



Transmitted via e-mail

October 28, 2010

Mr. Matthew Bettenhausen, Secretary
California Emergency Management Agency
1130 K Street
Sacramento, CA 95816

Dear Mr. Bettenhausen:

Final Report—Audit of California Emergency Management Agency's Proposition 1B Bond Funds

The California Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the California Emergency Management Agency's (Cal EMA) Proposition 1B bond funds for the period ending June 2010.

The enclosed report is for your information and use. Cal EMA's response to the report findings and our evaluation of the response are incorporated into this final report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of Cal EMA. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

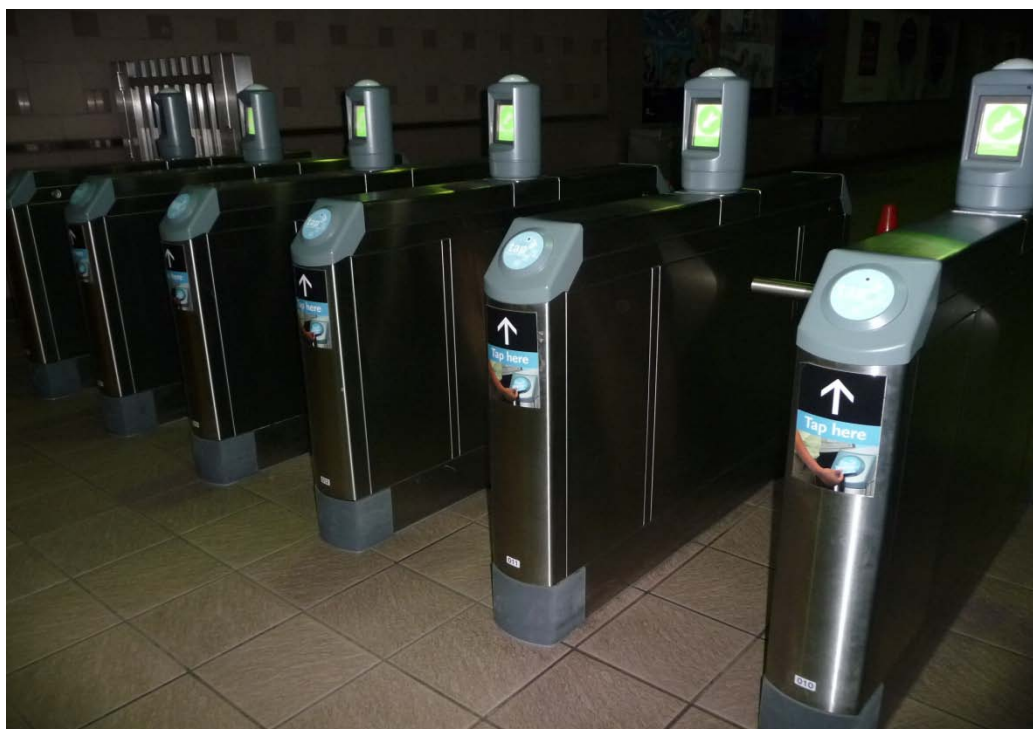
David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Helen Lopez, Deputy Chief of Staff, California Emergency Management Agency
Ms. Peggy Okabayashi, Assistant Secretary, California Emergency Management Agency
Mr. Brendan Murphy, Director, Grants Analysis and Processing Branch, California
Emergency Management Agency

AN AUDIT OF BOND FUNDS

California Emergency Management Agency Proposition 1B



Source: Los Angeles County Metro Transportation Authority – Metro Rail Gating Project

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

In accordance with the California Department of Finance's (Finance) bond oversight responsibilities, we audited the California Emergency Management Agency's (Cal EMA) Proposition 1B funding as of June 2010. Our overall audit objectives were to determine if (1) bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate monitoring processes are in place to ensure projects are within scope and costs.

Specifically, our audit focused on the Transit System Safety, Security, and Disaster Response Program, which is divided into three sub-programs: Mass Transit, Water Emergency Transit Authority, and Intercity Passenger Rail/Commuter Rail. On a risk basis, we concentrated on the Mass Transit sub-program and focused our audit on the following areas:

- Grant management practices
- Access controls of the automated grant management system, Automated Ledger System (ALS)
- Administrative expenditures
- Intended outcomes
- Reporting requirements

Overall, Cal EMA awarded bond funds in compliance with applicable legal requirements and established criteria; however, we noted the following observations:

- Funds are advanced even though grantees do not demonstrate immediate cash need, creating an opportunity cost to the state. Based on our calculations, the state's loss of interest earnings due to the advancement of funds is estimated at \$8.49 million.
- A three-part Accountability Plan is not in place and project reporting requirements are not met, both required by Executive Order S-02-07.
- Cal EMA lacks adequate program monitoring efforts, increasing the risk of projects not meeting the approved scope and costs.
- Direct and indirect administrative expenditures were incorrectly allocated.
- Funds were over-allocated to a grantee by \$9,486 in fiscal year 2007-08.

Cal EMA's fiscal and administrative controls over bond funds would be strengthened if it develops a corrective action plan to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2006, California voters passed Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Bond proceeds totaling \$19.925 billion were for various transportation-related projects, trade infrastructure and port security projects, school bus retrofit and replacement purposes, transit and passenger rail improvements, transit security projects, and local bridge seismic retrofit projects.

Administered by a number of state departments, agencies, boards, and commissions, bond proceeds are allocated to 16 different programs. No one entity is charged to act as a lead agency for Proposition 1B. Each department is responsible for reporting its project and financial status to the appropriate parties.

California Emergency Management Agency

In January 2009, Assembly Bill 38 (Chapter 372, Statutes of 2008) merged the Office of Emergency Services and the Office of Homeland Security to form the newly created California Emergency Management Agency (Cal EMA). Cal EMA serves as an independent entity reporting directly to the Governor and is vested with the duties, powers, purposes, responsibilities, and jurisdiction previously held within the two former offices. The mission of Cal EMA is to reduce vulnerability to hazards and crimes through emergency management and criminal justice to ensure a safe and resilient California. Cal EMA coordinates emergency activities to save lives and reduce property losses during disasters and to expedite recovery from effects of disasters.¹ Cal EMA receives significant funding from the federal government as well as the state's General Fund, special funds, and selected bond funds. For fiscal year 2009-10, it was appropriated approximately \$1.4 billion. These funds provide local assistance funding for new programs to help transportation agencies prepare, protect, prevent, and quickly respond to security and safety threats. Although receipt of Proposition 1B funds is nominal compared to funds Cal EMA receives for federal-supported programs, the bond-funded projects further assist Cal EMA in providing added security and protection for the state. The Bond Act allows Cal EMA to incur administrative expenditures of up to 3 percent of program costs.

Of the \$19.925 billion Proposition 1B funds, Cal EMA received \$1.1 billion to administer two programs: (1) Port, Harbor, and Ferry Terminal Security Program (Port Program), and (2) Transit System Safety, Security, and Disaster Response Program (Transit Program).

¹ Excerpt from the 2009-10 Governor's Budget.

The Port Program is allocated \$100 million while the Transit Program receives \$1 billion over a ten-year period. The Transit Program is further divided into three sub-programs:

TABLE 1: Transit Program Allocation

SUB-PROGRAM	ALLOCATION AMOUNT
Mass Transit	\$600 million
Water Emergency Transit Authority (WETA)	\$250 million
Intercity Passenger Rail/Commuter Rail (Heavy Rail)	\$150 million

Source: Government Code sections 8879.57 (a)(b)(c)

Cal EMA’s Office of Grants Management (Office) is responsible for administering these programs. The Grant Monitoring Division (Division) assists the Office in monitoring projects awarded under these programs. Currently, the Division has not conducted any monitoring activities for either of these two programs.

SCOPE

In accordance with the Department of Finance’s (Finance) bond oversight responsibilities, we conducted an audit to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if Cal EMA had adequate project monitoring processes in place. Our audit focused on the following areas:

- Grant management practices
- Access controls of the automated grant management system, Automated Ledger System (ALS)
- Administrative expenditures
- Achievement of intended outcomes
- Reporting requirements

On a risk basis, our scope was limited to one of the Transit Program’s sub-programs, Mass Transit. We focused on three phases of the grant life cycle—pre-award, award, and interim monitoring—because the majority of projects were still open and ongoing. A limited review of the closeout and post-closing phases was conducted to determine if processes were in place. The audit period included transactions and controls from program inception through June 30, 2010.

The audit did not include an assessment of the bond authorization, issuance, and sale processes. Further, no assessment was performed on the reasonableness of completed projects.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether adequate monitoring processes were in place, we performed the following procedures:

- Reviewed the Bond Act, grant management policies, procedures, program guidelines, and applicable legal provisions and regulations.

- Gained an understanding of the relevant internal controls to design adequate audit procedures.
- Interviewed key personnel responsible for program oversight.
- Examined a sample of project files to determine pre-award, award, and interim monitoring efforts, and to verify expenditures were reasonable, accurate, and appropriately reported.
- Assessed the reliability of ALS's access controls and verified the information's adequacy.
- Verified the information reported to the Strategic Growth Plan Bond Accountability website².
- Reviewed the cost allocation methodology for reasonableness.
- Performed grantee reviews and conducted site visits to verify monitoring practices, supporting documentation, and project status.

Recommendations were developed based on review of documentation made available to us and interviews with Cal EMA management and key staff directly responsible for administering bond funds. This audit was conducted during the period October 2009 through June 2010.

Except as noted, this audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. Finance is not independent of Cal EMA, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

² Bond accountability website address is www.bondaccountability.com.

The California Emergency Management Agency (Cal EMA) awarded funds in compliance with applicable legal requirements and established criteria. Although there are observations noted below, the design and implementation of the projects awarded through the Transit System Safety, Security, and Disaster Response Program (Transit Program) are consistent with the applicable requirements. However, our audit identified the following observations requiring Cal EMA’s attention.

Observation 1: Funds Are Advanced Without Immediate Cash Need

Unlike Cal EMA’s other Proposition 1B programs which are administered on a reimbursement basis, the Transit Program advances funds to grantees. Once Cal EMA approves a project, the State Controller’s Office (SCO) is authorized to issue the advance payment.

Discussions with Cal EMA staff indicate the Bond Act does not prohibit the advancement of funds. Specifically, Government Code section 8879.58(e) states “...SCO shall commence any necessary actions to allocate funds to...” Cal EMA contends the term “allocates” in this legislation is a payment term and not a budget term. Although that may be true in the context of SCO’s departmental functions, the burden remains with Cal EMA to ensure projects are ready to begin (i.e., capital expenditures are ready to be incurred). Additionally, the legislation does not require Cal EMA to advance funds. Common best practices include justification of immediate need before advancing funds.

In fiscal year 2007-08, Cal EMA advanced \$58.86 million for 177 transit projects. We selected 46 projects for review and determined 18 projects totaling \$13.3 million received funding as early as July 2008. As of January 2010, those 18 projects partially expended or did not expend any funds, indicating capital expenditures were not ready to be incurred.

EXHIBIT 1: PROJECT EXPENDITURES



Although grantees maintain advanced funds in an interest bearing account and any interest accrued must be used towards the approved project, the state incurs unnecessary bond issuance costs to fund idle projects. Using the California State Treasurer's Pooled Money Investment Account Average Monthly Effective Yields, compounded monthly from July 2008 through January 2010, we estimated the state lost approximately \$8.49 million¹ of potential interest earnings due to the advancement of bond funds. In light of the state's current economic condition, it may be more fiscally sound to issue funds on a reimbursement basis or another method to reduce the state's amount of lost interest.

Recommendation

Do not advance funds unless grantees can demonstrate an immediate cash need and that capital expenditures are ready to be incurred.

Observation 2: Non-Compliance with Executive Order S-02-07

The spirit of Executive Order S-02-07 was to establish guidelines and procedures for spending Proposition 1B bond funds efficiently, effectively, and in the best interests of the state. Its intent was to enhance accountability and transparency and provide a three-part accountability structure for guiding current and future bond measures. Based on our audit, Cal EMA did not comply with the following requirements of Executive Order S-02-07:

- *Lack of a Three-Part Accountability Plan.* Cal EMA has an approved three-part accountability plan (plan) for its Port, Harbor, and Ferry Terminal Security Program (Port Program); however, no plan was submitted for the Transit Program. Although the bond accountability website shows a link to the Transit Program's plan, the link navigates to the Port Program's plan. Absent a plan, we interviewed Cal EMA staff to determine if processes were in place to ensure the Transit Program achieves the intended outcomes. Staff indicated no process is in place.
- *Project Status Reporting is Not Adequate.* As stated in Exhibit 2, each department is required to submit semi-annual reports to Finance. Cal EMA submits a project listing to Finance; however, it did not contain the geographic location of each project or the programmatic status. In addition, the bond accountability website did not contain 2007-08 and 2008-09 project status as of April 1, 2010.

EXHIBIT 2: THREE-PART ACCOUNTABILITY STRUCTURE PER EXECUTIVE ORDER S-02-07

- ✓ *Front-End Accountability:* Create a strategic plan with performance standards for projects prior to the expenditure of funds.
- ✓ *In-Progress Accountability:* Document what ongoing actions it will take to ensure that the infrastructure projects or other activities funded from bond proceeds are staying within the scope and cost that were identified. Additionally, each department shall make semi-annual reports to the Department of Finance to ensure that the projects and activities funded from bond proceeds are being executed in a timely fashion and achieving their intended purposes.
- ✓ *Follow-Up Accountability:* Audit completed projects to determine whether the expenditures were in line with the goals laid out in the strategic plan.

¹ This figure is an estimate for the entire Transit Program.

Recommendations

- A. Develop and submit a Three Part Accountability Plan for the Transit Program and ensure Executive Order S-02-07 requirements are met. Emphasis should be placed on intended outcomes. Once approved by Finance, post the plan to the bond accountability website.
- B. Submit required project status reports to Finance semi-annually. Timely post project status information on the bond accountability website.

Observation 3: Monitoring Efforts Require Improvement

Cal EMA lacks adequate program monitoring efforts, increasing the risk of projects not staying within scope and costs. Executive Order S-02-07 requires departments to document ongoing actions necessary to ensure bond-funded projects or activities are staying within scope and costs identified when the project or activity was approved.

Although Cal EMA developed the *Transit System Safety, Security, and Disaster Response Program Guidelines* (Guidelines), they contain some vague and unclear language resulting in inconsistent application and interpretation. Additionally, Cal EMA lacks sufficient written procedures for both project closeout and post-close monitoring. Clarification and specificity of the Guidelines would minimize inconsistency and provide Cal EMA accurate information needed to monitor projects more effectively. Limited staff resources dedicated to monitoring bond funds also contributes to Cal EMA's inadequate follow-up accountability structure. Of the 46 projects tested, we found the following:

- All projects are not fiscally tracked; for this reason, grantee expenditures at any given date are unknown. The Guidelines do not require grantees to submit supporting documentation for expenditures or report fiscal information along with their performance reports. Consequently, the audit team had to contact grantees directly to obtain fiscal information.
- For all project files tested, there was no evidence performance reports were reviewed and approved by Cal EMA's Program staff. For 37 projects, performance reports lacked sufficient detail to assess progress. In addition, two projects were missing performance reports.
- We conducted site visits in March 2010 and identified two grantees who purchased equipment in August 2008 and August 2009; however, the equipment remains uninstalled and in its original packaging.
- None of the project files contained evidence of communication between Cal EMA and grantees beyond the award letter. Although emails between Cal EMA and grantees exist, communication was not necessarily a dialogue about a project's status. During our site visits, some grantees indicated project status communication with Cal EMA was minimal.
- Information in the Guidelines and Grant Assurances² conflicted, resulting in some grantees depositing idle funds in separate interest-bearing accounts while others comingled the funds. Unclear guidance about eligible bond-fund uses also led grantees to different interpretations. For example, some grantees thought funds could only be

² Bond accountability website address is www.bondaccountability.com.

used on equipment while others expended the funds on extended warranties, backup equipment, planning activities, and labor expenses.

- Grant closeout letters were not sent to grantees upon closeout. The Guidelines did not clearly define when project closeout would occur. This was especially confusing if a grantee received funding for one large project with multiple sub-projects, such as the 2007-08 grant awarded to Riverside Transit Authority (RTA). RTA received an award of \$855,000 that contained five sub-projects: (1) facility surveillance for \$200,000, (2) wall construction for \$525,000, (3) gate installation for \$50,000, (4) bus side cameras for \$60,000, and (5) emergency supplies for \$20,000. At the time of our site visit, the bus side camera sub-project was completed; however, there was no documentation of completion in Cal EMA's files.
- 11 final project reports did not compare the final cost, duration, and performance outcomes to the project's Investment Justification³. In addition, 17 final project reports were not forwarded to Finance. These requirements are stated in the Guidelines.

As the administrative agency, it is important Cal EMA take a proactive role in monitoring bond-funded projects. In addition, the importance of ensuring the project's scope and costs are met is heightened given the opportunity cost associated with the advancement of funds. Inherent in such activities would be fiscal and programmatic project monitoring not only while projects are in progress, but also after completion. Without such controls, Cal EMA may be unable to ensure projects are completed in accordance with the Bond Act.

Recommendations

- A. Perform a risk assessment of grantees to determine the most effective and efficient use of monitoring activities.
- B. Develop and implement procedures to fiscally and programmatically track projects. The procedures should also address file documentation and maintenance.
- C. Review and revise the Guidelines to increase clarity and specificity. The Guidelines should also change the performance reporting requirements to include reporting of expenditures, accrued interest, and other relevant information to enable program staff to determine if projects are staying within scope and costs.

Observation 4: Direct and Indirect Costs Are Not Correctly Allocated

Cal EMA's Proposition 1B direct and indirect costs are inaccurate and inconsistent. Specifically bond funds are not incurring the correct amount of direct costs and not being allocated the correct amount of indirect costs. Because Cal EMA does not document staff time spent on projects, a reconciliation of total program charges was not possible. As a result, the following discrepancies were noted:

- During 2007-08 and 2008-09, five employees' time was charged 100 percent to Proposition 1B even though time was spent working on federal activities. Conversely, one employee's time was charged 100 percent to federal grants during the first quarter of 2009-10 while spending 70 percent of their time on Proposition 1B activities.

³ Investment Justifications are the grantee's project proposal, which outlines the project's goals and objectives, funding plan, and various milestones.

The State Administrative Manual (SAM), section 9201 states direct costs shall be incurred for activities that benefit a specific program.

- Our review of CALSTARS reports show no indirect costs were charged to Proposition 1B during 2007-08 and 2008-09. However, Cal EMA's Cost Allocation Plan states indirect costs will be distributed according to the program's proportional share of direct costs. At the time of our audit, no adjustments had been made to correct the oversight. SAM section 9202 states indirect costs are to be assigned to the programs they benefit.

Risks include the possibility of the Federal Office of Inspector General requiring a refund on the overcharge of indirect costs.

Recommendations

- A. Ensure direct and indirect costs charged to Proposition 1B are reasonable, proper, and supported in accordance with SAM.
- B. Develop a corrective action plan regarding the non-allocation of indirect costs for 2007-08 and 2008-09.

Observation 5: Over Allocation of Mass Transit Funds

As required by Government Code section 8879.58, SCO annually calculates each grantee's eligible Transit Program allocation. Cal EMA uses SCO's calculation to determine the maximum allocation each grantee is allowed.

Cal EMA correctly awarded all bond funds in compliance with the calculated allocations, except for Placer County. For 2007-08, Placer County received \$239,229 instead of the calculated amount of \$229,743, an over-allocation of \$9,486.

Recommendation

Reduce Placer County's 2008-09 allocation by \$9,486. Establish and/or enhance procedures to ensure future allocations are correct.

RESPONSE

The attachments referenced in the response have been omitted in the interest of brevity. We acknowledge receipt and review of these attachments.



Cal EMA
CALIFORNIA EMERGENCY
MANAGEMENT AGENCY

September 22, 2010

David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
300 Capital Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

The California Emergency Management Agency (Cal EMA) is submitting the required 10-day response to the findings and recommendations provided in the June 2010 Proposition 1B (Prop 1B) Bond Funds report concerning the Transit System, Safety, Security and Disaster Response Program. We appreciate the opportunity to provide the status of our corrective action plan to the specific findings and recommendations in the report and do so as follows:

Funds Are Advanced Without Immediate Cash Need

Recommendation #1

- A. Do not advance funds unless grantees can demonstrate an immediate cash need and that capital expenditures are ready to be incurred.

Follow-Up Response

- A. Cal EMA follows the statutory authority for making payments of grant funds for eligible projects within the Proposition 1B Mass Transit 60% Program. Cal EMA attempts to maintain compliance with Chapter 181, Statutes of 2007 (Senate Bill 88) Government Code section 8879.58(e), which gives the State Controller's Office (SCO) authority to release funds for eligible projects that meet Cal EMA approval. In Cal EMA's agreement with SCO, Cal EMA agreed to run the full program and to release funds on the same statutory schedule that SCO is required to follow. This agreement allows Cal EMA and SCO to stay in compliance with the applicable statutes that govern the program. Without a change in statute, Cal EMA is unable to alter the current release of funds process as identified in Government Code Section 8879.58 et seq.

David Botelho
September 22, 2010

Non-Compliance with Executive Order S-02-07

Recommendation #2

- A. Develop and submit a Three Part Accountability Plan for the Transit Program and ensure Executive Order S-02-07 requirements are met. Emphasis should be placed on intended outcomes. Once approved by Finance, post the plan to the bond accountability website.
- B. Submit required project status reports to Finance semi-annually. Timely post project status information on the bond accountability website.

Follow-Up Response

- A. Cal EMA recently posted the Three Part Accountability Plan to both the Cal EMA and Bond Accountability websites. The Accountability Plan for the Transit Program was previously approved by Finance during the implementation of the Proposition 1B program and posted to the website. However, due to a computer hyperlink issue, the Transit Accountability Plan could not be accessed. We have since corrected this issue and posted the Plan to the website. (Attachment A)
- B. Cal EMA has updated the Bond Accountability website with the 2007-08 and 2008-09 status report dated April 01, 2010. Cal EMA has also provided Grant Management Memo (GMM) 2010-015 to all Proposition 1B grantees requiring the use of a newly updated Performance/Close-out Report which requires grantees to provide Cal EMA with both geographical locations and programmatic status updates. This Performance/Close-out Report will be implemented for the upcoming October 31, 2010 reporting period. Cal EMA will also ensure updates are provided to the Bond Accountability website in November 2010. (Attachment B)

Monitoring Efforts Require Improvement

Recommendation #3

- A. Perform a risk assessment of grantees to determine the most effective and efficient use of monitoring activities.
- B. Develop and implement procedures to fiscally and programmatically track projects. The procedures should also address file documentation and maintenance.
- C. Review and revise the Guidelines to increase clarity and specificity. The Guidelines should also change the performance reporting requirements to include reporting of expenditures, accrued interest, and other relevant information to enable program staff to determine if projects are staying within scope and costs.

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September 22, 2010

Follow-Up Response

- A. Cal EMA has developed and implemented a subrecipient risk assessment program that allows for the fiscal and administrative monitoring of all grants during the grant award period through either limited or extended scope field and/or desk reviews. The subgrantees receiving extended-scope monitoring are selected randomly. The desk reviews performed request subgrantees provide specific backup invoice documentation in support of selected purchase(s)/charge(s) to the grant program. The field visits conducted are complete reviews of subgrantee supporting documentation for selected charges(s) to the grant. Equipment is physically checked on all extended reviews, if applicable. The Cal EMA's Monitoring Protocol Policy and the Cal EMA Monitoring Guide that explains the Cal EMA monitoring process are attached. The Monitoring Division's operational manual describing the risk assessment process is also included for review. (Attachment C)

For the current fiscal year, approximately 13% or 32 extended reviews are planned for the Prop 1B grants. In addition to the extended reviews, Cal EMA will conduct a number of limited scope reviews to be determined through random sampling of Cal EMA grants during the current fiscal year.

Although Cal EMA's limited resources do not allow for the receipt and review of all supporting documentation for subgrantee expenditures, documentation supporting expenditures is reviewed during all extended-scope monitorings. Cal EMA also conducts periodic limited-scope payment reviews through a random sampling of subrecipients at intervals throughout the year.

- B. A Performance/Close-Out Report template has been developed requiring grantees to report fiscal and programmatic information to Cal EMA. (Attachment B) This Report will provide Cal EMA pertinent information to ensure approved projects stay within scope. Cal EMA has recently issued a GMM to all grantees with instructions on how to complete this new Performance/Close-Out Report, which will be implemented for the upcoming October 31, 2010 bi-annual reporting period. Information obtained from the Performance/Close-Out Report will be entered on a recently developed tracking sheet. Furthermore, each and every grantee's file has been reviewed and tracked and those with missing reports and/or documents are being contacted.

David Botelho
September 22, 2010

- C. Cal EMA has recently issued GMM's to grantees to provide clarity and specificity to the grant guidelines until the next Guidance is released, which will occur following the passage of the California State budget. Prop 1B assurances and post award requirement sections within the guidelines state that grantees must separately account for interest earned on grant funds and use all interest towards the project as approved by Cal EMA. Additionally, the recently developed Performance/Close-Out Report will allow grantees to report expenditures, accrued interest, and other relevant information to ensure projects are staying within scope and costs.

Direct and Indirect Costs Are Not Correctly Allocated

Recommendation #4

- A. Ensure direct and indirect costs charged to Proposition 1B are reasonable, proper, and supported in accordance with SAM.
- B. Develop a corrective action plan regarding the non-allocation of indirect costs for 2007-08 and 2008-09.

Follow-Up Response

- A. Since the merger of the Office of Emergency Services and the Office of Homeland Security into the California Emergency Management Agency, steps have been taken to remedy the reporting issues.

Effective with the July 2010 pay period, all staff must record their work time electronically in a database uploaded to Cal STARS that allocates salaries, wages, and associated benefits in proportion to projects worked on during the month. Both the employees and their supervisors sign the timesheets reflecting the project time reporting. Managers have also been directed to assure they review and approve timesheets that accurately reflect the projects worked on. This time reporting complies with the requirements of Office of Management and Budget Circular A-87.

Effective July 1, 2009, indirect administrative costs have been distributed to Proposition 1B. Cal EMA now has processes in place to ensure direct and indirect costs charged to Proposition 1B are reasonable, proper, and supported in accordance with the State Administrative Manual sections identified in the audit report.

- B. The DOF recommends a corrective action plan regarding the non-allocation of indirect costs to Proposition 1B for 2007-08 and 2008-09 due to the overcharge of indirect costs to federal grants. This overcharging of federal grants in 2007-08 and 2008-09 is offset by the five individuals identified in the audit who charged their entire time to Proposition 1B

David Botelho
September 22, 2010

even though time was spend on federal activities. Therefore, Cal EMA's corrective action plan is to not adjust the federal grant reporting for 2007-2008 and 2008-2009, because the indirect costs would be offset by the direct costs previously charged to federal activities.

Furthermore, Cal EMA will adjust the financial records to more accurately reflect the time for the individuals who charged 100 percent of their time to federal grants while working 70 percent of their time on Proposition 1B activities. This will result in a decrease to the federal grant charged and a corresponding increase to Proposition 1B during 2009-10. This will be properly reported in future quarterly Federal Financial Reports.

Over Allocation of Mass Transit Funds

Recommendation #5

- A. Reduce Placer County's 2008-09 allocation by \$9,486. Establish and/or enhance procedures to ensure future allocations are correct.

Follow-Up Response

- A. Placer County's allocation has been reduced by \$9,486. Cal EMA sent Placer County a letter explaining the overpayment in 2007-08 and the reduction in their 2008-09 allocation. Additionally, Cal EMA discussed with Placer County that in the future all allocations be checked with the State Controller's Eligible Allocation spreadsheet and the grant guidance. Cal EMA will also make it a policy to check the tracking sheet of allocations to ensure this does not happen in the future. (Attachment D)

On behalf of Cal EMA, we appreciate the assistance and guidance offered during your review. If you have additional questions or concerns, please feel free to contact my Chief of Staff, Helen Lopez at (916) 323-7615.

Sincerely,

Original signed by:

MATTHEW R. BETTENHAUSEN
Secretary

Enclosures

EVALUATION OF RESPONSE

The California Emergency Management Agency's (Cal EMA) response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge Cal EMA's willingness to implement our recommendations and its commitment to effectively manage bond funds. In evaluating Cal EMA's response, we provide the following comments:

Observation 1: Funds Are Advanced Without Immediate Cash Need

The response states Cal EMA advances funds for eligible projects to comply with Government Code section 8879.58(e) and an agreement made with the State Controller's Office (SCO). The response also states Cal EMA is unable to alter the current process without a change in statute. Section 8879.58(e) also requires SCO to allocate funds on a set schedule to eligible transit agencies, as determined by Cal EMA, based upon a formula contained in subdivision (a) of section 8879.57. Cal EMA has an agreement with SCO to release funds to grantees on the same schedule.

Cal EMA is required to select eligible projects to receive grants and provide SCO with a list of the projects and the sponsoring agencies eligible to receive an allocation. Upon receipt of this information, SCO will disburse the funds. Cal EMA should ensure capital expenditures are ready to be incurred prior to authorizing SCO to issue payment. The terms "allocate" and "allocation" are used as budgeting terms in statute unless defined as payment terms. Therefore, the observation remains as reported and we reiterate our recommendation.

Observation 2: Non-Compliance with Executive Order S-02-07

During our audit period, Cal EMA did not have a three-part accountability plan for the Transit Program. Subsequently, one was submitted and Finance approved it on August 20, 2010.

Observation 3: Monitoring Efforts Require Improvement

We commend Cal EMA for its prompt action to improve program monitoring efforts to ensure projects stay within scope and costs. We recognize Cal EMA has a Grants Monitoring Division (GMD) responsible for monitoring public safety, victim services, emergency management, and homeland security grant recipients for compliance with federal and state laws and regulations; and that GMD's monitoring guide and procedures explain Cal EMA's risk assessment program.

However, Cal EMA's Program staff, versus GMD, are the Proposition 1B subject matter experts who should have active roles in monitoring the Proposition 1B projects. Although Cal EMA is limited in resources, at a minimum, the Program staff should be actively involved and provide Proposition 1B project input during GMD's risk assessment process. Due to the volume of non-Proposition 1B grants, this involvement should help ensure Proposition 1B projects are sufficiently and adequately monitored.