



State of Rhode Island and Providence Plantations

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November 4, 2013

Ms. Jamia McDonald  
Executive Director  
Rhode Island Emergency Management Agency  
645 New London Avenue  
Cranston, Rhode Island 02920

Dear Director McDonald:

The Bureau of Audits has completed its limited scope (19 grants) audit of the Rhode Island Emergency Management Agency (RIEMA). The Bureau reviewed the 19 grants for compliance with Federal Emergency Management and Administration regulations, Federal Cost Principles 2 CFR 225 and 2 CFR 215, and applicable grant guidance kits. As part of our audit work, we gained an understanding of and reviewed procedures used by RIEMA to administer grants and process-related grant program payments.

The findings and recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of our report. RIGL §35-7-3(b), entitled *Audits performed by bureau of audits*, states that "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Pursuant to RIGL §35-7-3 (b), the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

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We would like to express our appreciation to management and staff of RIEMA for the cooperation extended to the members of our staff during the course of this limited scope audit.

Respectfully yours,



Dorothy Pascale  
Chief, Bureau of Audits

c-Richard A. Licht, Director, Department of Administration  
Kevin McBride, Adjutant General, Rhode Island National Guard  
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance  
Honorable Helio Melo, Chairperson, House Finance Committee  
Dennis Hoyle, CPA, Auditor General  
Peter Marino, Director, Office of Management and Budget



# AUDIT Executive Summary

## Why the Bureau Did This Review

At the request of the Governor's Office and Adjutant General McBride, the Bureau was asked to audit grant procedures and controls at Rhode Island Emergency Management Agency (RIEMA), and to provide summary financial information related to 19 expiring grants.

## Background Information

This audit was limited to 19 grants totaling approximately \$41 million. The Bureau reviewed the grants for compliance with Federal Emergency Management and Administration regulations, Federal Cost Principles 2 CFR 225 and 2 CFR 215, and applicable grant guidance kits.

Additionally, the Bureau reviewed RIEMA grant administration and processes for internal control weaknesses.

## The Bureau Recommends:

- Provide a consistent management and cohesive organizational structure to adequately administer grants
- Increase and ensure compliance with Federal Cost Principles
- Strengthen controls surrounding governing journal entries
- Monitor sub-recipient OMB A-133 audits
- Comply with state purchasing single-source rules and regulations
- Establish appropriate policies and procedures to achieve grant objectives

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## Introduction

At the request of the Governor's Office and Adjutant General McBride, the Bureau was asked to audit grant procedures and controls at Rhode Island Emergency Management Agency (RIEMA), and to provide summary financial information related to 19 expiring grants, listed below. Additionally, the Bureau reviewed RIEMA grant administration and processes for internal control weaknesses.

As of the date of our field work, RIEMA was in the process of determining correct federal grant balances and developing revised spending plans to utilize remaining grant funds prior to expiration.

## Objectives and Scope

The objectives of this audit are to:

- 1) Provide RIEMA with summary financial information
- 2) Test expenditures for compliance and suitability
- 3) Review RIEMA procedures and controls related to management of federal grants
- 4) Identify areas where controls and procedures need to be improved

This audit was limited to 19 grants. The Bureau reviewed the following grants for compliance with Federal Emergency Management and Administration regulations, Federal Cost Principles 2 CFR 225 and 2 CFR 215, and applicable grant guidance kits.

The 19 grants and their total dollar value are listed below:

<b>Grant</b>	<b>Award Amount</b>
EMPG 2010	\$ 3,147,339
EMPG 2011	\$ 3,134,509
SHSP 2008	\$ 6,170,000
SHSP 2009	\$ 6,524,500
SHSP 2010	\$ 6,613,200
SHSP 2011	\$ 3,397,865
UASI 2009	\$ 4,764,250
UASI 2010	\$ 4,764,300
CCP 2009	\$ 139,520
CCP 2010	\$ 119,112
MMRS 2008	\$ 321,221
MMRS 2009	\$ 321,221
MMRS 2010	\$ 317,419
MMRS 2011	\$ 281,693
BZPP 2008	\$ 199,000
BZPP 2009	\$ 200,000
IECGP 2008	\$ 242,875
IECGP 2009	\$ 242,875
IECGP 2010	\$ 267,000
<b>Total</b>	<b>\$ 41,167,899</b>

## **Methodology**

The Bureau tested grant expenditures for compliance with federal and state laws and regulations, applicable cost principles, and compliance with grant covenants. As part of our audit work, we gained an understanding of and reviewed procedures used by RIEMA to administer grants and make related grant program payments.

To address our objectives, we performed the following:

- Gained an understanding of all pertinent laws, rules, and regulations
- Gained an understanding of RIEMA operations
- Interviewed current RIEMA management and staff
- Reviewed grant program hard copy files
- Reviewed payroll records and processes
- Reviewed grant expenditures in excess of \$10,000 to determine compliance with Federal Emergency Management and Administration regulations, Federal Cost Principles 2 CFR 225 and 2 CFR 215, and applicable grant guidance
- Reviewed equipment inventory records within the WASP equipment software system
- Reviewed federal draw down and financial reporting records

The Bureau discussed its findings and recommendations with current management. We considered their comments in preparation of this report. Prior to the release of this report, the Bureau transmitted results of testing, including summaries of unallowed costs, and recommendations for internal control improvements to RIEMA.

## **RIEMA needs Consistent Management and Cohesive Organizational Structure to Adequately Manage Grants**

RIEMA experienced significant management changes during fiscal year 2013.

- *July 2012:* Chief Financial Officer reassigned
- *February 2013:* RIEMA Executive Director resigned
- *March 2013:* Homeland Security Grant Manager deployed
- *May 2013:* Senior Financial Officer retires

This period of transient management did not allow for the transfer of knowledge between former management and current staff. Additionally, we noted that former RIEMA management did not have sufficient documentation of policies and procedures or a consistent methodology for grant administration, and lacked a method to track grant program activity.

Adequate control procedures, which were lacking at RIEMA, included:

- Clear lines of authority and responsibilities for executive, grant, and program staff
- Standard operating procedures for grant expenditures and grant closure
- Standard operating procedures for continuous monitoring and oversight

The administration and oversight of grant transactions was decentralized between grant management, fiscal, and program staff. There was a silo mentality resulting in a lack of communication and sharing of information between the three groups.

We noted a lack of organizational structure that defined authority and responsibility over the entire grant process. Also, the authority to determine and manage grant usage was not clearly defined. The lack of authority, procedures, and controls allowed funds to be transferred between grants without proper documentation or approval. This finding is consistent throughout the audit and is reflected throughout this report.

The Governor's Deputy Chief of Staff became the Acting Executive Director during April 2013 and subsequently appointed the permanent Executive Director of the agency during July 2013. The organization has, and continues to be, restructured. While new management is developing and implementing much needed control improvements, additional changes are necessary as outlined in this report.

## Summary of Control Issues

### Establish Appropriate Policies and Procedures to Achieve Grant Objectives

An important part of internal control is formal policies and procedures to assist in meeting the goals and objectives of a program. The following operating areas did not have policies and procedures as of the date of this audit.

#### *Develop Policy Defining Required Documents for Grant Program Files and Create a Central Location to Maintain Information*

RIEMA does not have policies or procedures defining the required documents to be maintained in a grant program file for internal awards and/or sub-recipient awards. This has resulted in incomplete grant program files. Currently, grant program documentation is maintained in hard copy form and is decentralized between the grants office, program managers, and the fiscal office. Each group maintains its own version of the grant program file resulting in inconsistent and incomplete information. For example, we noted the following information differed between the groups:

- Period of performance extension dates
- Project/items funded by the grant
- Grant balances

*Increase Communication to Sub-Recipients Regarding Required Documentation*

RIEMA does not have policies and procedures for obtaining, documenting, and maintaining sub-recipient grant agreements, and records evidencing it has advised sub-recipients of requirements imposed by Federal laws and regulations. Specifically, as is required by OMB Circular A-133:<sup>1</sup>

*Sub part D – Federal Agencies and Pass through Entities§ \_\_\_\_\_.400 Responsibilities*

*(1) Identify Federal awards made by informing each sub recipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.*

*(2) Advise sub recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*

Due to the failure to communicate grant requirements to sub-recipients, we found a sub-recipient's inappropriate use of federal funds for lobbying expenses.

*Establish Policy and Procedure for Environmental and Historic Preservation Approval*

Additionally, RIEMA does not have policy or procedures for obtaining, documenting, and maintaining environmental and historic preservation approvals. Federal Guidance for Homeland Security Grant Program Fiscal Year 2009 and 2010 Guidance and Application Kit describes the types of projects that will constitute construction or renovation thus requiring Environmental Historic Preservation approval prior to the start of the project. Presently, responsibility for approval is decentralized and lies with the person administering the project at RIEMA. Failure to document prior approval may result in the loss of federal grants to fund the project.

*Create Policy to Release Obligated Funds and Reprogram Funds*

RIEMA does not have policies or procedures to allow for the reprogramming of funds between grants or funds committed to projects not going forward. This has resulted in an inefficient use of funds and funds returned to the federal government.

*Increase Monitoring and Close-Out Grants*

RIEMA does not have policies or procedures for grant program close-out or monitoring as required by 44 C.F.R. §13.23(b) Period of Availability of Funds. As a result, grants have not been closely monitored, liquidated, or closed out in accordance with federal regulations. Grant guidance and federal regulations require RIEMA to report the performance of the grant quarterly; and within 90 days of the end of the performance period, to complete a final report and close out the grant, including liquidating any remaining obligations.

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<sup>1</sup> Specifically OMB Circular A-133 audit requirements and *Certifications Regarding Lobbying, Debarment, Suspension, and other responsibility matters; and Drug-Free Workplace Requirements*.

Failure to abide by these rules has resulted in:

- Federal government taking back unliquidated obligations
- Increased reliance on state funds
- Agency management being unaware of the actual grant balances
- Inaccurate reporting to the federal government
- Grants remaining open indefinitely

*Properly Allocate Indirect Costs*

RIEMA has an approved indirect cost allocation plan approved by the appropriate federal oversight agency. However, RIEMA does not have an internal policy or procedure to allocate indirect costs. Therefore, indirect costs such as overhead, utilities, and repairs are directly charged to the EMPG grant instead of being allocated across all federal funding. RIEMA is not using this approved reimbursement rate. RIEMA is not compliant with federal cost allocation and reimbursement principles. This may result in the federal oversight authority requesting reimbursement of funds for the inappropriate charges.

**Recommendations**

1. Establish written policies and procedures for the above-referenced activities, and implement and enforce them.
2. Maintain all grant information required by grant guidance in a centralized location. Additionally, consider maintaining grant information electronically via a grant management software system.
3. Ensure all RIEMA employees use the same information for decision-making purposes.
4. Implement the approved indirect cost allocation procedure.

**Management's Responses**

Management and Organizational Structure:

As of April of 2013, there was limited organizational clarity and unclear spans of control. In multiple cases, staff was uncertain on day to day work assignments, as well as unsure on chain of command. After evaluating different organizational models, we have implemented a divisional structure to effectively implement mission areas as stated in Rhode Island General Law 30-15. We performed a functional analysis to determine current tasks and created roles and responsibilities to track duties. This structure includes clear reporting lines for executive, grant, and program staff with a defined span of control.

Fiscal and Grant Administration:

The grant department had minimal policies and procedures that resulted in an inconsistent methodology for grant administration. This was also true for the finance department which caused inconsistencies when administering funding. We have addressed these concerns in the following:

1. Sub-Recipient Grant Management Handbook: This handbook is for sub-recipients of RIEMA to serve as a primary reference manual to safeguard grant funds and ensure they are used for the purposes for which they were awarded. This handbook has been completed along with its three (3) appendices; Equipment Control; Programmatic Monitoring; and Match and Cost Sharing.
2. RIEMA Programmatic Grant Management Handbook: This is currently being developed and will be utilized as the agency's internal protocols and procedures to manage the grant administration function for both sub-recipients and agency programs.
3. RIEMA Financial Management Handbook: This is also being developed and will outline fiscal responsibilities as it relates to the agency's internal protocols and procedures to ensure consistent financial administration across all funds and programs.

The combination of these three handbooks will outline the policies and procedures necessary to create consistency in management decisions and funding oversight. The Sub-Recipient Grant Management Handbook has been discussed with sub-recipients in a mandatory grant management and procurement training conducted on November 6, 2013 and will be issued with all sub-recipient grant awards going forward. The RIEMA Programmatic Grant Management Handbook and RIEMA Financial Management Handbook will be implemented with mandatory staff training upon their completion.

#### Grant Management Software:

We are currently researching and drafting grant management software specifications to retain a vendor to design, implement, and train on new software. This software will have to be adaptable to the state accounting system as well as having the ability to print custom reports for management purposes.

#### Method to Track Grant Program Activity:

The RIEMA Programmatic Grant Management Handbook will be the primary reference on administering grant program activity. It will outline the methodology for RIEMA's grant administration as well as develop protocols and procedures for program managers to follow for consistent and standardized supervision.

#### Develop Policy and Grant Program Files and a Central Location for Information:

We have completed a comprehensive grant award inventory with the assistance of the Federal Grants Management Office in the RI Office of Management and Budget. The management of this award inventory will be outlined in the RIEMA Programmatic Grant Management Handbook which will include updating the period of performances, grant extensions, program funds and maintaining up to date balances.

In addition, with the assistance of the RI Bureau of Audits, we manually located and verified grant balances and allowable expenditures through reviewing and sorting purchase orders dating back to 2004. The standardization of grant files is outlined in the Sub-Recipient Grant Management Handbook and will also be included in the RIEMA Programmatic Grant Management Handbook.

In regards to the central location of files, we are in the final stages of an office space assessment that will centrally locate all of the grant files as well as fiscal files to one area. The RIEMA Programmatic Grant non-disaster grants had some policies and procedures that were in place; however, there was no centralized documented inventory of

Management Handbook and RIEMA Financial Management Handbook will address how we store and preserve grant and fiscal files when they are no longer active.

Increase Communication to Sub-Recipients:

As stated above we have created a Sub-Recipient Grant Management Handbook that outlines the following areas: monitoring, documenting, programmatic and administrative policies and procedures such as, accounting for receipts and expenditures, cash management, adequate maintenance of financial records, means of allocating and tracking costs, contracting and procurement policies and records, allocating staff costs, and property/equipment management systems. We have also outlined the federal requirements that are imposed on sub-recipients by federal laws.

We have reconciled the audit finding of the unallowable cost for lobbying and the RIEMA Programmatic Grant Handbook will address compliance and future reviewing of allowable expenditures.

Establish Policy and Procedure for Environmental and Historic Preservation Approval:

A policy has been created within the Sub-Recipient Grant Management Handbook to address the need for obtaining, documenting, and maintaining environmental and historic preservation approvals. This will also be included in the RIEMA Programmatic Grant Management Handbook to ensure implementation of this policy. A newly hired grants manager will be the individual responsible for administering and enforcing this policy for both RIEMA and sub-recipient programs.

Create Policy to Release Obligated Funds and Reprogram Funds:

We have created a Detailed Budget Worksheet within the Sub-Recipient Grant Management Handbook for sub-recipients to fill out for all budget proposals. This form will outline budget categories along with the project description and allocated amounts. The Sub-Recipient Grant Management Handbook will outline the process of how funds will be de-obligated and re-obligated; however, the administrative procedures for this process will be referenced in the RIEMA Programmatic Grant Management Handbook. The de-obligated funds will be internally reviewed by management and will then be solicited to necessary stakeholders and any interested party. Each request will be required to be submitted with a detailed budget form to be considered.

Increase Monitoring and Close-Out Grants:

The RIEMA Programmatic Grant Management Handbook will outline the protocols needed to monitor and the steps required to close out a grant. The Handbook also includes an appendix for additional guidance in the Programmatic Monitoring Appendix B. The Sub-Recipient Grant Management Handbook states the dates of quarterly and program reporting as well as the documents and reports necessary to close out a grant. In addition, each sub-recipient will be audited once a year to ensure compliance controls are in place.

We have closed out six (6) remaining grants that go back as far as 2008 which have been pending a close out for over eight (8) months. The normal close out period is ninety (90) days which will be included as policy in the RIEMA Programmatic Grant Management Handbook and the RIEMA Financial Management Handbook.

#### **Properly Allocate Indirect Costs:**

The current indirect cost agreement only allows RIEMA to use the statewide cost allocation plan (SWCAP) and only reimburses the agency for personnel indirect costs, not operational indirect costs. We analyzed which grants are actually eligible for indirect cost reimbursement based on our current indirect cost agreement and individual grant guidelines. We then incorporated indirect costs into the 2013 grant budgets as allowed, and have begun using indirect cost reimbursement as a new source of payroll funding. We are currently analyzing an additional cost pool so that we may pursue a new agreement which will include operational costs in addition to the SWCAP methodology so that we may increase our reimbursable indirect costs. The process and management of indirect costs will be outlined in the RIEMA Financial Management Handbook.

#### **Increase Compliance with Federal Cost Principles Applicable to Payroll**

RIEMA is not compliant with federal cost principles governing expenditures for employee compensation charged directly to federal grants, specifically, the tracking and recording of employee time and effort charged to a grant. RIEMA does not have an adequate method to document employee assignments and related federal funding, and time sheets lack evidence of supervisory approvals. RIEMA has historically allocated and charged payroll based upon the federal program grant the employee was assigned to at date of hire, rather than actual work performed.

Federal cost principles require compensation of employees directly charged to a grant to be for the time devoted specifically towards the performance of that program.<sup>2</sup> Additionally, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee, and the budget estimates or other distribution percentages should be revised at least quarterly to reflect changed circumstances.<sup>3</sup>

Additionally, RIEMA does not apply its federally approved indirect cost rate to employee compensation; employees who work indirectly on programs are charged directly to grants. Refer to the *Failure to Properly Allocate Indirect Costs* section noted previously in this report.

RIEMA is unable to substantiate the expenditures for payroll to support its draw down of federal funds. This may result in RIEMA owing money to the federal government. Additionally, charging employees to the wrong grant (i.e., EMPG, which requires a state match) results in unnecessary use of state general revenue for wages and benefits when the cost could be recovered through federal grants.

#### **Recommendations**

5. Improve the process of charging payroll costs to the various grants to better reflect the actual costs and meet federal requirements, including the following:

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<sup>2</sup>2 CFR 225 Appendix A to Part 225—General Principles for Determining Allowable Costs E. Direct Costs

<sup>3</sup>2 CFR Part 225 Appendix B Select Items of Cost, 8. Compensation for personal services

- a. Budget estimates should allocate employee time based on the historical activity, or actual planned activity, of each employee and should be revised at least quarterly to reflect changed circumstances. Charges to grants for payroll costs should reflect an after-the-fact distribution of the actual activity of each employee.
- b. Employees should submit weekly attendance (time and effort sheets) indicating work performed for all programs. Employees should be charged to the grant for which he/she actually works.
- c. There should be documented supervisory oversight and approval of time and effort sheets.
- d. Employees who work indirectly on grant programs should be allocated, and charged, indirectly to the grants.

### **Management's Responses**

#### Compliance with Federal Cost Principles Applicable to Payroll:

In order to clarify payroll and budget allocations, we analyzed each department and broke it down by function and task per individual within each grant program. After restructuring the organization and its priorities, each individual's time allocation has been reprioritized and correlated to meet actual time used on a grant. We will implement new time sheets to monitor and track time usage which will be signed off by a supervisor to validate time usage per grant. These time sheets will be filed in the finance department as back up. With clear tasks and organizational structure, time allocations will be accurate as will budget proposals that are submitted with each grant in future years. This will also be true for indirect cost allocations because of the analysis that was done with properly allocating the indirect rate across grants. This payroll allocation methodology, tracking system, and oversight will be outlined within the RIEMA Financial Management Handbook.

### **Ensure Compliance with Federal Regulations Regarding Period of Availability of Funds**

RIEMA was not compliant with Federal Emergency Management and Assistance regulations regarding period of availability of funds. The federal authoritative regulation follows:

#### **44 C.F.R. § 13.23 Period of availability of funds.**

*(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted [emphasis added], in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.*

*(b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with*

*the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.*

RIEMA has charged expenditures to grants, and made journal entries transferring expenditures to other grants, that occurred outside of the period of performance. Controls governing journal entries transferring expenditures between grants are insufficient. Our findings are:

- Program staff is not involved in the approval process of journal entries transferring expenditures between grants.
- Numerous journal entries to transfer expenditures to other grant programs and years were made without adequate documentation.
- Invoices and documentation were sent to the RIEMA fiscal office months before the grant period of availability ended, but not processed timely, contributing to disbursements outside the period of availability.

Based upon the above factors, RIEMA financial records are unreliable; therefore, we were unable to conclude whether the agency owed funds back to the federal granting authority. Charging costs to a federal grant outside of the period of performance is unallowable and may result in RIEMA owing money back to the federal government.

The current state accounting system (RIFANS) allows an account to be end-dated with proper agency communication, i.e., if a grant period has ended; however, RIEMA does not currently utilize this control.

### **Recommendations**

6. RIEMA should improve controls to ensure that expenditures charged to a federal grant within the period of availability include the following:
  - a. Identify and communicate availability cut-off requirements, regarding obligation and disbursement transactions, to all program and fiscal staff responsible for the transactions.
  - b. Notify the Office of Accounts and Controls when a grant funding period has ended to inactivate the RIFANS account.
  - c. Individuals knowledgeable of the grant period of availability should review the various grant disbursements.
  - d. Improve oversight and require supporting documentation for journal entries, particularly when transfers are made to prior grant years. Program managers should be part of the internal approval process for journal entry transactions to ensure compliance with federal requirements.
  - e. Require periodic reporting of unliquidated balances between fiscal, grant, and program personnel.

## **Management's Responses**

### Federal Regulations Regarding Period of Availability of Funds:

There was a mixed methodology of expending funds during a period of performance. One methodology used the obligation of a purchase order as a benchmark to meet the period of performance deadline. The other method used received goods as an obligation to meet the deadline. After reviewing these methodologies, we have implemented the policy that received goods will be the benchmark and end date of allowable expenditures to be within a period of performance. This will be outlined in the RIEMA Financial Management Handbook, as well as the required documents for processing expenditures in a timely manner.

With the assistance of the RI Bureau of Audits and the federal government we have reviewed all financial records addressing allowable expenditures within a period of performance and have reconciled each of the grants as addressed in the audit finding. The RIEMA Financial Management Handbook will outline the utilization of the state accounting system in issuing an account to be end-dated as well as the protocols necessary to monitor allowable costs in a period of performance.

The RIEMA Financial Management Handbook will also include the policy of notifying the Office of Accounts and Control of new grant accounts, which we will be reconciled each month to our comprehensive grant award inventory.

To ensure consistency in monitoring, program managers and the necessary RIEMA staff will hold monthly internal meetings to review the Detailed Budget Worksheets as well as reconciling expenditures to date, journal entries and allocations. These monthly meetings will address grant and project balances and ensure they are aligned with the agency's priorities and the original grant proposal that was submitted to the federal government.

### **Strengthen Controls Surrounding Governing Journal Entries**

The Office of Accounts and Control has a general ledger approval hierarchy for journal entries. For RIEMA, any journal entries entered by the Accountant, or the Senior Financial Officer, are approved by the Assistant Administrator Financial Management. If the transaction is over \$500,000, it must also be approved by the Chief Financial Officer.

RIFANS journal approval process procedures require supporting documentation for journal entries to be attached to RIFANS electronically or maintained at the agency. RIEMA journal entries are being processed and approved with little or no documentation to support the transfer of funds from one grant to another, or from one grant year to another grant year. The processing and approval of journal entries at RIEMA lacks the following internal controls:

- Verifying whether journal entry transfers are allowable under grant guidance
- Validating the activity and journal entry date are within the period of performance
- Considering the remaining grant balance

- Notifying the grant and program managers administering the grant of the transfer of expenditures

The lack of controls illustrated above has resulted in inaccurate grant balances, over/under spending of grants, and expenditures that do not meet the criteria set forth in the grant guidance kits.

#### **Recommendations**

7. Maintain supporting documentation on file at the agency for all journal entries and/or scan and attach supporting documentation to the RIFANS transaction.
8. Ensure all journal entries are allowable according to grant guidance.

Ensure journal entry transfers are communicated to and agreed upon by the grant program managers.

#### **Management's Responses**

Strengthen Controls Surrounding Governing Journal Entries:

The RIEMA Financial Management Handbook will outline the protocol in validating journal entries and the documentation that is needed with each entry. The comprehensive grant award document outlines the allowable period of performances for journal entries to be made as well as the remaining balances correlated with each grant. In the past, many journal entries and authorized red balances (ARB) had to be made because of ineffective budgeting. This was also due to a lack of tracking the spending rates of programs with each grant. The Detailed Budget Worksheet, along with the RIEMA Programmatic Grant Management Handbook, will implement effective grant tracking and improved oversight.

#### **Comply with Federal Cost Principles for Inventory Records and Enforce Controls**

RIEMA and its sub-grantees are required to maintain inventory for equipment purchased with federal funds in compliance with federal requirements 44CFR 13.32 and State procedures (FACTS). RIEMA adopted revised policies and procedures during calendar year 2010 to comply with requirements. The federal regulation states:

##### **§ 13.32 Equipment.**

*(b) States. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and sub grantees will follow paragraphs (c) through (e) of this section.*

*(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.*

Our review of the equipment procedures and transactions showed several areas where procedures and controls could be improved. We found:

- Office of Accounts and Control form SFA-12 is not being submitted for all required equipment purchases; therefore, some equipment is not properly recorded into the state system and does not have the required state property tags.
- Inventory for federal grant purposes is incomplete and does not include the source of federal funds used to acquire the asset.
- Not all sub-grantees are reporting equipment inventory information to RIEMA as required by 44 CFR 13.32 referenced above.

Inaccurate and incomplete equipment controls reduce the ability to safeguard assets. Lack of compliance with federal requirements as noted in the second bullet above could result in disallowed costs. Further, the lack of compliance with state requirements for inventory affects the state fixed asset inventory records.

#### **Recommendations**

9. Ensure all required equipment is reported to Office of Accounts and Control in accordance with FACTS requirements.
10. Ensure RIEMA inventory system shows source of funds for all equipment purchased to meet federal requirements.
11. Ensure sub-grantees report equipment inventory as a requirement to receive grants from RIEMA.

#### **Management's Responses**

Complying with Federal Cost Principles for Inventory Records and Enforce Controls:

The Sub-Recipient Grant Management Handbook outlines protocols through the Equipment Control Appendix A to gather information as outlined in the Fixed Asset Control Tracking (FAST) manual. The Sub-Recipient Grant Management Handbook also includes an Inventory Form for sub-recipients to fill out which includes the source of funding. We are currently working with our logistics department to ensure we implement agency policies and procedures through the RIEMA Financial Management Handbook to mirror the requirements of FAST.

In addition, we have included in the Sub-Recipient Grant Management Handbook and will include in the RIEMA Financial Management Handbook, a requirement that we report purchases above the designated threshold of \$25,000 in compliance with the Federal Funding Accountability and Transparency Act.

## **Monitor Sub-recipients' OMB A-133 Audits**

RIEMA does not have adequate controls in place to ensure that its sub-recipients have taken appropriate corrective action to resolve OMB Circular A-133 audit findings. OMB Circular A-133 requires all auditees (i.e., sub-recipients) expending more than \$500,000 in federal grants meet the audit requirements as stated below:

### *Sub part C, Auditee responsibilities*

*(f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §\_\_\_\_.315(b) and §\_\_\_\_.315(c), respectively.*

Additionally, OMB Circular A-133, Subpart D--Federal Agencies and Pass-Through Entities, §\_\_\_\_.400 Responsibilities, states that pass-through entity (RIEMA):

- (4) Ensure that sub recipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the sub recipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- (5) Issue a management decision on audit findings within six months after receipt of the sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action.*
- (6) Consider whether sub recipient audits necessitate adjustment of the pass-through entity's own records.*

The Grants Compliance Officer for RIEMA uses a tracking sheet (A-133 Audit Checklist) to account for any audits that are required from grantees (sub-recipients). This sheet includes the municipalities or other entities and the applicable contact person. The Grants Compliance Officer stated he reviews reports to determine if there are audit findings applicable to the EMA grant programs; to date, he had not identified any audit findings.

The Bureau noted the following issues of noncompliance with OMB Circular A-133:

- RIEMA did not identify the audit finding in the Town of Johnston audit report related to Cash Management of its Disaster Grant-Public Assistance, CFDA #97.036 (2012-5). Consequently, RIEMA has not issued a management decision on this audit finding nor ensured it was resolved as is required by OMB Circular A -133.
- RIEMA does not have procedures in place to follow up on sub-recipient audit findings and corrective action plans, or for issuing management decisions.
- RIEMA did not ensure that sub-recipients had submitted all information related to an A-133 required audit as several pages relating to audit findings were missing from audit reports. Further, RIEMA did not obtain the missing information from either the entity website or federal single-audit clearinghouse and include it in the audit folder.

- RIEMA did not review and evaluate other findings, in addition to sub-recipient noncompliance, such as weaknesses in internal controls over grant management, recording of equipment, and cash management that may be related to and/or impacted RIEMA funded programs.
- RIEMA had not received A-133 audits for 4 of its 38 required sub-recipients (10.5%): Central Falls, East Providence, West Warwick, and Little Compton.

RIEMA cannot provide reasonable assurance that it is compliant with OMB A-133 or that its sub-recipients obtained the required audits and have taken appropriate corrective action on audit findings.

### **Recommendations**

12. Develop and implement policies and procedures that ensure that RIEMA receives and reviews all required sub-recipient A-133 audit reports. Additionally, ensure that sub-recipient audit reports submitted are complete.
13. Develop and implement policies and procedures that ensure RIEMA adequately meets A-133 requirements regarding management decisions. RIEMA employees should be trained on the policies and procedures.

### **Management's Responses**

Monitor Sub-Recipients' OMB A-133 Audits:

The Sub-Recipient Grant Management Handbook directly addresses the oversight of audit findings, corrective actions plans, and management decisions for sub-recipients to our agency. The Handbook also includes the Programmatic Monitoring Appendix B to outline the guidelines of monitoring and procedures. The Sub-Recipient Grant Management Handbook requires each sub-recipient to sign a form outlining that they have completed a single audit if required, and will submit findings to our agency for review upon the acceptance of any award. In addition, an annual audit will be conducted by RIEMA for each sub-recipient to increase the monitoring oversight to ensure their compliance, allowable expenditures, accuracy of inventory reports, and their overall internal controls and filing systems.

The audit findings of 4 of 38 sub-recipients submitting an A-133 has been rectified as of November 29, 2013, all 38 sub-recipients have submitted their A-133's. The RIEMA Programmatic Grant Management Handbook will outline the review and evaluation process to follow up with sub-recipients on audit findings, corrective action plans, and issuing management decisions.

The audit finding for the Town of Johnson has been addressed and reconciled.

### **Comply with State of RI Purchasing Requirements: Single Source**

The Bureau noted three instances of noncompliance with state purchasing requirements. Three purchase orders, totaling \$39,938.27, for hotel room rentals, training room rentals, equipment rentals, and meals at Rhode Island area hotels were processed as "single source," rather than put out to bid.

Additionally, the requisitions for the purchase orders were created at least two weeks after the events were held. The purchases were paid for with EMPG 2011 funds.

State of Rhode Island Purchasing Regulations Section 9, *Exceptions to Competitive Bidding Requirements*, details allowed exceptions to competitive bidding; hotel room rentals, training room rentals, equipment rentals, and meals are not allowable exceptions under the regulations. Additionally, federal cost principles require costs charged to federal grants be consistent with policies, regulations, and procedures of the governmental unit for the cost to be allowable.

#### **Recommendations**

14. RIEMA should train its staff on, and comply with, State of Rhode Island purchasing rules and regulations.
15. Requisitions for purchase should be created once all required bids have been received prior to an event being held.

#### **Management's Responses**

Comply with State of RI Purchasing Requirements: Single Source

The Sub-Recipient Grant Management Handbook currently includes and the RIEMA Programmatic Grant Management Handbook and the RIEMA Financial Management Handbook will include references of the RI Purchasing Laws and will be enforced through mandatory training for staff and sub-recipients. A mandatory grant management and procurement training was already conducted with the collaboration of the RI Purchasing Division on November 6, 2013 to sub-recipients.

#### **Track and Support Required Matching Funds Contribution**

Two of the 19 grant programs the Bureau reviewed required a 50% State fund match: EMPG 2010 and EMPG 2011. As of the date of the Bureau's audit, RIEMA does not centrally track the hard/soft/in-kind state match to federal grants. RIEMA reports the State funded match amounts in the quarterly Federal Financial Report (FFR/SF-425) as "Recipient share of expenditures." The Bureau was unable to validate or review supporting documentation of the State funding match provided for EMPG 2010 and EMPG 2011 as it could not be provided by RIEMA.

Three Purchase Orders for training instructors totaling \$9,625, funded by federal grant EMPG 2011 did not have an appropriate match of state funds. In accordance with the EMPG grant requirements, RIEMA must provide a match (hard/soft/inkind) for EMPG expenditures. If the match is not provided, the expenditures may be disallowed.

#### **Recommendations**

16. RIEMA should centrally track and monitor all hard/soft/in-kind State match funds; all supporting documentation should be maintained in accordance with federal grant guidelines.

17. RIEMA should reconcile the “Recipient share of expenditures” it reports as its provided match on the quarterly Federal Financial Report (FFR/SF-425) prior to submitting the report each quarter to ensure it has provided a sufficient match.
18. RIEMA should provide the required match for the \$9,625 in training instructor expenditures. Going forward, ensure adequate support is provided for state match funds.

#### **Management's Responses**

Track and Support Required Matching Funds Contribution:

In collaboration with the RI Bureau of Audits we have implemented the Match and Cost Sharing Appendix C within our Sub-Recipient Grant Management Handbook. We have developed it in accordance with the federal regulations governing match and cost sharing for emergency management programs and have supplied the appendix with templates for sub-recipients to utilize. The RIEMA Programmatic Grant Management Handbook will outline agency policy for each program manager which will be inventoried by the grants manager. By centralizing the tracking of match we will be able to demonstrate in our grant application submissions actual match totals and historical match projections.

#### **Best Practices for Advances of Federal Funds**

The Bureau noted three instances where RIEMA requested and received an advancement of federal funds (totaling \$104,991.34) approximately one month prior to payment. The State Controller annually communicates the federal draw-down policy known as the Cash Management and Improvement Act (CMIA) which states that the draw down of funds should be based upon a reimbursement method, and that the request for federal grant reimbursement should be on a bi-weekly basis. Also, the CMIA policy further states, in the event that estimates or advancements of federal funds has been received by the agency, there should be a reconciliation of federal funds advanced to actual grant expenditures. We found no reconciliations of advancements of federal funds to actual expenditures for the 19 grants reviewed.

Federal regulations require minimizing the time elapsing between the draw down of funds and disbursement by the grantee (44 CFR 13.21). Although, RIEMA is currently complying with the federal regulation, the above-noted instances were close to exceeding the 30-day disbursement rule, which would have led to RIEMA owing interest to the federal government.

#### **Recommendations**

19. RIEMA management approval should be required for any advance draw downs of federal funds.
20. RIEMA should draw down funds as close to payment as possible to avoid accruing interest.
21. Federal grant advancements should be reconciled to actual expenditures on a monthly basis.

### **Management's Responses**

#### **Best Practices for Advances of Federal Funds:**

The RIEMA Financial Management Handbook will outline the protocols of drawing down federal funds. Through working with the State Budget Office we have outlined a draw down report that will be utilized to know the draw down balances versus the balance expended and balance remaining. This report will be discussed at each internal monthly meeting to inform supervisors and program managers of the cash flow for their programs. In regards to advance cash drawdowns, we plan to minimize the use and reliance on advance drawdowns as most of our grant programs are on a reimbursement basis. However, the RIEMA Financial Management Handbook will outline our compliance with the Cash Management and Improvement Act (CMIA) and will reconcile any drawdowns on a monthly basis.