

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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November 11, 2018

The Honorable Mitch Carmichael, President
West Virginia State Senate
Post Audits Subcommittee, Co-Chair
Room 229M, Building 1
State Capitol Complex
Charleston, West Virginia 25305

The Honorable Roger Hanshaw, Speaker
West Virginia House of Delegates
Post Audits Subcommittee, Co-Chair
Room 228M, Building 1
State Capitol Complex
Charleston, West Virginia 25305

Dear Mr. President and Mr. Speaker:

This letter is to inform the Post Audits Subcommittee of internal control and management issues within the Division of Homeland Security and Emergency Management (DHSEM), a division of the Department of Military Affairs and Public Safety. Due to the serious nature of the problems at the DHSEM, the Performance Evaluation and Research Division (PERD) finds that it is critical to advise the Post Audits Subcommittee of our present findings, although a complete audit of the DHSEM internal control and management issues will not be completed until the December 2018 interim meetings. In short, deficiencies in internal control and management resulted in federal financial penalties.

At present, the Performance Evaluation and Research Division finds that:

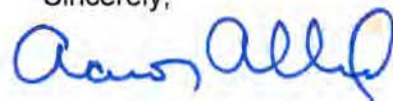
- In a letter dated November 12, 2015, the Federal Emergency Management Agency (FEMA) notified Jimmy Gianato, Director, of DHSEM, that FEMA was placing DHSEM on manual reimbursement effective January 13, 2016.
- The manual reimbursement penalty significantly changed the process by which DHSEM received federal funds for those grant awards. DHSEM was required to use state funds to make an initial expenditure and was reimbursed only when it had satisfactorily justified that expenditure to FEMA.
- The federal action is the result of several years of DHSEM's inability to comply with grant requirements and failure to remedy identified issues. Specifically, FEMA identified issues regarding sub-recipient monitoring.
- The manual reimbursement penalty affects the Hazard Mitigation Grants Program, Public Assistance Grants, the Community Assistance Program, Cooperating Technical Partners, and the Emergency Management Performance Grants. This includes all open grants, including the 2016 flood grants.

- According to the Former Cabinet Secretary, Joe Thornton, DHSEM never notified him of FEMA's penalties. Former Cabinet Secretary Thornton stated he had *"no recollection receiving notice from any parties mentioned and I also have no correspondence in my files from November 2015 through January 2017 notifying me of any such corrective actions or restrictions placed on DHSEM."*
- The manual reimbursement penalty may add up to 90 days of additional time for any reimbursement request exceeding \$100,000.
- As of October 9, 2018, DHSEM continues to be on manual reimbursement. FEMA officials will make a site visit in October 2018 to determine if the agency should be removed from the manual reimbursement process, but no decision has been made.
- Thus far, PERD has identified only one other FEMA grantee, Puerto Rico, as subject to the manual reimbursement process.

Based on the analysis thus far, DHSEM has been cited by U.S. Department of Homeland Security for failure to adhere to the terms of grant agreements since 2009 and the issues have largely continued unabated since then. Moreover, the November 12, 2015 letter notes: 1) instances of DHSEM failing to respond to issues timely and/or simply not responding and 2) instances of FEMA granting extensions and/or postponing site visits due to DHSEM's inability to complete the required actions and/or simply not responding within the required timeframe.

The Legislative Auditor concludes, based on a review of FEMA documents and Single State Audits, that substantial deficiencies in internal control led to the current federal penalty. The deficiencies include a failure to implement control activities through policies and procedures as well as remediating identified deficiencies timely. Preliminary recommendations are: 1) DHSEM create policies and procedures for the grant management function, and 2) DHSEM report to the Legislature on a regular basis to detail all corrective actions taken to address the findings of FEMA and PERD's full report.

Sincerely,



Aaron Allred