

REPORT DIGEST

ILLINOIS EMERGENCY MANAGEMENT AGENCY FINANCIAL AND COMPLIANCE AUDIT (In Accordance with the Single Audit Act and OMB Circular A-128) FOR THE TWO YEARS ENDED JUNE 30, 1995

SYNOPSIS

- Procedures and records for control of State Property neither met statutory requirements nor provided adequate internal control over assets.
- The Agency violated its appropriation legislation by expending funds for purposes not authorized by the General Assembly.
- The Agency did not comply with federal cash management standards and grantor agreements for cash balances.
- The Agency did not maintain time and effort records to document payroll cost allocations to various grant programs when employees' wages were chargeable to more than one program.
- The Agency did not comply with Federal regulations for property management and disposition.
- The procedures for determining and claiming eligible personal services costs for federal grant reimbursements were not adequate.
- The Agency received reimbursement from the Federal Emergency management Agency (FEMA) for certain ineligible emergency response costs.
- The Agency has not drawn indirect cost reimbursements for the Statewide Cost Allocation Plan (SWCAP) costs as required by the State Officers and Employees Money Disposition Act.

{Expenditures are summarized on the reverse page.}

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This report is presented in two volumes: Volume I contains - State Compliance and Agency Functions and Planning Program. Volume II contains - Financial Statements and - Federal Compliance.

VIOLATION OF STATE PROPERTY CONTROL ACT

Procedures and records for control of State Property did not meet statutory requirements or provide adequate internal control over assets.

The Illinois Emergency Management Agency (IEMA) property control system did not include procedures for accumulation of property purchase information by appropriation line item or for reconciliation of those amounts to recorded acquisitions. The current system relies upon the persons processing vouchers to recognize expenditures which should be capitalized and to forward copies of those vouchers and related invoices to the person in charge of property control. The State Comptroller Act (15 ILCS 405/17) and CUSAS Chapter 29 require accurate reporting of fixed assets to the Comptroller. Reconciliations of expenditures for property control items to acquisitions recorded on the property control system should be made to assure that all required items are recorded.

The lack of adequate procedures, records, or internal controls over property described above constitutes a material internal control weakness, and could result in loss or misuse of the assets involved, including property purchased with federal funds. It also could result in inaccurate reporting of asset values and related balances by the Agency and the Comptroller. The total balance reported by the Agency for General Fixed Assets was \$2,011,157 at June 30, 1995. (Finding 2, page 10, Volume I)

We recommend the Agency continue to develop and implement improved procedures and records which accurately reflect the cost of State property for which the Agency is accountable and provide adequate internal control over the assets.

The Agency agreed. The Agency also noted it is now implementing its procedures for the accumulation of information on property purchased. IEMA also replied it has purchased a bar code system to more effectively monitor property.

NONCOMPLIANCE WITH FY 95 APPROPRIATION BILL

The Agency violated its appropriation legislation by expending funds for purposes not authorized by the General Assembly.

Payroll costs for seven administrative and fiscal employees for the period of June 1 to June 15, 1995 were improperly charged to planning and field operations. IEMA's FY 95 appropriation bill contained separate personal service appropriation lines within the General Revenue Fund for the Office of Administration, Fiscal and Communications and for the Office of Planning and Field Operations. The Nuclear Safety Emergency Preparedness Fund also received an

appropriation for personal services for the Office of Planning and Field Operations.

The Agency did not utilize its authority to transfer appropriations to provide sufficient resources for its FY 95 Administration, Fiscal and Communications payroll payable from the General Revenue Fund. Instead, a portion of the payroll was expended from appropriation lines other than those intended by the General Assembly. Salaries of \$8,378 were improperly paid from the General Revenue Fund Office of Planning and Field Operations, and a salary of \$2,008 was improperly paid from the Nuclear Safety Emergency Preparedness Fund. Although this improper use of funds did not result in any lost revenue for FY 1995, these procedures could lead to a future loss of federal revenue, as these salaries are 50% reimbursable under the Federal Emergency Management Assistance program. (Finding 6, page 15, Volume I)

We recommended the Agency utilize its transfer authority to provide amounts sufficient to fund anticipated expenditures.

The Agency responded that it agreed and will utilize its 2% transfer authority to cover personnel costs or request supplemental appropriations to obtain additional funds within programs.

NONCOMPLIANCE WITH FEDERAL CASH MANAGEMENT REQUIREMENTS

IEMA has not complied with federal cash management standards and grantor agreements relative to cash balances.

The Agency advanced federal Hazard Mitigation Grant Program (CFDA 83.516) funds in excess of amounts needed by subrecipients. The purpose of the Hazard Mitigation Grant Program is to reduce the risk of future damage, hardship, loss or suffering from disasters. The program funds disbursed for disasters declared on July 9, 1993 and April 26, 1994 were to enable subrecipients, (i.e. local units of government) to purchase property from residents located in affected floodplain areas. As a condition of these purchases, the residents were prohibited from purchasing replacement property located within a floodplain. The vacated property is required to be maintained as an "open space" by the local unit of government.

The Agency advanced up to 50% of the award amounts to subrecipient local units of government without regard to immediate cash needs in order to raise interest and confidence in the program. Only one of seventeen subrecipients tested spent the federal funds in a timely manner. The sixteen other subrecipients tested took from one to six months to spend Hazard Mitigation funds.

Funds totalling \$2,857,784 and \$28,425,377 were passed through to four and thirty-one subrecipients during fiscal years 1994 and 1995 respectively. (Finding 12, page 51, Volume II)

We recommended the Agency comply with federal cash management standards and establish adequate cash management procedures to ensure federal funds are not drawn in excess of need and are returned to the grantor agency on a timely basis when excess funds are found to have been drawn.

The Agency agreed with our recommendation and said that in the future it will comply with the federal cash management standards for the administration of the Hazard Mitigation Grant

Program.

NON-COMPLIANCE WITH FEDERAL COST PRINCIPLES FOR PAYROLL

The Agency did not maintain time and effort records to document payroll cost allocations to various grant programs when employees' wages were chargeable to more than one grant program.

The Agency's payroll system did not meet federal cost allocation requirements because it did not provide for allocation of payroll for an individual to more than one program. Although the Agency had begun development of a "time reporting system" (TRS) during the current audit period, the TRS had not been fully implemented and, accordingly, had not met federal requirements. In the absence of the implementation of the TRS, the Agency had allocated payroll by reviewing each employee's function and task and making a determination of whether those efforts were directed toward the completion of a federal program goal or objective. This review was first performed in the planning phase of the federal programs and was then monitored throughout the year by fiscal personnel and division chiefs. As a result of these additional procedures, we identified no questioned costs resulting from the internal control weakness caused by a lack of documentation during the current audit period.

However, failure to support cost allocations by underlying documentation could result in future questioned or disallowed costs and still constitutes a material internal control weakness. In addition, if the personal services costs of an employee are allocable to a program for which available federal allocations are not fully utilized or claimed but instead are charged to a program with cost overruns or which is not fully funded, a loss of revenue could occur. (Finding 13, page 53, Volume II)

We recommended the Agency complete the development of a documented time and effort system.

The Agency agreed.

NONCOMPLIANCE WITH FEDERAL PROPERTY MANAGEMENT REGULATIONS

The Agency had not complied with Federal regulations for property management and disposition (44 CFR 13.31 and 13.32).

Property control records maintained by IEMA did not contain all of the information required by federal regulations. Omitted information included failure to identify and record material amounts of property as having been purchased from federal funds. Other required information not provided included identification of the federal share of equipment costs, current condition of the property, the source of the property, its use, and information regarding the ultimate disposition date and sale price.

Noncompliance in this area represents a material internal administrative control weakness. The amount of equipment purchased with federal funds was \$294,000 in FY 95 and \$61,000 in FY

94. (Finding 14, page 55. Volume II)

We recommended the employees in charge of the property control system be provided assistance in implementing the federal requirements. We also recommended the Agency expand existing records for equipment purchased from federal funds to comply with Federal Property Management Standards.

The Agency agreed.

INADEQUATE PROCEDURES FOR CLAIMING PERSONAL SERVICES COSTS

The procedures for determining and claiming eligible personal services costs for federal grant reimbursements were not adequate.

During the current audit period, the Agency claimed personal services costs for both the Emergency Management Assistance (EMA) program and for the Hazardous Materials Training Program. The amounts had originally been charged to the EMA program. Agency personnel determined that the amounts were omitted from the Hazardous Materials program and recorded them for that purpose but did not know that they also had been erroneously charged to the EMA program.

Failure to provide adequate internal administrative and accounting control over the EMA program resulted in the reporting of \$7,831 of nonallowable costs and inaccurate reporting to FEMA of eligible EMA costs on the Agency's quarterly report for the quarter ended July 30, 1995. (Finding 17, page 60, Volume II)

These errors occurred because procedures were inadequate to ensure accurate reporting of personal services costs. Generally accepted internal control procedures require the implementation of control mechanisms and program management reviews sufficient to provide for accurate financial records and reporting. As stated in Finding No. 13 above, the Agency is in the process of implementing a new time reporting system. When that system is fully implemented, this internal control weakness should be corrected.

We recommended the Agency modify its procedures to provide for a review of personnel cost allocations charged to federal grant programs.

The Agency agreed.

UNALLOWABLE COSTS - DISASTER ASSISTANCE

The Agency has received reimbursement from the Federal Emergency Management Agency (FEMA) for certain ineligible emergency response costs.

The Agency requested and received reimbursement for both an equipment-use allowance (based on an established hourly rate) and for actual equipment repairs. These reimbursements were received pursuant to IEMA's claim as an applicant for State disaster response costs related to a

major disaster declared on August 29, 1990.

According to FEMA regulations, use of applicant-owned equipment may be claimed for reimbursement by using rates established under State guidelines. There is no provision in those regulations for also claiming reimbursement for specific repairs incurred during response activities.

IEMA's current policy for submitting costs is to present all disaster response costs paid out of the Governor's Disaster Relief Fund to FEMA for approval. Eligibility criteria is not considered by IEMA prior to FEMA's review. IEMA utilizes this practice to avoid omitting costs which FEMA may ultimately allow. The unallowable amounts resulted in questioned costs totalling \$97,000, which were reimbursed by FEMA on a 75% cost share basis with grant funds for the Public Assistance program. (Finding 18, page 61, Volume II)

We recommended the Agency review eligibility prior to submitting costs to FEMA for reimbursement.

The Agency agreed to review costs for program eligibility prior to submission to FEMA for reimbursement.

INDIRECT COST REIMBURSEMENTS

The Agency has not drawn indirect cost reimbursements for the Statewide Cost Allocation Plan (SWCAP) costs as required by the State Officers and Employees Money Disposition Act. (30 ILCS 230/2a.3; 230/2b).

The Agency receives federal reimbursement for 50% of some of the administrative costs incurred in the Central and Regional Offices as direct costs. The Agency has submitted a Cost Allocation Plan to the Federal Emergency Management Agency (FEMA) which enables IEMA to claim SWCAP reimbursement. However, because federal reimbursement is limited to a fixed grant amount, indirect cost recovery has not been drawn, because to do so would reduce the amount of funds available for program purposes.

The State Officers and Employees Money Disposition Act requires agencies which are eligible for indirect cost reimbursements to make timely application and to deposit the reimbursements into the fund from which the original expenditures were made. Indirect cost reimbursements received by the Agency would be deposited into the General Revenue Fund.

Statewide Cost Allocation Plan (SWCAP) costs attributable to IEMA have been determined to be approximately \$300,000. Failure to obtain reimbursement for the indirect costs:

- represents a statutory violation, and
- reduces the amount of monies available for funding general State government activities. (Finding 5, page 14)

We recommended the Agency make timely application for all indirect cost reimbursements for which it is eligible, as required by the State Officers and Employees Money Disposition Act.

We further recommended the Agency seek legislation that would allow it to deposit indirect cost reimbursements to the funds in which the related federal programs are operated.

The Agency said that it agreed with our recommendations.

AUDITOR'S OPINION

Our auditors stated the June 30, 1995 and June 30, 1994 financial statements of the Illinois Emergency Management Agency are fairly stated.

OTHER FINDINGS

The remaining findings are less significant and have been given appropriate attention by the Agency. We will review progress toward the implementation of recommendations in our next audit.

WILLIAM G. HOLLAND, Auditor General

WGH:JTD:pp

SUMMARY OF AUDIT FINDINGS

19951993

Total Findings 16 22

Prior Recommendations Repeated 11 4

Prior Recommendations Implemented
or Not Repeated 11 6

SPECIAL ASSISTANT AUDITORS

Sleeper, Disbrow, Morrison, Tarro & Lively served as special assistant auditors for this audit.

ILLINOIS EMERGENCY MANAGEMENT AGENCY
FINANCIAL AND COMPLIANCE AUDIT
For The Two Years Ended June 30, 1995

| EXPENDITURE STATISTICS | FY 1995 | FY 1994 | FY 1993 |
|--|---------------------|---------------------|---------------------|
| ●Total Expenditures (All Funds) | \$68,445,879 | \$89,543,021 | \$12,028,871 |
| <u>OPERATIONS TOTAL</u> | \$6,037,221 | \$25,486,489 | \$5,649,896 |
| % of Total Expenditures | 9% | 28% | 47% |
| Personal Services | \$2,581,518 | \$12,936,252 | \$2,111,870 |
| % of Operations Expenditures | 43% | 50% | 37% |
| Average No. of Employees | 62 | 59 | 61 |
| Other Payroll Costs (FICA, Retirement) | | | |
| % of Operations Expenditures | \$503,415 8% | \$453,622 2% | \$425,651 8% |
| Contractual Services | \$1,440,601 | \$4,809,745 | \$602,286 |
| % of Operations Expenditures | 24% | 19% | 11% |
| All Other Operations Items | \$1,511,687 | \$7,286,870 | \$2,510,089 |
| % of Operations Expenditures | 25% | 29% | 44% |
| <u>GRANTS TOTAL</u> | \$62,371,391 | \$63,909,725 | \$6,378,975 |
| % of Total Expenditures | 91% | 72% | 53% |
| <u>REFUNDS</u> | \$37,267 | \$146,807 | \$0 |
| % of Total Expenditures | (less than 1%) | (less than 1%) | 0% |
| ●Cost of Property and Equipment | \$2,558,215 | \$2,050,702 | \$2,105,031 |

| ACTIVITY MEASURES | FY 1995 | FY 1994 | FY 1993 |
|--|----------------|----------------|----------------|
| Units of Government Served through Federal Disaster Assistance | 570 | 850 | Not Available |
| Individuals and Family Grants Approved | 0 | 17,250 | Not Available |

| AGENCY DIRECTOR(S) |
|--|
| During Audit Period: John G. Mitchell Currently: John G. Mitchell |