. Local grant administrators were not familiar with federal procurement regulations referenced in the grant guidance and had not provided procurement regulations to their local procurement departments. Four of the seven subgrantees we visited also did not notify the State grant administrators of potential noncompetitive procurements.

Table 2 summarizes the subgrantee procurements we observed that did not follow federal requirements.

**Table 2**

<b>Examples of Subgrantee Procurements Where Federal Regulations Were Not Followed</b>					
<b>Subgrantee</b>	<b>Equipment</b>	<b>Grant Year</b>	<b>Purchase Amount</b>	<b>Cost Analysis Performed</b>	<b>State Approved</b>
Subgrantee A	Communication System	2004	\$5,117,965	No	No
Subgrantee A	Personal Protective Equipment	2005	\$2,267,683	No	No
Subgrantee A	Bomb Disposal Robot	2005	\$ 294,129	No	No
Subgrantee B	Communication System	2006	\$ 150,000	No	No
Subgrantee B	Portable radios	2006	\$ 59,631	No	Yes
Subgrantee C	Communication System	2004	\$ 525,398	No	No
Subgrantee C	Communication System	2005	\$ 485,383	No	No
Subgrantee C	Personal Protective Equipment	2004	\$ 169,622	No	No
Subgrantee D	Night Vision Goggles	2004	\$ 81,110	No	No
Subgrantee D	Communication Equipment	2004	\$2,500,000	No	No

State officials said that efforts had been made to educate the subgrantees on the federal procurement requirements. However, the officials acknowledged that the training had apparently not been successful. In this regard, none of the subgrantee grant managers we visited could remember receiving state procurement guidance or training. Also, these subgrantee grant managers said they did not routinely notify local procurement departments of the federal requirements for using grant funds to procure equipment.

Some grant managers told us they were bound by local procurement practices. However, when we sought to document these procurement practices, the subgrantees could not provide the local procurement regulations. Local procurement departments were unfamiliar with federal procurement requirements associated with these grants and preferred to avoid the burden of initiating competitive procurement whenever possible. Also, local jurisdiction officials said that because of the grant timelines,

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noncompetitive contracts were awarded to more quickly spend grant funds. Sustained use of non-competitive contracts by the largest California subgrantees, particularly for communications equipment, discouraged competition and may have led to higher prices.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #16:** Develop additional procedures to assure that subgrantees:

- a. Understand and comply with the federal procurement regulations,
- b. Notify the State Administrative Agency prior to noncompetitively procuring goods and services with grant funds, and
- c. Perform required cost or price analyses when noncompetitive procurements are approved by the State.

**Recommendation #17:** Disallow any procurement actions that are not in compliance with federal procurement requirements.

## **Management Comments and Auditor's Analysis**

At the exit conference, the FEMA Grant Programs Directorate officials agreed with this finding and its recommendations. However, the FEMA officials did not address this finding or the recommendations in their written comments.

In written comments, California officials agreed with recommendation 16 for the need to improve subgrantee compliance with federal procurement regulations. California proposes to increase the frequency of the monitoring and audit team visits to subgrantees beginning in September 2008 to confirm that procurement policies are understood and being followed. The California officials also concurred with recommendation 17 that any procurement actions that are not in compliance with federal procurement requirements should be disallowed. However, the officials did not propose actions for procurements found to not be

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in accordance with federal requirements. The State needs to inform FEMA of the actions it will take for procurement actions identified as not being in accordance with federal requirements, starting initially with those found during the audit.

Continued oversight, training, and emphasis will likely be necessary to minimize these problems. Accordingly, the recommendations will remain open until the actions are fully implemented.

Within 90 days the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

## **Communications System Procured Without Full and Open Competition**

A contract to acquire a new hospital communications system was awarded without competition to the firm that developed the specifications for the system. The procurement was conducted without State notification or approval and without a cost analysis to assure that the sole source price was fair and reasonable. The firm that designed and prepared the specifications for the procurement agency was also the only bidder. As a result, FY 2005 grant funds were expended inappropriately and an organizational conflict of interest was present that undermined full and open competition. Moreover, the subgrantee may have paid more for the system than was fair or reasonable. The inappropriate expenditure of FY 2005 grant funds of \$150,000 for this system is considered a questioned cost.

The DHS Financial Management Guide states that grant recipients shall be alert to organizational conflicts of interest or non-competitive practices in contracting that may restrict or eliminate competition or otherwise restrain trade. Contractors that develop or draft specifications, requirements, statements of work and/or Requests for Proposals for a proposed procurement shall be excluded from bidding or submitting a proposal to compete for the award of such procurement.

The subgrantee we visited procured a new communications system to replace an aging system used to dispatch ambulances from emergency locations to the County's two hospitals and other locations. The total cost of the new system was \$444,000, of

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which \$150,000 was from the FY 2006 grant. Because the existing system was no longer supportable, the Hospital Administrator decided to replace the entire system. A local engineering firm that provided most of the County's communications equipment and associated maintenance prepared a system design and worked with the County Procurement Office to prepare a technical specification for the request for quotation.

When the contract was advertised by the subgrantee, only one bid was received by the County and the contract was awarded to the local engineering firm that prepared the system design. No authorization was requested from the State for this non-competitive procurement, nor was a cost analysis prepared to ensure the bid price and profit were fair and reasonable.

The grant manager, the County's Director of Procurement, and the buyer who managed this purchase were not familiar with the procurement requirements associated with the homeland security grant. These officials believed fair and open competition was satisfied by publicly advertising the County's need for the specified system. They were not aware that the local engineering firm was not eligible to bid on the new communications system after having assisted in its design and preparation. Furthermore, the officials were not aware that a cost analysis was needed to assure that the non-competitive price was fair and reasonable. The County had no assurance that the price paid for the communications system was reasonable, and that the award to the local firm constituted an organizational conflict of interest. As a result, we consider the \$150,000 of FY 2006 grant funds to be a questioned cost.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #18:** Emphasize to all subgrantee grant managers that federal and State procurement requirements and prohibitions must be followed by local procurement departments and agencies when Homeland Security grant funds are used, and

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**Recommendation #19:** Disallow the \$150,000 of FY 2006 grant funds used to acquire the hospital communications system.

## **Management Comments and Auditor's Analysis**

At the exit conference, the FEMA Grant Programs Directorate officials agreed with this finding and its recommendations. FEMA did not address the finding and recommendation in its written comments.

In written comments, California concurred with recommendation 18. The State recognized that more work must be done to educate subgrantees about federal procurement rules. The State did not concur with recommendation 19. The officials said that the system was an allowable item because it was on the Authorized Equipment List. The officials also said the system increased the preparedness capacity of the subgrantee.

The State officials acknowledged that the procurement process used by the subgrantee was in no way in compliance with the federal rules. However, the State officials did not specifically comment on the conflict of interest that existed by allowing the firm that prepared the system design and technical specifications to also compete for the award. The State officials said they will ensure that the subgrantee performs a cost benefit analysis to determine if the noncompetitive procurement resulted in higher costs or less capability for the subgrantee.

Non-compliance with federal requirements and prohibitions is a basis for disallowing a procurement action. However, because the system was considered allowable and needed, we believe the finding can be resolved if the cost benefit review shows that the subgrantee did not pay a higher price for the system or get less capability. The results of the State's cost benefit review should be provided to FEMA and appropriate action taken.

The recommendations will remain open until the actions are fully implemented. Within 90 days, the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

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## Regional Communications System Investment Was Questionable

A subgrantee's evolving plans for a regional, interoperable communications system, funded in part with grant funds and initiated with an unauthorized noncompetitive procurement, grew beyond original expectations. The system may now be too costly to complete with available resources.

A County we visited acquired a new, central, site control computer for a regional communications system that would serve most of the public service agencies in a two county region. Although we did not visit the other county involved in this project, we were provided information about the other county's sharing in this project. The existing systems were aging and would not meet Federal Communications Commission specifications after 2013. The officials in the county we visited believed that State Homeland Security Program grants could provide most of the funds needed for the new regional communications systems for the two-county area.

The contract for the site controller was advertised widely, but only one bid was received. Using FY 2004 State Homeland Security Program grant funds, a \$5.1 million contract was awarded to the local company that bid on the procurement. The State was not advised of the noncompetitive contract and no formal cost analysis was performed to assure that the price was fair and reasonable.

The site control computer was the core element of what became a much larger system that also included multiple transmission and repeater units, dispatch centers, and user radios. Because of the initial design, most of the other equipment was purchased from the same company that received the contract for the site controller.

The contract was amended to obtain an engineered systems design. The system proposed by the contractor had an estimated cost of \$67.8 million, including multiple dispatch centers, transmission and repeater towers, and associated equipment. A subsequent independent assessment of the contractor's system design and procurement disclosed a premium of about 26 percent was included in the proposed price for the system due to the noncompetitive nature of the procurement.

Once the infrastructure for the system is acquired and installed (estimated to be in 2010), all of the Sheriff, police, fire, emergency medical services, public health, and public works from the two-

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county area that wants to use the system will have to acquire about 18,000 new radios, at an estimated cost of about \$50 million. Installation costs and a monthly service fee will be required for each radio.

Based on information provided by the county we visited, the two counties have awarded the contractor a total of \$16 million from FYs 2004, 2005, and 2006 grant funds to begin acquiring and installing the system infrastructure. The two counties have also earmarked another \$17.4 million of FY 2007 and FY 2008 grant funds for a total of \$33.4 million for the system. A funding gap, an unfunded amount, of \$34.4 million remains for the proposed \$67.8 million system.

As the system design has evolved and expanded, it has become clear that the system cost may exceed the known resources of the two counties involved. As of May 2008, the two counties were looking for funding sources to meet the unfunded gap because the additional funds were not available from the homeland security grants. Subgrantee officials responsible for managing the procurement of the system said they are not sure where the remaining funds will come from. The officials also said they are now seeking additional outside engineering assistance to optimize the design within available resources.

The site controller and some related equipment have been delivered, assembled, and installed but were not connected to anything at the time of our audit. The County continues to acquire additional pieces of the system, as funds become available. The additional pieces must be acquired and installed before the equipment will be operational. Until the funding shortfall of \$34.4 million and another \$50 million needed for user radios is identified, the system remains unusable.

## **Recommendations**

We recommend that the Administrator, Federal Emergency Management Agency, require the Director of the California Office of Homeland Security to:

**Recommendation #20:** Review the Regional Interoperability Communications system in view of the amount of funds already committed and require the county to submit a plan to the State that addresses the system's:

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- a. Technical feasibility,
  - b. Compatibility with other State initiatives,
  - c. Resource requirements to enable the system to be operational by the year 2010, and
  - d. Affordability, given the resources of the counties.

**Recommendation #21:** If the system cannot be made operational, disallow and recover the funds associated with its purchase.

### **Management Comments and Auditor's Analysis**

In its written response FEMA concurred with the finding and recommendations, noting that homeland security grant programs provide funding to address interoperability needs through phased implementation. FEMA is committed to supporting critically needed interoperable communications projects at the local, county, and state levels that serve to fill gaps, enhance regional connectivity, and provide much needed technology and equipment to replace outdated systems. In light of the cost of new and innovative technology, FEMA recognizes the challenges local and state first responder agencies face when seeking the necessary funding to complete these projects. Future project components which are not yet funded are often the reality of these agencies. Accordingly, FEMA seeks to support those elements that are near term, achievable, and within the scope of the grants performance period, recognizing that they may only be part of a larger system.

In written comments, California officials concurred with the recommendations but did not want to be constrained to having the system operational by 2010. The State officials said they will require and review an implementation plan for the project and ensure that all the elements listed in recommendation 20 are included. Moreover, the State said that the mayors of the three major cities have publicly committed to completing the project. With respect to recommendation 21, the State officials said they cannot foresee the system not becoming operational. However, they said the funds would be recovered if that does not occur.

In view of the magnitude of this over \$100 million procurement, a specific plan that addresses the technical feasibility, resources, and timely completion of the project is essential. FEMA must have

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assurances that investments of this size will result in an operational system. Given the rapid nature of communications technology change, we urge FEMA to assist the State and be proactive in obtaining and overseeing a plan for getting the system operational. If that process is effectively conducted, the State's actions may be responsive to our recommendations. However, the recommendations will remain open until appropriate actions are fully implemented.

Within 90 days, the Administrator, Federal Emergency Management Agency, needs to outline corrective actions and a plan to implement the actions in response to the recommendations.

### **California's Communications Interoperability Unit May be a Best Practice**

The necessity of first responders to communicate during emergencies is a common and well documented requirement to emergency management that was particularly brought to light during the events of September 11, 2001, and other major disasters. As a result, improving communications interoperability is a top FEMA and California priority. The California National Guard has invented, assembled, and operationally employed a state-of-the art solution that bridges disparate radio types providing high capacity data, voice, and video communications. California National Guard's technology solution possibly meets criteria for a best practice. This technology solution is in place and working, innovative, transferable, and affordable, and therefore could be considered by others to help significantly improve preparedness.

Specifically, the California National Guard designed and assembled a mobile communications interface unit, capable of bridging different communications systems such as those present in a disaster area and those resulting from first responders from other areas. This system, called the Incident Commanders Command Control and Communications Unit, is mounted in a military truck and can be deployed by the California National Guard in a few hours using a military air lift. An early prototype was used extensively during the Katrina and Rita hurricanes. Improved models were used in 2007 during the California wild land fires, as well as during numerous exercises.

The California National Guard has manufactured several Incident Commanders Command Control and Communications Units. The

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units have been deployed throughout the State to assure rapid response in the event of a disaster. The California Office of Emergency Services has evaluated the system and adopted the design for its communications gateway project. Six of the units are being manufactured and will be deployed in the California emergency management regions. Other states, including Pennsylvania and New Jersey, have evaluated the system and are considering adopting the design.

The Incident Commanders Command Control and Communications Unit's ability to bridge disparate radio systems and provide real time, high volume, voice, data, and video communications offers a significant improvement to first responder communications interoperability and preparedness during emergencies. We believe the Administrator, Federal Emergency Management Agency, should consider evaluating the Incident Commanders Command Control and Communications Unit for use by other jurisdictions to determine the benefit it could offer first responders during a disaster.

## **Appendix A**

### **Objectives, Scope, and Methodology**

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The purpose of the audit was to determine whether the State of California effectively and efficiently implemented the State Homeland Security Programs, achieved the goals of the programs, and spent funds according to grant requirements. The goal of the audit was to identify problems and solutions that would help the State of California prepare for and respond to terrorist attacks and other hazards as applicable to the program. The audit further enabled us to answer the following researchable questions:

- Did the State use reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs?
- Did the State appropriately allocate funding based on threats, vulnerabilities, capabilities, and priorities?
- Has the State developed and implemented plans to measure improvements in preparedness as a result of the grants and have such measurement efforts been effective?
- Are the State's procurement methodologies (centralized, local, or combination) reasonable and in conformance with its homeland security strategies?
- Does the State Administrative Agency have procedures in place to monitor the funds and activities at the local level to ensure that grant funds are spent according to grant requirements and the State-established priorities? Have these monitoring procedures been implemented and are they effective?
- Did the State comply with cash management requirements and the DHS financial and status reporting requirements for the grant programs and did local jurisdictions spend grant funds advanced by the State in a timely manner and, if not, what caused the delays?
- Were grant funds used according to grant requirements and State-established priorities?
- Was the time it took the State to get funds/equipment to first responders (from the time the funds/equipment were available to the State until they were disbursed/provided to the jurisdiction) reasonable (auditor judgment), and if not, what caused the delays?

## Appendix A

### Objectives, Scope, and Methodology

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- Are there best practices that can be identified and shared with other states and the DHS?

Although Urban Areas Security Initiative Grants were part of the FY 2005 and FY 2006 Homeland Security Grant Programs, these awards were not included in the scope of the audit performed by Foxx and Company. The scope of the audit included the following grant programs, described in the Background section of this report.

- FY 2004 State Homeland Security Program
- FY 2005 State Homeland Security Program
- FY 2006 State Homeland Security Program

The audit methodology included work at FEMA Headquarters, State of California offices responsible for the management of the grants, and various subgrantee locations. To achieve our audit objective we analyzed data, reviewed documentation, and interviewed the key state and local officials directly involved in the management and administration of the State of California's Homeland Security Grant Programs. We conducted 30 site visits and held discussions with appropriate officials from 5 of the 58 counties representing all 6 emergency management regions, and 2 of the 20 State agencies awarded State Homeland Security Program grants, in order to determine if program grant funds were expended according to grant requirements and State-established priorities.

We conducted site visits to the following 30 subgrantee organizations:

- Alameda County Bomb Disposal Unit
- Alameda County Emergency Medical Service
- Alameda County Fire Department
- Alameda County Sheriff
- Lodi Fire Department
- Manteca Police Department
- Sacramento County Communications Department
- Sacramento County Emergency Services
- Sacramento County Fire Department
- Sacramento County Procurement Office
- Sacramento County Regional Terrorism Threat Assessment Center
- Sacramento County Sheriff
- San Diego County Communications Department
- San Diego County Office of Emergency Services

## Appendix A

### Objectives, Scope, and Methodology

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- San Diego County Metropolitan Medical Strike Team
- San Diego County Procurement Department
- San Diego County Sheriff
- San Joaquin Communications Department
- San Joaquin Emergency Medical Service
- San Joaquin Office of Emergency Management
- San Joaquin Public Works Department
- San Jose Emergency Medical Service
- San Miguel Fire Department
- Santa Clara County Fire Department
- Santa Clara Fire Department
- Santa Clara Sheriff
- Stockton Police Department
- Vista Fire Department
- California Office of Emergency Services
- California Military Department

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 physically inspected some of the equipment procured with the grant funds.

We conducted the audit between December 2007 and May 2008, in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although this audit included a review of costs claimed, we did not perform a financial audit of those costs. This was primarily a performance rather than a compliance audit performed by a Department of Homeland Security, Office of Inspector General contractor. We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we were neither required to review, nor express an opinion on, the costs claimed for the grant programs included in the scope of the audit. Had we been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other

**Appendix A**  
**Objectives, Scope, and Methodology**

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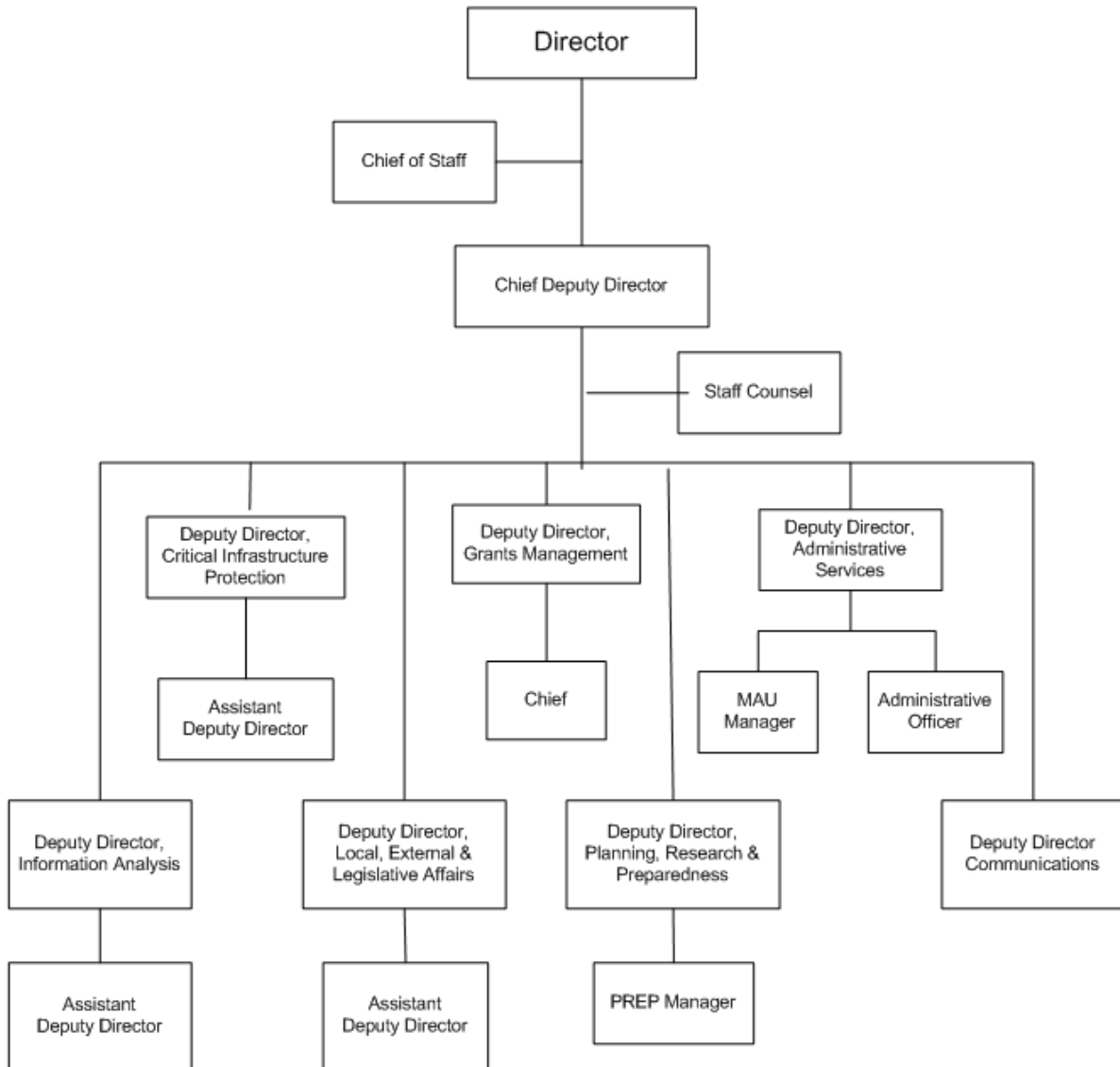
matters might have come to our attention that would have been reported. This report relates only to the programs specified and does not extend to any financial statements of the State of California.

In accordance with the audit guide, Foxx & Company requested that the State officials represent that they have provided all relevant information, been responsive to the needs of the audit, and complied with all federal and state requirements for the use of grant funds. Although the officials said they would send the required representation letter, a letter was not received.

**Appendix B  
Organization Chart**

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**Governor's Office of  
Homeland Security**



## Appendix C Management Comments to the Draft Report

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



**FEMA**

September 9, 2008

**MEMORANDUM FOR:** Martin O'Neill, CPA  
Partner, Foxx & Company

**FROM:** W. Ross Ashley   
Assistant Administrator, Grant Programs Directorate

**SUBJECT:** FEMA GPD Comment on the Department of Homeland Security Office of the Inspector General's (DHS OIG) September 2008 draft report "The State of California's Management of State Homeland Security Grants Awarded During Fiscal Years 2004 through 2006"

This memorandum serves to provide comments on the *REVISED* Department of Homeland Security Office of the Inspector General's (DHS OIG) September, 2008 draft report, "The State of California's Management of State Homeland Security Grants Awarded During Fiscal Years 2004 through 2006". We have reviewed the document and provide below our comments in response to the recommendations, as well as to reaffirm our position on specific recommendation and/or information contained in the report.

**A. Corrections**

1. We ask that corrections be made to our agency's title, the *Grant Programs Directorate*. On pages 8 and 13, it's referenced as the "Grants Program Directorate" and on page 21 the "Grant Program Directorate".

**B. Comments on Conditions and Recommendations**

1. *Condition: "Improved Measurement of Subgrantee Preparedness was Needed"*
  - i. Recommendation #4: California is compliant with programmatic reporting and other requirements per the Program Guidance, to include submission of their Statewide Homeland Security Strategy, State Interoperable Communications Plan and the State Preparedness Report, to name only a few examples. We see that this statement has been included within the modified draft on page 11.
  - ii. Recommendation #5: FEMA recognizes the continued commitment of the State of California Governor's Office of Homeland Security in ensuring that Homeland Security Grant Program requirements are met, as per grant guidance. We commend the State in their continued engagement with FEMA and our partners to participate in national initiatives that serve to guide and assist state and local agencies in the successful implementation of the Department's homeland security priorities. Representatives from the State of California and its local first responder community remain active in our many stakeholder outreach opportunities, and provide valuable insight and feedback that serves to improve the products and

## Appendix C

### Management Comments to the Draft Report

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tools that both GPD and FEMA's National Preparedness Directorate (NPD) provide to our state and local partners. The dedication of California's homeland security leadership to be proactive in sharing their state and local insight in our federal programs and providing feedback on our guidance and associated directives does not go unnoticed by FEMA GPD.

2. *Condition: "Timely Monitoring of Subgrantees was Absent"*

- i. Recommendation #7: FEMA GPD recognizes and is aware of the challenges that the State of California has experienced in assuring that timely monitoring of their subgrantees is conducted. FEMA GPD agrees that a formal financial and programmatic subgrantee monitoring schedule be established and regular monitoring visits be conducted of subgrantees for more recent fiscal year programs (FY 2006 and beyond). FEMA is committed to assisting the Governor's Office of Homeland Security to ensure that this federal requirement is met.
- ii. Recommendation #8: The State has established a comprehensive subgrantee monitoring tool and would like to ensure that this tool is recognized as an exemplary document.

3. *Condition: "Questionable Equipment Purchased by Subgrantees"*

i. Request Changes to Management Comments and OIG Analysis: The statement on page 23 of the September 2008 report that "FEMA officials agreed these purchases were beyond the intent of the grant, *but are unwilling to require California to recover the grant funds paid for the equipment.*" is not an accurate representation of FEMA's previous written comments nor the verbal discussions during the exit meetings and must be clarified for inclusion into the final report. Clarification is provided in two parts:

- Our original comments to Recommendation #14 (included in their entirety on the next page) provided specific detail regarding the Homeland Security Grant Program's allowable costs and were *directly related* to Recommendation #14. We do agree that the purchases of the audio and video devices were beyond the intent the program in light of the information gathered by the Foxx & Company team during the audit. As such, we concur with Recommendation #14 in full due to the actual implemented use of the equipment outside the "intent" of the Homeland Security Grant Program.
- The remaining part of the statement that FEMA officials "are unwilling to require California to recover the grant funds paid for the equipment" is neither accurate nor applicable to Recommendation #14. FEMA officials stated, *in response to Recommendation #15*, that the FEMA's preferred course of action be that the emergency generator be installed and become fully operational, rather than requiring the funds to be recovered. This is satisfactorily addressed in Recommendation #15 which states "if the emergency generator cannot be installed." FEMA will provide additional guidance and recommendations to this issue, as required, during the 90 days allotted for the development of corrective action plans.

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ii. Recommendation #14: FEMA GPD concurs with the auditor's *finding*, however disputes the statement that the costs were "unallowable". The equipment referenced in this Recommendation is identified in the Authorized Equipment List (AEL) as allowable costs authorized for purchase under the SHSP and LETPP programs. The AEL is a tool developed, maintained, managed and updated by FEMA GPD, and directs HSGP grantees and their subgrantees to refer when assessing allowable costs under each program. Further, the equipment is also within the scope of the State Homeland Security Grant program as it's intent (as directed by the AEL) meets the Program's prevention and protection focus. However, the actual application of those items as described by Foxx & Company is *not* within the scope of our programs. FEMA GPD does not endorse nor condone the misuse of allowable equipment that does not meet the true intent and scope of the Homeland Security Grant Program, and has measures in place to assist states to ensure that grant funds are used in full compliance with the program. As per the conditions of the grant program, direct grantees are required to ensure the good stewardship of funds which can only be accomplished with ongoing and regular financial and programmatic monitoring. FEMA will not support deliberate and/or intentional misrepresentation of facts when requests for equipment are submitted for review and approval of FEMA or state administrative agencies.

4. *Condition: "Communications System Procured Without Full and Open Competition"*

i. Request Clarification to Management Comments and OIG Analysis: Following Recommendation #18 and #19, Foxx & Company states that California "*did not provide any documentation to support that the cost of the hospital communication system was allowable or eligible for grant funding.*" As the previous draft of the report (dated July 30) made no mention of "allowable or eligible", we ask that the intent of this statement be clarified. As written, it is unclear whether the statement applies *specifically* to the federal policies regarding procurements, or *generally* the Homeland Security Grant Program's guidance regarding allowable costs for equipment.

5. *Condition: "Regional Communications System Investment was Questionable"*

i. Recommendations #20 and #21: FEMA GPD concurs with the auditor's findings, however seeks to reaffirm the structure of the homeland security grant programs, as they encourage both short and long term strategic planning efforts in a number of critical areas – communications interoperability being one of them. FEMA remains committed to supporting critically needed interoperable communications projects at the local, county, state, and federal level that serve to fill gaps, enhance regional connectivity, and provide much needed technology and equipment that replaces outdated systems. The HSGP programs provide states and locals the funding to address these needs through phased implementation. The focus on interoperable communications has been so significant that FEMA, DHS and the Department of Commerce have provided funding, resources, and strategic planning tools to states and locals that are in the midst of major, regional

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communications projects. In light of the cost of new and innovative technology, FEMA recognizes the challenges local and state first responder agencies face when seeking the necessary funding to complete these projects. Future project components which are not yet funded are often the reality of these agencies. Through our programs, we seek to support those elements that are near term, achievable, and within the scope of the grants performance period, recognizing that they may only be a part of a larger system.

#### C. General Remarks

Building from the fiscal years 2004, 2005, and 2006 and with the release of fiscal years 2007 and 2008, FEMA continues its commitment to providing assistance to state and local stakeholders in their ability to measure performance. FEMA has developed tools that provide state and local assistance in assessing and defining needed target capabilities in accordance with Homeland Security Presidential Directive-8 (HSPD-8); expanding available capabilities based planning tools and resources; offering a series of technical assistance opportunities that address a variety of critical preparedness, prevention, protection, response and recovery priority areas; as well as program management technical assistance services that provide direct assistance in the establishment and enhancement of the overall homeland security administrative framework within State and local jurisdictions.

To that end, this report offers an opportunity to continue to strive in the successful implementation of homeland security projects, programs and priorities. As your team discussed during the meeting, overall California is doing well in managing/administering the homeland security grant programs. We also recognize this, and given the vast scope of these programs and the efforts that are supported throughout the state and local communities, California faces great challenges that are unique to a state its size. As California has received the largest award in homeland security grant program funds consistently since 2003, the management and administration of such programs is a significant undertaking, particularly for a fairly new agency and administration. We commend the Governor's Office of Homeland Security, as the Governor appointed State Administrative Agency, for their continued commitment to support the security of our homeland. We believe this report provides opportunities for the State to make further improvements.

Again, we appreciate the opportunity to make comments in response to the draft report, and will continue to work with California and its local partners in assisting them in making improvements toward the goal of successful program implementation.

Cc: Annette Hampton  
Mildred Lloyd  
Tracey Trautman  
Lisa Lewis  
James Marks  
Mark Silveira  
Julie Verneti

**Appendix C**  
**Management Comments to the Draft Report**

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**OFFICE OF HOMELAND SECURITY**

September 9, 2008

Martin W. O'Neil, CPA  
Partner, Foxx and Company

Dear Mr. O'Neil:

Thank you for your July 30, 2008, letter communicating your recommendations relative to your office's draft audit report entitled "The State of California's Management of State Homeland Security Grants Awarded During Fiscal Years 2004 through 2006", and for providing the Office of Homeland Security (OHS) with the opportunity to comment on the report's recommendations.

As you noted in the Executive Summary of the report, OHS is doing an efficient and effective job of administering the 2004 through 2006 Homeland Security Grant program requirements, distributing grant funds, and ensuring that all of the available funds were used. The OHS used reasonable methodologies for assessing threat, vulnerability, capability, and prioritized needs, and complied with cash management and status reporting requirements. Also, the OHS utilized the grant funds in accordance with grant requirements and State-established priorities, and appropriately allocated funding based on threats, vulnerabilities, capabilities and priorities. The procurement methodology was in conformance with the State's strategy.

We also wish to thank you for pointing out that California's interoperable communications unit is a best practice. The California National Guard has invented, assembled, and operationally employed a state-of-the-art solution that bridges disparate radio types providing high capacity data, voice, and video communications. This technology solution is in place and working, innovative, transferable, and affordable.

Specifically, the California National Guard designed and assembled a mobile communications interface unit, capable of bridging different communications systems such as those present in a disaster area and those resulting from first responders from other areas. This system, called the Incident Commanders

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### **Management Comments to the Draft Report**

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Command Control and Communications Unit, is mounted in a military truck and can be deployed by the California National Guard in a few hours using a military air lift. An early prototype was used extensively during the Katrina and Rita hurricanes. Improved models were used in 2007 during the California wild land fires, as well as during numerous exercises.

OHS is committed to improving our management of Homeland Security Grants to strengthen grant fund reallocations, better measure first responder preparedness, ensure full and fair competition in procurement, increase the frequency and scope of subgrantee oversight, strengthen internal controls over funds management, ensure compliance with federal purchasing requirements, and utilize equipment purchased with grant funds.

As noted in your report, "in 2004, California's Governor designated the Office of Homeland Security to be the State Administrative Agency for the Homeland Security Grant Programs." However, it is important to note that in 2004 these programs were originally contracted to be run by the Governor's Office of Emergency Services and were not transitioned to OHS until March 2005. At that point OHS began full management of all aspects of the grants except accounting and reporting.

The first section of the report indicates that "Reallocated Grant Funds Not Documented", and makes the following recommendations:

**Recommendation #1:** Strengthen and implement the State Administrative Agency's internal controls concerning the documentation of grant fund reallocations and include controls to ensure that the reallocated funds will be used consistent with applicable grant guidelines,

**Recommendation #2:** Unless appropriately resolved, disallow the \$1,111,966 used to reimburse a State agency for heightened alert costs, and

**Recommendation #3:** Determine if other instances of unauthorized redirection of grant funds have occurred.

**Recommendation #1:** OHS concurs with the recommendation to strengthen our internal controls related to the reallocation process. Currently, the OHS documents the allocation and reallocation of funds to State and local agencies through the use of award letters, disencumbrance letters, the Financial Management Forms Workbook (FMFW), the Biannual Strategy Implementation Report and the Final Strategy Implementation Report. We will work to ensure that our reallocation process is documented with the proper controls in place to allow for a seamless reallocation process.

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Recommendation #2: OHS concurs with the recommendation to disallow the costs unless appropriately resolved. This project was not a typical reallocation of funds. In fact this was a project that required the utmost urgency since we positioned California National Guard at all of California's major airports to ensure security during a heightened alert for the airline sector. We do concur with the audit that in this instance funds were inadvertently used for heightened alert costs that should not have been. However, the total award to the Military Department for that grant year will allow for the costs to be charged to a grant where they were eligible and replaced by costs that are eligible under the State Homeland Security Grant Program. So, the inappropriate costs identified are in error and will be adjusted to ensure that no costs are charged to the ineligible category. By performing additional training and improving our controls in the reallocation process, OHS will work to ensure that grantees do not make similar mistakes in the future.

Recommendation #3: OHS concurs that we will review the reallocation process to ensure that unauthorized redirections do not occur. A thorough review of the entire grant process has shown us that there are no known cases of unauthorized redirection of grant funds. In addition, historically the Financial Management Forms Workbook (FMFW) has allowed OHS to identify uses of funds that are inconsistent with the identified projects because each project is tied to the California Homeland Security Strategy and the Target Capabilities and tasks that are addressed by the strategy. The FMFW allows OHS to both track progress on achieving preparedness goals and ensure that funding is used for eligible projects.

The second section of the report indicates that "Improved Measurement of Subgrantee Preparedness was Needed", and makes the following recommendations:

**Recommendation #4:** Establish measurable goals and objectives that will enable the State to systematically measure improvements in first responder capabilities and State-wide preparedness,

**Recommendation #5:** Promptly complete performance assessment metrics to assist the State and subgrantees in measuring current capabilities and improvements, and

**Recommendation #6:** Develop a statewide performance assessment system incorporating these metrics for local jurisdictions to measure and report progress toward achieving the State's goals and objectives.

The report maintained that the OHS established goals and objectives to improve first responder capability resulting from State Homeland Security Grants, but did not provide an adequate basis for measuring such improvements. However, the standard that was used to make these recommendations is very subjective. Based

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on the exit conference with the auditors, the report indicates that preparedness improvements were not met, OHS requested information on what standard they were judging California against as OHS was in line with the federal laws and United States Department of Homeland Security (DHS) guidance.

Auditors claimed that there was no standard they were judging OHS against aside from the fact that they disagreed that our goals and objectives were Simple Measurable Achievable Realistic and Task Oriented (SMART). OHS disagrees with the auditors, that our goals and objectives were not SMART, we feel that we built a Homeland Security program from the ground up and therefore goals and objectives were broad in scope. For instance, a goal to enhance information sharing resulted in the development of a statewide information sharing system complete with four regional information fusion centers and a state fusion center with a common communication platform. Further, DHS did not develop guidance for more detailed performance measures until FY 06. OHS' goals and objectives were approved by FEMA and therefore met the requirements for measuring preparedness.

Generally in this section of the report, OHS has moved beyond the Federal Emergency Management Agency (FEMA) and other states in the measurement of preparedness. Over the past three years, OHS has been in the process of assessing capabilities, typing capabilities according to the FEMA 120 resource typing guide and a second tier of typing where FEMA did not meet California standards. OHS has also continued to use this data to fill gaps in preparedness capabilities. As an example, an assessment of the state's swift water rescue capabilities and gaps associated resulted in capabilities being increased by a third. Having identified a gap in local level planning for tactical interoperable communications, OHS has gone from zero tactical interoperable communications plans to a requirement that local jurisdictions complete tactical planning by the end of 2008. To date, all Urban Area Security Initiative (UASI) cities including 30 of 58 Operational Areas have participated in the development of regional Tactical Interoperable Communications Plans (TICPs) ensuring that locals can communicate at the incident level in any incident utilizing bridging technologies and other technologies. Other assessments are ongoing to include a nearly complete assessment of Explosive Ordnance Disposal (EOD) teams in the state which will result in a gap analysis for EOD teams. OHS feels that California measures performance and fills capability gaps in ways that no other state has done and FEMA has expressed interest in duplicating across the Nation. An audit finding that the state does not adequately measure performance would be unfounded.

Recommendation #4: OHS does not concur with establishing measurable goals and objectives because we already have measurable goals and objectives. OHS disagrees with the recommendation because we have measured improvements in capabilities on a regular basis through our Investment Justification conference and our ongoing strategic metrics project. Further, OHS requires local jurisdictions to follow the United States Department of Homeland Security (DHS) guidance which

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requires subgrantees to review their capabilities and preparedness improvements based on the Target Capabilities List (TCL) and the Universal Task List (UTL). Every year, locals come together to provide OHS with information on what capabilities still need to be met in the state.

The TCL provides guidance on the specific capabilities and levels of capability that Federal, State, local, and tribal entities will be expected to develop and maintain. A capability may be delivered with any combination of properly planned, organized, equipped, trained, and exercised personnel that achieves the outcome. OHS expects local jurisdictions to utilize the TCL in conjunction with our Goals and Objectives to measure and develop their capabilities.

DHS has not yet been able to develop a system for measuring capabilities at the level of detail that California is already undertaking. In fact, when DHS and FEMA developed their "National Preparedness System" tool for measuring preparedness, much of the information was gathered from efforts in California and a pilot was done here in San Diego. Unfortunately, DHS has still not completed this assessment tool and therefore has not rolled it out or required its use.

DHS is undertaking a revamping of the Target Capabilities List (TCL) to allow states to better measure preparedness and build capabilities while further focusing the efforts of the TCLs. California has participated in this effort that will still take DHS some years to complete. In the mean time, in accordance with the National Preparedness Goal, National Preparedness Guidelines and HSPD-8, California will continue to utilize the current TCL to measure preparedness.

In addition, the Financial Management Forms Workbook (FMFW) has allowed OHS to identify uses of funds that are inconsistent with the identified projects because each project is tied to the California Homeland Security Strategy and the Target Capabilities and tasks that are addressed by the strategy. The FMFW allows OHS to both track progress on achieving preparedness goals and ensure that funding is used for eligible projects. For Fiscal Year 2006 grants, OHS along with the rest of the nation began the process of writing Investment Justifications (IJ) to receive grant funding and then tracking the implementation of those IJs in the Biannual Strategy Implementation Report (BISR) where each project is tracked against an IJ and has measurable, attainable and achievable goals associated with the project.

Recommendation #5: OHS does not concur with the recommendation to "Promptly complete performance assessment metrics to assist the State and subgrantees in measuring current capabilities and improvements," since OHS already has metrics and we have been measuring capabilities. In addition, OHS is in the process of implementing the statewide metrics project data collection of emergency resources and capabilities. OHS expects to have most of the data collected by January of 2009 and then available for use in the measurement of further preparedness improvements in very specific areas. While still collecting data, OHS has been able

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to assess capabilities and increase capacity for Swift-Water and Heavy Rescue capabilities, increase strategic mutual aid caches, among other successes. This endeavor is the first of its kind in the Nation and DHS/FEMA at the national level are very interested in seeing this major undertaking succeed so it can be replicated at the national level and then to the states.

While OHS will continue to work hard on achieving strategic metrics for response capabilities, the recommendation that OHS should complete performance assessment metrics is not consistent with a federal requirement and OHS should not be punished for moving beyond the federal requirements and developing a metrics program. Until the OHS Strategic Metrics Project is completed, OHS will continue to utilize federally provided tools such as the Target Capabilities List to measure preparedness which is completely in line with the federal requirements.

Recommendation #6: OHS does not concur with the recommendation to develop a statewide performance assessment system incorporating these metrics for local jurisdictions to measure and report progress toward achieving the State's goals and objectives.

Response: OHS measures performance of the grant program in line with Federal Grant guidance. As discussed previous with the audit team, OHS utilizes the Target Capabilities List and expects local governments to utilize the TCL in conjunction with OHS Goals and Objectives to measure their performance. DHS has still not released a performance assessment system (although California has participated in their pilots) and until DHS does release and require that their system be used, OHS disagrees that this should be a negative audit finding.

In conclusion, California has gone above and beyond what is required at the federal level in the measurement of preparedness and capabilities. We feel that we are paving the way for the federal government and other states to follow. The three recommendations above give a false impression that just because our Metrics Project is not yet complete that we are not following current federal regulations. The way California has endeavored to measure capabilities and performance on the grant program should be considered a best practice across the Nation that is a first of its kind.

The third section of the report indicates that "Timely Monitoring of Subgrantees was Absent", and recommends the following:

**Recommendation #7:** Increase the frequency of visits to subgrantee locations to assure that subgrantee activities are in compliance with federal requirements,

**Recommendation #8:** Develop standard monitoring procedures to include assessments of the subgrantee's

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achievement of program goals, and ensure that funds are being expended as intended.

Recommendation #7: OHS concurs that we would like to increase the frequency of visits to subgrantee locations. Since its inception in November 2005, the OHS Monitoring and Audits Unit (MAU) has established a thorough and comprehensive subgrantee monitoring tool, and has completed both desk and on-site audits for all of the subgrantees that received funds prior to fiscal year 2005. When the MAU began homeland security grants had not been monitored at all. The Governor, Director of OHS, and California Legislature all recognized that these grants were too important to not be monitored, so all of those individuals collaborated to form the MAU. In its less than 3-year existence the MAU has monitored over \$600 million in homeland security grants and ensured that all of those funds were used appropriately by subgrantees. The ultimate goal of course is to increase the frequency of monitoring, however that want must be balanced against the original backlog and the limited management and administration funding that these grants provide to allow for monitoring activities.

In acknowledgement of the need to increase the frequency of on-site visits to subgrantee locations to ensure that funds are being expended as intended, and to confirm that policies regarding competitive and sole source bid procurements are being followed, the OHS Grants Management Division will begin instituting a program of on-site compliance visits to our subgrantees in September. These on-site visits will be in addition to the monitoring on-site visits already being conducted by the OHS Monitoring and Audits Unit. These visits will ensure that the programmatic goals of the subgrantees are being addressed with the funding. These visits will also be another check to ensure that preparedness is being enhanced with homeland security funds and that these funds are being expended as intended.

Recommendation #8: OHS does not concur with monitoring program goals to a standard that is a moving target related to preparedness. However, OHS already monitors to ensure that funds are being expended as intended. In fact the OHS monitoring process has been held up as a best practice both inside the State of California by the California Bureau of State Audits and by the federal grant monitoring program now in FEMA.

The fourth section of the report indicates that " Financial Status Reports (FSR's) were Inaccurate," and makes the following recommendations:

**Recommendation #9:** Develop written procedures for preparing Financial Status Reports, train employees to use these procedures, and assure reports are reviewed and reconciled to the accounting system prior to submission.

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Recommendation #9: We concur with the recommendation and on behalf of our sister agency the Governor's Office of Emergency Services (OES) has developed written procedures for preparing Financial Statement Reports (FSR's). However, this entire finding could be resolved by allowing OHS and OES to report the FSR's on a cash accounting basis which currently FEMA does not allow. It is believed that the inaccuracies in the FSR's are most likely the result of timing errors relating to when the reports were run from the automated accounting system and the FSR's were completed. Accordingly, the OES Local Assistance Accounting Unit has developed and is in the process of implementing the following corrective actions to assure that amounts reported on FSR's are traceable to supporting documentation and accounting records:

- The unit has developed and is currently using an individual Excel workbook template used for tracking the information for each grant.
- The unit has developed and is currently using a methodology of managing Excel files that identifies completion of grants.
- The unit is monitoring grant funds more closely and developing corresponding reports.
- The unit plans to provide additional training to assure these functions are implemented and correctly performed.

As of August 10, 2008, the OES has drafted detailed policies and procedures for FSR preparation. Once approved, the procedures will be distributed to appropriate personnel and OES will follow up to ensure that they are being followed, and to ensure uniformity and consistency in the preparation of FSR going forward.

This entire finding would go away if FEMA changed from their current practice and allowed the State of California to report FSR's on a cash accounting basis which would take the timing error in the accounting system out of the equation. So, FEMA could clear up this process for California by changing their accounting policies to allow for an acceptable practice related to the FSR's.

The fifth section of the report indicates that "Reimbursements Did Not Require Documentation", and makes the following recommendations:

**Recommendation #10:** Develop and implement internal controls over subgrantee grant expenditure reimbursements that meet Federal guidelines, including:

- a. Requiring subgrantees to electronically submit the minimum documentation necessary to support grant expenditures for projects exceeding \$100,000<sup>1</sup>, and

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<sup>1</sup> The threshold of \$100,000 was selected by the audit team based on the federal procurement regulations. Also, using the \$100,000 assures that large purchases are reviewed prior to approval and provides a good and manageable test of subgrantee controls applied to all expenditures.

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- b. Ensuring that State Administrative Agency officials review the supporting documentation before approving subgrantee reimbursement requests.

Recommendation #10: OHS does not concur with this finding related to reimbursements. The use of the Financial Management Forms Workbook (FMFW) is the basis of our subgrantee application, request for modification, equipment inventory, subgrantee budget, governing body approval, and authorized agent verifications. Employing the FMFW provides the OHS the opportunity to approve all local expenditures prior to awarding funds to subgrantees, and to maintain a positive control over our subgrantee's activities, modifications, budget changes, and disencumbrances. OHS Grants Management staff also provide over 60 days of on-site workshops, meetings and conferences throughout the state in a year.

In acknowledgement of the need to increase the frequency of on-site visits to subgrantee locations to ensure that funds are being expended as intended, and to confirm that policies regarding competitive and sole source bid procurements are being followed, the OHS Grants Management Division (GMD) will begin instituting a program of on-site compliance visits to subgrantees in September. These on-site visits will be in addition to the monitoring on-site visits already being conducted by the OHS Monitoring and Audits Unit. These site-visits will be opportunities for the GMD to review supporting documentation of major projects that are being performed by subgrantees. The site-visits will also ensure that subgrantees are properly tracking their major projects and that the subgrantees have maintained adequate levels of documentation for those projects and project costs.

The sixth section of the report indicates that "Direct and Indirect Cost Claimed by State not Properly Documented", and makes the following recommendations:

**Recommendation #11:** Develop and implement written procedures for personnel activity reports for employees working on federal grants,

**Recommendation #12:** Develop and use a cost allocation plan to assign indirect costs to appropriate State Homeland Security Grants, and

**Recommendation #13:** Determine if the direct and indirect costs charged to the FYs 2004 through FY 2006 State Homeland Security Grants were reasonable and disallow any claimed costs that are determined to be unreasonable.

Recommendation #11: OHS concurs with finding #11 and has been diligently working with our sister agency the Governor's Office of Emergency Services to modify their time reporting system. This modification will allow OHS to have a time reporting system that fully complies with the personnel activity standards for federal grants.

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Recommendation #12: OHS concurs with this recommendation and will work to establish a plan that will assign costs to the appropriate homeland security grants.

Recommendation #13: OHS concurs and will make the appropriate determinations related to direct and indirect costs.

The seventh section of the report indicates that "Questionable Equipment Purchased by Subgrantees" and makes the following recommendations:

**Recommendation #14:** Disallow and recover the \$589,350 claimed by the subgrantee for the equipment purchased that was not within the intent of the State Homeland Security Grant.

**Recommendation #15:** Disallow the purchase and recover the \$96,605 of State Homeland Security Grant funds if the emergency generator cannot be installed.

Recommendation #14 and #15: OHS does not concur with either of these recommendations. For recommendation #14, the FY 2005 Homeland Security Grant Program (HSGP) Guidelines and Application Kit indicates that the Program addresses the full spectrum of preparedness, and serves to provide funding to support planning, equipment, training, exercise needs, and program management and administration for emergency prevention, preparedness, and response personnel.

We dispute this item in that the video and audio equipment in question can be used to monitor and record suspects and witnesses involved in a terrorist event, and it is within the scope of the State Homeland Security Grant program since its intent meets the Program's prevention and protection focus. Additionally, the equipment is identified in the Authorized Equipment List (AEL) as allowable for purchase under the SHSP and LETPP programs.

For recommendation #15, OHS will ensure that the emergency generator will be installed by the county.

The eighth section of the report indicates that "Federal Procurement Requirements Not Followed", and makes the following recommendations:

**Recommendation #16:** Develop procedures to assure that subgrantees:

- a. Understand and comply with the federal procurement regulations,

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- b. Notify the State Administrative Agency prior to noncompetitively procuring goods and services with grant funds, and
- c. Perform required cost or price analyses when noncompetitive procurements are approved by the State.

**Recommendation #17:** Disallow any procurement actions that are not in compliance with federal procurement requirements.

OHS concurs with both recommendations #16 and #17: In acknowledgement of the need to increase the frequency of on-site visits to subgrantee locations to ensure that funds are being expended as intended, and to confirm that policies regarding competitive and sole source bid procurements are being followed, the OHS Grants Management Division (GMD) will begin instituting a program of on-site compliance visits to subgrantees in September. During these visits GMD staff will be able to review all of the procurement policies that need to be followed by subgrantees. These on-site visits will be in addition to the monitoring on-site visits already being conducted by the OHS Monitoring and Audits Unit.

The ninth section of the report indicates that "Communications System Procured Without Full and Open Competition" and made the following recommendations:

**Recommendation #18:** Emphasize to all subgrantee grant managers that federal and State procurement requirements and prohibitions must be followed by local procurement departments and agencies when Homeland Security grant funds are used, and

**Recommendation #19:** Disallow the \$150,000 of FY 2005 grant funds used to acquire the hospital communications system.

Recommendation #18: OHS concurs with recommendation #18. OHS recognizes that more work must be done to educate our subgrantees about federal procurement rules; however we find that our response to Recommendation number 18 is essentially the same as our response to Recommendation #16. In fact, the two recommendations seem to be inherently the same.

Recommendation #19: OHS does not concur with the recommendation. Section 6 of the 2005 Authorized Equipment List authorized the purchase of approved communications systems. The recommendations of this report did not comment on the allowability of the system, but how the procurement was completed. Therefore the system is eligible because interoperable communications equipment was on the authorized equipment list and this system increased the preparedness capacity of the subgrantee. However, OHS recognizes that the procurement process that was

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used by the subgrantee was in no way in compliance with federal rules. Therefore, OHS will ensure that the subgrantee performs a cost benefit analysis to determine if the noncompetitive procurement resulted in higher costs or less capability for the subgrantee.

The tenth section of the reports indicates that "Regional Communications System Investment Was Questionable," and makes the following recommendations:

**Recommendation #20:** Review the Regional Interoperability Communications system in view of the amount of funds already committed and require the county to submit a plan to the State that addresses the system's:

- a. Technical feasibility,
- b. Compatibility with other State initiatives,
- c. Resource requirements to enable the system to be operational by the year 2010, and
- d. Affordability, given the resources of the counties.

**Recommendation #21:** If the system cannot be made operational, disallow and recover the funds associated with its purchase.

Recommendation #20: OHS concurs with most of recommendation #20. OHS will require and review the implementation plan for the project and ensure that all of the elements listed above are included in the project implementation plan. However, we will not be constrained by an artificial date such as 2010. Our subgrantee will be required to provide an implementation plan with realistic and task oriented goals, therefore we will not confine the project end date to an artificial date established by an auditing team from another State. Since the mayor's of the three major cities in the Bay Area; San Jose, Oakland, and San Francisco have all publicly committed to completing this project we will not impose any superficial or artificial deadlines on them that would endanger a realistic implementation plan.

Recommendation #21: At this time OHS cannot foresee the system in question not being operational however in the event that it does become non-operational we would move to recover the funds.

Finally, we wish to commend Foxx and Company for the professional manner in which this audit was conducted. Your auditors consistently tested us with rigor, but always maintained a professional demeanor. We appreciate the thoroughness of the review and the privilege to better serve the people of California.

Everyday, the California Office of Homeland Security and its partners, strive to make our State a safer and better place to live, work and thrive. The California Office of Homeland Security is very fortunate to have a dedicated and hardworking

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staff of homeland security professionals who are fully committed to our important mission. With their hard work and enthusiasm, we are confident that we will continue to improve and that we have already progressed significantly in enhancing our procedures as recommended in this report.

If you have any additional questions or need additional information please contact Brendan Murphy at (916) 323-9153 or [brendan.murphy@ohs.ca.gov](mailto:brendan.murphy@ohs.ca.gov).

Sincerely,



Matthew R. Bettenhausen  
Executive Director

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