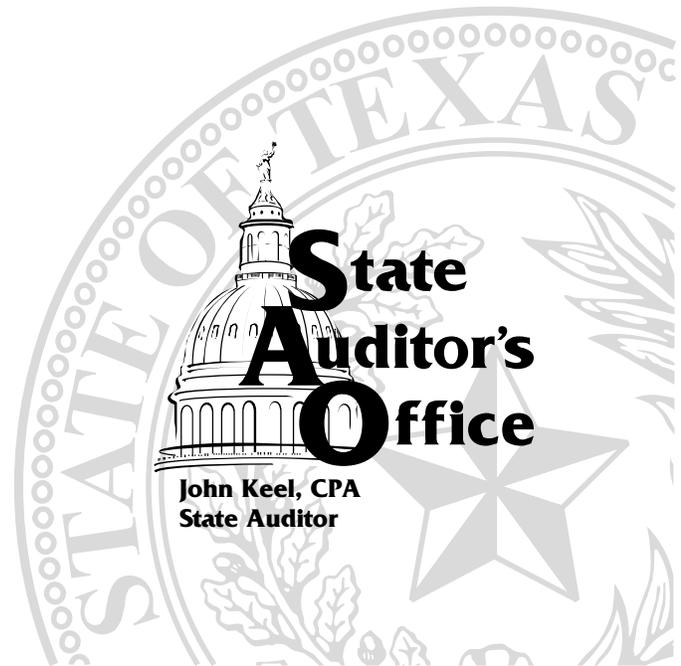A Financial Review of

The Texas Engineering Extension Service's Administration of Homeland Security Grant Funds

January 2005
Report No. 05-020

A Financial Review of

The Texas Engineering Extension Service's Administration of Homeland Security Grant Funds

Overall Conclusion

The Texas Engineering Extension Service (TEEX) should strengthen its management of the State Homeland Security Grant Program (Grant) to ensure that funds are (1) used for their intended purpose of enhancing local jurisdictions' capabilities to respond to potential terrorist threats and (2) adequately protected from violations, abuse, and fraud. We identified significant weaknesses in TEEX's processes for managing the $111 million in Grant funds (for the 1999 through 2003 supplemental grant years) allocated to local jurisdictions.

TEEX and the councils of governments (COGs) are allowed to retain a portion of the funds to oversee the Grant. These retained funds (for TEEX and the three COGs we visited) were generally used as intended. In addition, TEEX's internal accounting system contains generally accurate information.

Most of the expenditures we tested at 10 local jurisdictions were for items included on the federal government's list of allowable equipment. However, TEEX does not have adequate processes for ensuring that local jurisdictions' purchases address their actual needs or that jurisdictions maximize their Grant funds.

> ### Background Information
>
> As part of a federal effort to distribute funds for emergency prevention, preparedness, and response personnel, the U.S. Department of Justice and the U.S. Department of Homeland Security provides funding to states to enable them to provide planning, equipment, training, exercise, and administrative funding to first responders.
>
> The Governor's Office, through the State Director of Homeland Security, directs policy for the State Homeland Security Grant (Grant) program in Texas. TEEX is the Governor-appointed state administrative agency that manages the Grant program.
>
> The Grant requires that at least 80 percent of the funding be used at the local level. In Texas, 96 percent of the funding is passed to local jurisdictions.
>
> See Appendix 2 for additional background information on homeland security funding and Appendix 3 for maps showing the distribution of funds.

In addition, TEEX's agreements with COGs and local jurisdictions do not contain requirements or details, such as performance measures, that would allow TEEX to hold these entities contractually accountable. Furthermore, as of the time of our fieldwork (July 2004), TEEX had not conducted any site visits at local jurisdictions for Grant funds it awarded in 2002 and 2003. At 4 of the 10 local jurisdictions we visited, we identified abuse or misuse related to equipment purchased with Grant funds. For example, one jurisdiction assigned a command vehicle purchased with Grant funds to an executive, which violates Grant provisions (see pages 14 and 15 for additional information). Nine of the 10 jurisdictions did not have all of the equipment they had purchased with Grant funds arranged or located in a way that would allow them to access it quickly when responding to potential acts of terrorism. In addition, 14 jurisdictions did not submit a basic emergency operations plan, which jurisdictions are required to submit in order to be eligible for Grant funds (see page 16 for additional information).

To begin improving its monitoring process, TEEX has hired two grant monitors and is developing and piloting a monitoring plan.

State
Auditor's
Office

John Keel, CPA
State Auditor

For the 1999 through 2003 supplemental grants, TEEX administered $136 million in Grant funds, the majority of which were federal funds that TEEX passed to COGs and local jurisdictions. TEEX retained approximately $4 million to manage the Grant. TEEX's infrastructure, processes, and procedures have not kept up with the increase in its responsibility. Specifically, the number of local jurisdictions participating in the Grant grew from 95 in 2001 to 753 in 2003.

Key Points

TEEX should implement processes to ensure that local jurisdictions use Grant funds to enhance their capability to respond to potential terrorist threats.

TEEX does not have a formal process for reviewing the local jurisdictions' domestic preparedness assessments (the *Texas Domestic Preparedness Assessments Handbook of Instructions* specifies that this assessment "takes the place of traditional grant applications"). The assessments are designed to facilitate a detailed evaluation of a jurisdiction's preparedness, which includes identifying needs. In addition, TEEX does not use these assessments as a tool to ensure that jurisdictions' purchases cover the gaps between required and current capabilities identified in the assessments.

TEEX should ensure that its agreements with COGs and local jurisdictions adequately hold these entities accountable for Grant funds and for reporting their performance.

TEEX's agreements with COGs and local jurisdictions do not tie the amount of funding these entities are awarded to goals or projects. In addition, the agreements' reporting requirements are vague, and TEEX has not held COGs and local jurisdictions accountable for submitting required reports outlined in the agreements. None of the 10 local jurisdictions we visited had submitted required reports, and the three COGs we visited had not submitted all of their required reports. As a result, TEEX cannot ensure that local jurisdictions and COGs are using funds or equipment as intended or making progress toward improving their ability to respond to a potential terrorist incident.

TEEX should implement purchasing requirements and payment processes to ensure that the use of Grant funds is maximized.

The local jurisdictions can choose from three purchase methods to purchase equipment for the 2002 Grant through the 2003 supplemental Grant. However, the price varies between the purchase methods, and TEEX does not require the jurisdictions to determine which method provides the best value for the items they want to buy. The potential savings could be significant: our analysis of a sample of equipment purchases showed that jurisdictions that purchased equipment from the prime vendor spent at least $1 million more than jurisdictions that purchased comparable equipment through the local purchase method.

Furthermore, when jurisdictions purchase from the prime vendor, TEEX does not always ensure that jurisdictions have their equipment before TEEX pays the invoice. (TEEX is billed directly for items that jurisdictions purchase from the prime vendor.) For 81 percent of the items in our sample, TEEX paid the prime vendor without proof of delivery from a local jurisdiction. TEEX has also provided contradictory requirements to the jurisdictions

regarding when and how they can receive reimbursement for equipment they purchase through the local purchase method.

TEEX should conduct site visits at local jurisdictions for Grant funds awarded in 2002 and 2003.

As of the time of our fieldwork (July 2004), TEEX had not conducted any site visits at local jurisdictions for Grant funds it awarded in 2002 and 2003. Without conducting site visits, TEEX cannot ensure that local jurisdictions (1) use Grant funds to purchase equipment as intended or (2) adequately protect the funds from fraud, abuse, and violations. As the State Administrative Agency for the Grant, TEEX is responsible for ensuring that local jurisdictions use the equipment they purchase with Grant funds to enhance their capabilities and to increase their preparedness to respond to acts of terrorism involving chemical and biological agents or radiological, nuclear, and explosive devices. By the end of our audit fieldwork, TEEX had hired two grant monitors and started developing and piloting a monitoring plan.

TEEX should ensure that its automated systems provide complete and accurate information for tracking and monitoring Grant funds.

TEEX's Web-based Domestic Preparedness Assessment system (DPA), which is used for tracking and monitoring Grant funds, does not provide complete and accurate information. As a result, local jurisdictions could exceed their award amounts or funds could go unused. DPA also has significant access and security control weaknesses.

TEEX and the three COGs we visited have generally used Grant administrative and planning funds as intended.

Although TEEX and the three COGs we visited have generally used administrative and planning funds as intended, we noted that both TEEX and the three COGs have opportunities to improve their budgeting and their controls over expenditures.

Summary of Management's Response

TEEX disagrees with many of the recommendations in this report. Most of the recommendations with which it disagrees pertain to the following topics: (1) ensuring that local jurisdictions use Grant funds to enhance their capability to respond to potential terrorist threats, (2) ensuring that local jurisdictions maximize Grant funds, and (3) conducting site visits at local jurisdictions for Grant funds awarded in 2002 and 2003. (See Appendix 4 for management's response.)

The information provided by TEEX does not change the State Auditor's Office's (SAO) findings and recommendations. TEEX's responses indicate that it believes the SAO used criteria that were not in alignment with federal requirements. However, the SAO's findings and recommendations are based on the criteria that were in effect during the audited period and that were relevant to the audit objectives.

TEEX generally agrees with our recommendations regarding its agreements with COGs and local jurisdictions, its automated systems, and its use of Grant administrative and planning funds.

Summary of Information Technology Review

Our review of information technology was limited to TEEX's DPA system, its Masterpiece accounting system, and the operating systems for each of those systems. As mentioned above, DPA, which is used for tracking and monitoring equipment Grant funds, does not provide complete and accurate information and has significant access and security control weaknesses that leave it vulnerable to unauthorized or inappropriate use. However, we found that security over DPA's operating system was adequate.

We concluded that information in Masterpiece is generally accurate and identified some general control weaknesses in this system. While Masterpiece's operating system has generally effective access and security controls, we noted certain weaknesses in general controls for the operating system that TEEX should address.

Summary of Objectives, Scope, and Methodology

Our objectives were to determine whether:

➢ Homeland security funds are being used as intended.

➢ State agencies that pass homeland security funds to local governments or contract with other entities have adequate internal processes to ensure that funds are used for their intended purposes.

The scope of our audit covered the 1999 through 2003 supplemental State Homeland Security Grant Program administered by TEEX.

Our methodology consisted of conducting interviews; collecting and reviewing information; conducting site visits at COGs and local jurisdictions; and performing tests, procedures, and analyses that we measured against predetermined criteria.

Recent SAO Work		
Number	Product Name	Release Date
04-036	An Audit Report on the Department of Health's Implementation of Its Bioterrorism Preparedness Plans	June 2004

Contents

Detailed Results

Appendices

Detailed Results

Introduction

Figure 1 shows the processes for the State Homeland Security Grant and areas where we identified issues.

Figure 1
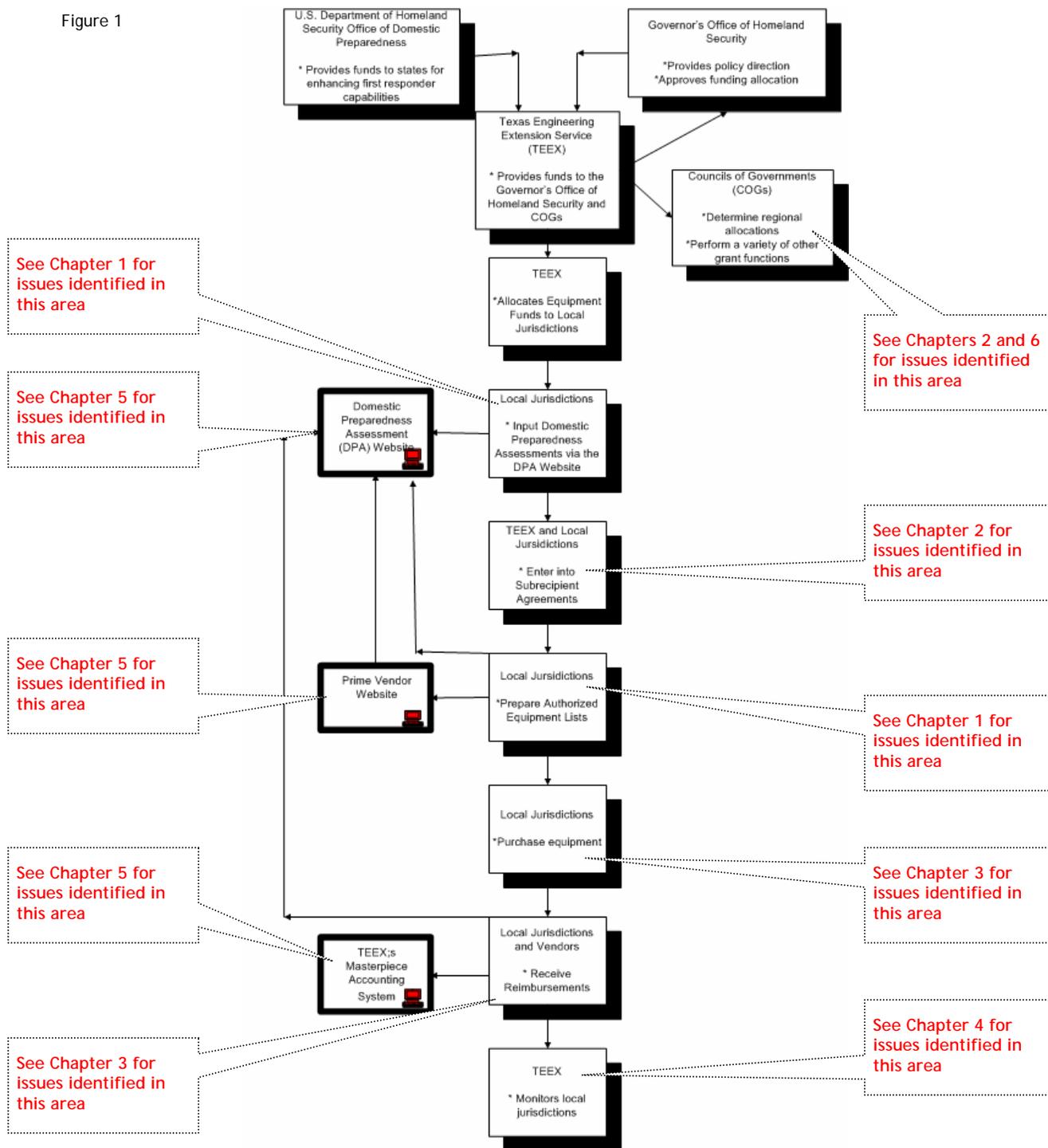
See Chapter 1 for issues identified in this area

See Chapter 5 for issues identified in this area

See Chapter 5 for issues identified in this area

See Chapter 5 for issues identified in this area

See Chapter 3 for issues identified in this area

See Chapters 2 and 6 for issues identified in this area

See Chapter 2 for issues identified in this area

See Chapter 1 for issues identified in this area

See Chapter 3 for issues identified in this area

See Chapter 4 for issues identified in this area

TEEX Should Implement Processes to Ensure that Local Jurisdictions Use Grant Funds to Enhance Their Capability to Respond to Potential Terrorist Threats

The Texas Engineering Extension Service (TEEX) does not have adequate processes for ensuring that local jurisdictions use State Homeland Security Grant Program (Grant) funds to purchase equipment that will enhance their capability to respond to potential terrorist threats. It does not have a formal process for reviewing the local jurisdictions' domestic preparedness assessments (see text box), and it does not use these assessments as a tool to ensure that jurisdictions' purchases are consistently covering gaps between required and current capabilities.

> **Domestic Preparedness Assessments**
>
> The federal government established guidelines for these assessments. The assessments are tools designed to facilitate a detailed evaluation of a jurisdiction's preparedness. According to the guidelines, assessments should include the following:
>
> - Vulnerability assessments for existing elements within the jurisdiction that could be potential targets, such as hospitals and railroads.
> - Scenarios for responding to potential terrorist incidents.
> - Identification of currently available equipment.
> - Identification of current training, exercise, planning, and organizational capabilities.
> - Needed equipment, training, exercise, planning, organizational, and technical assistance.

Chapter 1-A
TEEX Should Implement a Formal Process for Ensuring that Local Jurisdictions' Domestic Preparedness Assessments Are Complete and Accurate

TEEX does not have a formal process for ensuring that its reviews of local jurisdictions' assessments are complete and accurate. As a result, some local jurisdictions may not identify all potential targets and develop related response capabilities. Having a complete and accurate assessment increases a local jurisdiction's ability to prepare for and respond to potential terrorist threats.

To be eligible for Grant funding, each local jurisdiction is required to complete an assessment. According to the *Texas Domestic Preparedness Assessments Handbook of Instructions*, which TEEX provides to local jurisdictions, "the assessment takes the place of traditional grant applications." It is also critical that information in the assessments be complete and accurate because the assessments provide the data for updating the State Domestic Preparedness Strategy and for allocating equipment funding.

TEEX does not have a documented process for reviewing assessments, and 2 of the 10 local jurisdictions we visited reported that they did not submit complete and accurate assessments to TEEX. One of these two jurisdictions asserted that it was not able to include law enforcement information in its assessment because of technical problems with TEEX's Web site. The other reported that law enforcement and public works departments were not included in its assessment.

According to TEEX, the COGs do not have a role in reviewing assessments. The statement of work in COGs' agreements with TEEX states that COGs receive Grant funds in part "to support current and future assessments work." Currently, COGs' role in the assessments includes completing the regional portion of the assessment, providing technical assistance to local jurisdictions as they complete their assessments, and tracking jurisdictions' progress in completing assessments.

Recommendation

TEEX should develop and implement a process for TEEX to follow when reviewing local jurisdictions' domestic preparedness assessments for completeness and accuracy.

Management's Response

See Appendix 4 for management's response.

Chapter 1-B

TEEX Should Use Local Jurisdictions' Domestic Preparedness Assessments as a Tool in Reviewing These Entities' Authorized Equipment Lists and Ensure that Equipment Purchases Comply with Federal Requirements

TEEX has not used local jurisdictions' assessments as a tool for reviewing and approving the jurisdictions' authorized equipment lists. In addition to providing a detailed evaluation of elements in each jurisdiction that could be potential targets, the assessments also determine jurisdictions' equipment needs.

Local jurisdictions that complete assessments receive Grant funds; some jurisdictions receive additional funding for regional priorities from the COGs. To purchase equipment with Grant funds, local jurisdictions must complete authorized equipment lists detailing the equipment they intend to purchase. TEEX's subrecipient agreements with local jurisdictions indicate that COGs "review and approve or disapprove the list," and then the approved lists are forwarded to TEEX for review.

TEEX does not review the authorized equipment lists to determine whether the requested equipment is consistent with the jurisdictions' areas of vulnerability and need identified in jurisdictions' assessments. As a result, local jurisdictions may be purchasing equipment that does not enhance their capability to respond to a terrorist threat. When we compared a sample of equipment items for 10 jurisdictions' assessments with their authorized equipment lists, we found that 7 jurisdictions included one or more equipment items that were not consistent with their assessments. For example:

- TEEX approved one local jurisdiction's purchase of equipment for law enforcement. However, the law enforcement section of the jurisdiction's assessment was blank.

- TEEX approved another local jurisdiction's purchase of additional communications equipment for two departments. However, the jurisdiction's assessment showed that these departments were already equipped.

- Another small jurisdiction purchased two command vehicles, one for the fire service and the other for emergency management. The vehicle for the fire service was not consistent with the needed capabilities identified in the jurisdiction's assessment.

TEEX's review does not always ensure that the equipment approved for purchase is allowable under the Grant provisions and meets the conditions of its subrecipient agreements with jurisdictions. According to TEEX, its review of the authorized equipment lists is limited to ensuring that the equipment requested is allowable under the Grant provisions. TEEX does not question the jurisdictions' need for or use of the equipment and asserts that the local officials and jurisdictions have a better understanding of their needs. However, we found that TEEX sometimes approves items that are not allowed under the Grant provisions. For example, four of the eight equipment purchases TEEX approved for one jurisdiction were not allowed under the 2002 Grant provisions. See Chapter 4 for additional information regarding the unallowable expense.

TEEX has not clearly defined the COGs' role in reviewing jurisdictions' authorized equipment lists. According to the COGs' agreement with TEEX, COGs receive Grant funds in part to "support current and future equipment purchase programs." The local jurisdictions' agreements with TEEX state that COGs "will be able to review and approve or disapprove the list." However, TEEX has not provided procedures that clearly define the scope of the COGs' review or their authority to question items on that list. According to two of the three COGs we visited, TEEX limits the COGs' review to coordinating the development of regional funding allocations and ensuring that local jurisdictions do not exceed the total Grant award. One COG indicated that it has the authority to review and approve only the regional allocation of funds and not the base grant awarded to each participating jurisdiction.

Not providing clear direction to COGs regarding their reviews of authorized equipment lists increases the likelihood that these reviews will not be adequate. For example, we found that one COG's review of the equipment on the regional portion of authorized equipment lists was inadequate and permitted the local jurisdictions to violate the COG requirements in their agreements with TEEX. While this COG had established its regional funding allocation and plans based on enhancing its hazardous materials (hazmat) response capabilities, the COG reported that 5 of the 24 participating local jurisdictions used approximately 11 percent of the regional allocation to purchase other equipment. The COG could not provide any evidence that it had analyzed how purchasing other equipment with funds intended for hazmat equipment affected the region's ability to respond to a potential terrorist incident involving hazardous materials.

Recommendations

TEEX should:

- Use local jurisdictions' assessments as a tool to review equipment purchases for consistency with gaps identified in the assessment process. TEEX should incorporate this procedure in its processes for reviewing equipment lists.

- Strengthen its policies and procedures to ensure that equipment purchases comply with Grant provisions.

- Strengthen its policies and procedures for reviewing and approving/disapproving equipment lists by documenting and clearly defining TEEX's and COGs' roles. TEEX should communicate the COGs' role to them.

- Develop and implement procedures for reviewing whether local jurisdictions' equipment purchases meet the Office for Domestic Preparedness's (ODP) intent. TEEX should require local jurisdictions to provide documentation to justify equipment purchases that do not appear to meet the intent of federal requirements outlined by the ODP.

Management's Response

See Appendix 4 for management's response.

TEEX Should Ensure that Its Agreements with COGs and Local Jurisdictions Adequately Hold These Entities Accountable for Grant Funds and for Reporting Their Performance

TEEX's subrecipient agreements with local jurisdictions and COGs do not contain requirements or details, such as performance measures, that would allow TEEX to adequately hold these entities accountable for the use of Grant funds. The agreements do not tie the amount of funding awarded to goals or projects. In addition, the agreements' reporting requirements are vague, and TEEX has not held COGs and local jurisdictions accountable for required reports as outlined in the agreements. None of the 10 local jurisdictions we visited had submitted required reports because TEEX has told the jurisdictions not to submit the reports. The three COGs we visited had not submitted all of their required reports. As a result, TEEX cannot ensure that local jurisdictions and COGs are using funds or equipment as intended or making progress toward improving their ability to respond to a potential terrorist incident.

TEEX's agreements lack sufficient provisions to hold local jurisdictions and COGs accountable for their use of Grant funds. Because the agreements do not include goals, objectives, strategies, or performance measures, TEEX cannot measure the local jurisdictions' and COGs' progress against defined expectations.

The subrecipient agreements between TEEX and local jurisdictions appear to be standard for all jurisdictions. For jurisdictions that do not receive a regional allocation, the only jurisdiction-specific information in the agreement is the amount of the base award.

TEEX's agreements with local jurisdictions that receive a regional allocation sometimes state the amount and purpose of the allocation from the COG; however, they do not always provide specific details other than the category of equipment approved for purchase. As mentioned in Chapter 1, even when the agreements provided a specific funding category for regional allocations, TEEX's and COGs' reviews do not prevent local jurisdictions from spending those funds on unrelated equipment.

TEEX's subrecipient agreements with COGs contain statements of work that list tasks that the COGs are required to perform. However, the agreements do not include a clear statement of how TEEX will evaluate and measure these tasks.

In addition, TEEX's subrecipient agreements with COGs do not contain provisions indicating how often the COGs are to seek reimbursement from TEEX for allowable costs. The only provision that addresses timeliness of billing procedures specifies that COGs have 60 days following the termination of the agreement to bill for any costs incurred. A provision requiring more frequent billings would allow TEEX to better track and monitor how much each COG has spent and for what purposes.

The reporting requirements in TEEX's agreements with local jurisdictions and COGs are vague. As mentioned above, the agreements require the local jurisdictions to provide progress reports, but these require only that jurisdictions identify the equipment purchased by category, item, cost, total, and discipline. They do not include any performance measures for assessing whether the equipment purchased is being used

as intended or has improved the jurisdiction's preparedness. None of the 10 local jurisdictions we visited had submitted the required reports because TEEX has told the jurisdictions not to submit the reports. According to TEEX, it can capture the purchased equipment information electronically. However, TEEX does not always confirm the accuracy of this information with the local jurisdictions. (See Chapter 5 for information systems issues affecting the accuracy of this information.)

TEEX has not required COGs to submit certain reports outlined in its agreements with the COGs. The three COGs we visited had not submitted all of their required reports.

Recommendations

TEEX should:

- Develop subrecipient agreements that hold local jurisdictions and COGs accountable for Grant funds. The agreements should clearly define expectations by including goals, objectives, or projects and a measurement of performance.

- Develop and include detailed performance measures in all subrecipient agreements with local jurisdictions and COGs. Consider basing these measures on the goals and objectives contained in Part II of the *Texas Homeland Security Strategic Plan*. Part II (published on January 30, 2004) presents both (1) detailed goals and objectives to support the Governor's vision to improve the State's ability to detect, mitigate, prepare for, respond to, and recover from a terrorist incident involving weapons of mass destruction and (2) an evaluation plan for monitoring the implementation of this plan. These measures could provide a basis for establishing performance measures for COGs and local jurisdictions.

- Modify reimbursement procedures to require COGs to bill more frequently for costs incurred so that TEEX can better track and monitor how much each COG has spent and for what purposes.

- Require progress reports from jurisdictions that provide information on how equipment purchased is being used and how it has improved the jurisdiction's preparedness. Develop clear and concise instructions for COGs to use when preparing their progress reports.

Management's Response

See Appendix 4 for management's response.

TEEX Should Implement Purchasing Requirements and Payment Processes to Ensure that the Use of Grant Funds Is Maximized

TEEX's purchasing requirements for local jurisdictions do not require jurisdictions to maximize their Grant funds. The local jurisdictions can choose from three purchase methods (see text box) to purchase equipment for the 2002 Grant through the 2003 supplemental Grant. However, the price varies between the purchase methods, and TEEX does not require the jurisdictions to determine which method provides the best value for the items they want to buy. The potential savings from determining the most cost-effective purchasing method could be significant: our analysis of a sample of equipment purchases showed that jurisdictions that purchased equipment from the prime vendor spent at least $1 million more than jurisdictions that purchased comparable equipment through the local purchase method.

Furthermore, when jurisdictions purchase from the prime vendor, TEEX does not always ensure that jurisdictions have their equipment before TEEX pays the invoice. (TEEX is billed directly for items that jurisdictions purchase from the prime vendor.) For 81 percent of the items in our sample, TEEX paid the prime vendor without proof of delivery from a local jurisdiction. TEEX has also provided contradictory requirements to the local jurisdictions regarding when and how they can receive reimbursement for equipment they purchase through their own local purchase methods.

Purchase Method Options

For the 2002 grant through the 2003 supplemental grant, local jurisdictions had three options for purchasing equipment with Grant funds:

- Local purchase method – The jurisdiction uses its own standard procurement process to purchase Grant items and is then reimbursed by TEEX (according to the subrecipient agreements).

- Prime vendor – Jurisdictions order items online directly from this vendor, which the federal Defense Logistics Agency (DLA) designated as the prime vendor for the Grant. The DLA bills TEEX for items purchased from the prime vendor.

- Houston-Galveston Area Council of Governments (HGAC) – HGAC is a COG that had previously established a purchasing program through which local entities could make purchases. TEEX designated HGAC's purchasing program as one method of purchasing through which jurisdictions can order vehicles and communication equipment. HGAC bills TEEX for items purchased by the local jurisdictions. HGAC charges an administrative fee of $400 to $2,000 per vehicle and 1.5 percent for communications equipment.

As of July 2004, TEEX has approved equipment purchases of approximately $90 million. The breakdown by purchase method is as follows:

- Local purchase - $39 million
- Prime vendor - $31 million
- HGAC - $17 million
- No designated method - $3 million

TEEX Should Require Local Jurisdictions to Analyze which Purchase Method Provides the Best Value

Local jurisdictions receiving funds from the 2002 through the 2003 supplemental Grant have three options for purchasing equipment and vehicles (see text box). The options often vary in price; however, TEEX's purchasing requirements for the local jurisdictions do not require jurisdictions to analyze which method provides the best value for the items being purchased. Consequently, some local jurisdictions may have paid more for equipment and vehicles than they would have if they had used a different purchase method.

The prime vendor purchase method was established as a purchase option under the federal Grant provisions to expedite equipment purchases. According to a Defense Logistics Agency memo, one of the main benefits of the prime vendor is "fair and reasonable" pricing because contracts were put through a competitive process.

However, our analysis of a sample of equipment purchases showed that jurisdictions that purchased equipment from the prime vendor spent at least $1 million more than jurisdictions that purchased comparable equipment through the local purchase method (for this analysis we compared prices as of August 31, 2004). A second analysis we conducted showed that using a local purchase method is generally less expensive than purchasing from the prime vendor. Specifically, this second analysis showed that equipment purchased through the Texas A&M University System (System), which was the purchase method used for the 1999 through 2001 grants, cost $544,000 less than similar equipment would have cost if it had been purchased from the prime vendor. While the prime vendor was not an option for the 1999 through 2001 grants, we performed this comparison to see how the prime vendor's prices compared with the prices the System obtained. (In 2002, some local jurisdictions were still using funds from the 1999 through 2001 grants to purchase equipment.)

Even though the local purchase method offers lower prices for some equipment, TEEX does not require jurisdictions to analyze which method provides the best value for the items being purchased. If a jurisdiction chooses to use multiple purchase methods and the items have a unit cost of less than $25,000, TEEX's agreements with local jurisdictions require jurisdictions to purchase from the prime vendor and the Houston–Galveston Area Council of Governments (HGAC) before using the local purchase method. TEEX has a contract with the prime vendor allowing local jurisdictions to use the prime vendor's Web site as a catalog and to build equipment lists. According to the contract, TEEX has to pay the prime vendor $250,000 if the State and its participating jurisdictions do not purchase at least $41 million in items from the 2002 through 2003 supplemental Grants from the prime vendor. (The State fell short of the target, but the prime vendor waived the fee in exchange for the State's continuing its contract for the 2004 Grant. A new target volume of $30 million was established.)

While using their own local purchase methods has the potential to save local jurisdictions money, there is a risk that jurisdictions' local purchasing policies may not meet purchasing standards for federal funds. TEEX's agreements with local jurisdictions instruct them to purchase equipment "in accordance with jurisdictions' procurement policy" when using the local purchase method. However, the agreements do not require the local procurement policies to comply with standards outlined in the Department of Justice's *Financial Guide* or the Uniform Grant Management Standards.

The reported advantages of purchasing from the prime vendor are not always achieved. TEEX reported that while the prime vendor may not offer the best price, purchasing from it does have advantages over other methods: local jurisdictions do not need money up front, they receive equipment quicker, and the prime vendor includes training for equipment in the purchase price. However, we found that local jurisdictions may not need money up front when using the local purchase method, depending on TEEX's reimbursement process. TEEX has provided conflicting information to local jurisdictions regarding its reimbursement process (see Chapter 3-C). Also, if local jurisdictions need training for equipment, they can include it in their requests for bids using the local purchase method.

Furthermore, while some local jurisdictions reported that the prime vendor option was convenient, others reported the following issues:

▪ The prime vendor did not always provide training for equipment purchased. However, one local jurisdiction did report receiving an instructional video with one piece of equipment.

▪ The prime vendor's equipment was sometimes overpriced. Some local jurisdictions were aware of the high mark-up and used the local purchase method instead. One local jurisdiction reported that it saved approximately $52,000 by bidding out equipment locally. Another reported that TEEX has not yet released those funds to the jurisdiction for it to spend them on additional equipment.

▪ The prime vendor's delivery of equipment was not always timely, and some jurisdictions report that they are still waiting for equipment ordered several months ago. Delays could be due in part to the large nationwide demand for some types of equipment with limited availability.

▪ The prime vendor's equipment prices and item numbers sometimes change after local jurisdictions place orders.

▪ The prime vendor's online catalog description of equipment is not always accurate. Equipment has been received that does not contain all components shown online.

▪ It is sometimes difficult to return or exchange equipment to the prime vendor.

▪ The prime vendor's sales representatives are not always helpful and responsive.

Purchasing from the prime vendor can make available Grant balances appear larger than they are. Using the prime vendor's purchase method also creates the perception that Grant balances are larger than they are and that funds are not being spent. TEEX is not invoiced for equipment purchased from the prime vendor until an order is completely filled, but the equipment is delivered as it is available. Therefore, it may be months after some equipment is received before TEEX is billed for that equipment. For example, one local jurisdiction we visited had purchased $74,440 in equipment from the prime vendor. All but four items totaling $2,928 had been received, but TEEX had not yet been billed.

Vehicles purchased through HGAC cost more than similar vehicles purchased through the Texas Building and Procurement Commission's co-op program. For the 2002 Grant through the 2003 supplemental Grant, some local jurisdictions purchased vehicles using HGAC. However, because most jurisdictions are already members of the Texas Building and Procurement Commission's (TBPC) co-op program, they can purchase from TBPC using their local purchasing method options without incurring additional fees.

According to its vehicle prices list, TBPC's prices were 9 percent lower than HGAC's prices. In every instance, the HGAC price was higher than the TBPC price even before adding the administrative fee of $400 to $2,000 per vehicle charged by HGAC. Local jurisdictions paid $50,090 to HGAC in administrative fees over a six-month period. A comparison of TBPC and HGAC actual vehicle purchases showed

that local jurisdictions could have saved $44,788 if they had purchased these vehicles through TBPC.

Recommendations

TEEX should:

- Require jurisdictions to analyze which purchase method provides the best value for the items being purchased. (Thresholds, such as those outlined in the Uniform Grant Management Standards and the State Contracting Guidelines, could be used.)

- Require that the local jurisdictions' procurement policies comply with procurement standards outlined in the Department of Justice's *Financial Guide* or the Uniform Grant Management Standards to ensure that local policies provide the best value.

- Ensure that local jurisdictions are aware of the various purchase options, including those under the local purchase method such as the TBPC co-op program.

- Ensure that local jurisdictions are able to use their cost savings as a result of using the most cost-effective purchase method.

Management's Response

See Appendix 4 for management's response.

Chapter 3-B

TEEX Should Ensure that Local Jurisdictions Receive Their Equipment from the Prime Vendor Before It Pays the Invoice

TEEX often does not obtain proofs of purchase from the local jurisdictions before paying for equipment that local jurisdictions have purchased with funds from the 2002 through the 2003 supplemental Grant. As a result, TEEX could be paying for equipment that local jurisdictions have returned, have not ordered, or have not received. Although it may not be practical to verify an entire bill before payment given the large volume of items purchased, TEEX does not verify the invoices within a reasonable period of time.

As of July 2004, the prime vendor purchase option accounted for about 35 percent of the approximately $90 million that TEEX had approved for purchase. Our testing of other payments made by TEEX from the 1999 through 2003 supplemental Grant funds identified only minor exceptions, such as coding errors and missing required approvals.

Between January and June 2004, TEEX paid $9.6 million for equipment purchased by local jurisdictions from the prime vendor. We tested a sample of items included in the $9.6 million and found that TEEX did not have proofs of purchase for 81 percent of the items in our sample. To verify these purchases, TEEX asks the jurisdictions to

fax the packing slips from equipment they receive. However, jurisdictions do not always fax the information and TEEX sometimes has to request a packing slip, but it does not always make the requests in a timely manner.

Local jurisdictions have reported that, when they return items, they are unsure as to whether they have received credit or whether the correct item is being processed for delivery. However, TEEX relies on the local jurisdictions to report returned items and ensure that credit is received.

We tested a sample of reimbursements for the various purchase methods from the 1999 through 2003 supplemental Grant funds. Our testing of TEEX's reimbursement process for all other payments identified only minor exceptions, such as coding errors and missing required approvals.

Recommendations

TEEX should:

- Ensure that local jurisdictions submit packing slips for equipment within a reasonable timeframe and consider implementing some measure that would penalize jurisdictions for not submitting them.

- Ensure that local jurisdictions notify TEEX when equipment is returned or exchanged. TEEX should also provide credit information to local jurisdictions in a timely manner.

- Ensure in a timely manner that all equipment items have been received by the local jurisdictions by matching billing information with a packing slip.

- Work with the Defense Logistics Agency to find a more timely method of billing for equipment purchases.

Management's Response

See Appendix 4 for management's response.

Chapter 3-C
TEEX Should Provide Consistent Information to Local Jurisdictions Regarding Its Reimbursement Process for Local Purchases

TEEX has provided contradictory requirements to local jurisdictions as to when and how jurisdictions can receive reimbursement for equipment purchased using the local purchase method. Lack of clarity regarding the reimbursement process could cause misunderstandings that might impede local jurisdictions' ability to receive reimbursements promptly. The reimbursement requirements in the subrecipient agreements for the 2002 through 2003 supplemental Grants are inconsistent with other information provided by TEEX. The subrecipient agreement states that the local entity should receive the equipment and pay the vendor before submitting the paid voucher to TEEX for reimbursement.

However, in a September 2003 e-mail to local jurisdictions, TEEX stated that jurisdictions did not actually have to pay for the equipment to get reimbursed. The jurisdictions were required only to have received the equipment and have an invoice or an obligation to pay. It further states that processing time for these reimbursements is three weeks. In a presentation TEEX made to the Texas Senate Finance Committee and the Senate Infrastructure Development and Security Committee in April 2004, TEEX presented the same reimbursement process that it described in its September 2003 e-mail. The presentation further states that the maximum time for the process is three weeks, which is usually inside the billing cycle for vendors, and states that "the intent is that a jurisdiction not 'front' the money."

One local jurisdiction we visited had received reimbursement from TEEX for a local purchase by simply having an obligation to pay the vendor. While this method of reimbursement is allowable and better for local jurisdictions, it is in violation of the subrecipient agreement.

Recommendations

TEEX should:

- Determine which method of reimbursement it is going to allow for local purchases.

- Amend the contracts, if necessary, between TEEX and the local jurisdictions to accurately reflect the reimbursement requirements for local purchases.

- Ensure that local jurisdictions are aware of and comply with the correct reimbursement process for local purchases.

Management's Response

See Appendix 4 for management's response.

As of the time of our fieldwork (July 2004), TEEX had not conducted any site visits at local jurisdictions for the Grant funds it awarded in 2002 and 2003. Without site visits, TEEX cannot ensure that local jurisdictions (1) use Grant funds to purchase equipment as intended or (2) adequately protect the funds from fraud, abuse, and violations. As the State Administrative Agency for the Grant, TEEX is responsible for ensuring that local jurisdictions use the equipment they purchase with Grant funds to enhance their capabilities and increase their preparedness to respond to acts of terrorism involving chemical and biological agents, as well as radiological, nuclear, and explosive devices. At the end of our fieldwork, TEEX had hired two grant monitors and started developing and piloting a monitoring plan.

While TEEX did conduct site visits for the close-out of the 1999 Grant, the methodology it used for selecting and conducting the site visits was not sufficient to ensure that local jurisdictions used funds as intended:

- The methodology TEEX used to determine which local jurisdictions to visit considered only two factors: the number of subrecipients and the size of the award amount. The methodology did not consider other factors that could indicate a high-risk jurisdiction, such as performance, regional allocation, and the number and type of equipment items.

- The methodology for conducting the site visits considered only equipment that cost more than $5,000. It did not take into account equipment items that cost less than $5,000 and that are highly susceptible to theft or equipment that could be used for purposes other than those intended by the grant. In addition, it did not contain clear criteria for measuring the performance of the local jurisdictions.

Fifty-two local jurisdictions received funds from the 1999 Grant; TEEX conducted site visits at only 10 and spent only two weeks on all 10 site visits combined.

As part of our fieldwork, we visited 10 local jurisdictions. Most of the expenditures we tested at these local jurisdictions were for items included on the federal government's list of allowable equipment. However, TEEX does not have adequate processes for ensuring that local jurisdictions' purchases address their actual needs or that jurisdictions maximize their Grant funds. Certain expenditures we identified demonstrate the need for ongoing monitoring of how local jurisdictions use their Grant funds. For example, three local jurisdictions used equipment purchased with Grant funds in ways that constitute abuse (see text box):

- One local jurisdiction was using a trailer purchased with Grant funds to haul lawnmowers to lawnmower drag races. (TEEX brought this situation to our attention during our audit.) The intended Grant purpose of the trailer was storing and hauling hazmat equipment. However, the trailer had never been used for Grant

Elements of Business Practice Abuse

The U.S. General Accountability Office's Government Auditing Standard 7.25 defines abuse as an act "distinct from fraud, illegal acts, or violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances."

purposes, and the hazmat equipment was still in boxes. We also observed damage to the trailer.

- One local jurisdiction was using a trailer purchased with Grant funds to store and haul public education materials. The intended Grant purpose of the trailer was storing and hauling hazmat equipment. The local jurisdiction swapped the trailer purchased with Grant funds for a smaller one it was using for the educational materials. The smaller trailer was instead used for the hazmat equipment.

- One local jurisdiction used Grant funds to purchase 18 radios and various other communications equipment totaling $50,831 from a company owned by one of its commissioners. The commissioner had the local jurisdiction pay his company to install 1 of the 18 radios in his personal vehicle. The local jurisdiction used its local purchase method, and the only bid it received was from the commissioner's company.

Other jurisdictions used the funds in ways that violated Grant provisions or Texas Uniform Grant Management Standards:

- One jurisdiction assigned a Ford Excursion command vehicle purchased with Grant funds to an executive. According to the grant, assignment of a vehicle for executive transportation is an unallowable expense. Furthermore, within five months of the vehicle's purchase, it had been driven 9,000 miles. This mileage may be excessive given that the jurisdiction is relatively small and has two command vehicles. We were unable to determine how the vehicle had been used because the local jurisdiction does not maintain mileage logs.

- While four local jurisdictions had some form of inventory records, six had no inventory records at all for equipment purchased. However, none of the jurisdictions had inventory records that met the requirements in the Texas Uniform Grant Management Standards (state law).

- One local jurisdiction purchased and received equipment (such as traffic cones, generators, and flashlights) from the prime vendor that was unallowable under the 2002 Grant. This same jurisdiction received reimbursement from TEEX for equipment installation services that had not been received or paid for by the jurisdiction.

We also identified potentially inappropriate purchases, uses, and storage of equipment. Some local jurisdictions used the Grant funds to supplant their local budgets, which is not allowed under the Grant provisions. In addition, local jurisdictions used Grant funds to purchase nonspecialized equipment—such as flashlights, traffic cones, and computers—that they do not appear to always be using to enhance capabilities and increase preparedness. According to the Grant provisions, local jurisdictions are to use Grant funds to purchase specialized equipment for first responders. For example:

- Nine of the 10 local jurisdictions did not have all of the equipment arranged or located in a way that would allow them to access it quickly in response to acts of terrorism or use it to increase their response capabilities. We observed equipment in boxes that had never been opened; equipment that had never been unpacked;

jurisdictions that could not locate equipment during our site visit; and equipment locked in a storage facility for which no one on duty had the key.

- One local jurisdiction used Grant funds to equip its newly formed police department with standard equipment. It also ordered more equipment than it needed for the number of police officers it had, reporting that it was hoping for more Grant funds so that it could hire more officers.

- One local jurisdiction reported that it purchased 18 radios with Grant funds because it could afford to buy only 5 with its local budget.

- One local jurisdiction used Grant funds to purchase computers, some of which did not have software related to Grant purposes. The local jurisdiction was using the computers for more general functions, such as public information, complaint tracking, special projects, and fleet services.

Finally, we found that not all of the local jurisdictions have complied with the requirement to have an emergency operations plan by December 31, 2003. According to TEEX, there are two eligibility requirements to receive funds from the 2002, 2003, or 2003 supplemental Grant: complete an assessment and have an emergency operation plan at the basic level as defined by the Governor's Division of Emergency Management (Division). The local plans describe how jurisdictions will mitigate against, prepare for, respond to, and recover from the impact of natural or man-made hazards, including homeland security threats. Jurisdictions submit their emergency operation plans to the Division for review and approval with state standards. Our analysis of jurisdiction preparedness profile reports (as of November 2004) provided by the Division identified 14 jurisdictions receiving Grant funds that did not have basic emergency operation plans. The Division provides these reports to TEEX and the COGs on a monthly basis.

In addition to the basic emergency operation plan, the Division has established attachments to the basic plan. One of the attachments is intended to address terrorism, but TEEX did not require local jurisdictions to complete the terrorism attachment. Our analysis of reports provided by the Division identified 108 jurisdictions receiving Grant funds that did not have terrorism attachments to their plans.

Recommendations

TEEX should:

- Develop a more formalized monitoring process, including methodology and risk assessment, that incorporates risk factors. Each factor should be weighted and quantified in order to measure the level of risk for each subrecipient. In addition, based on the level of risk determined, TEEX should identify the level of review necessary for each subrecipient selected.

- Conduct scheduled site visits of local jurisdictions over the Grant period. Some unannounced site visits should also be conducted based on risk.

- Strengthen its procedures to ensure that local jurisdictions are aware of, understand, and comply with all Grant requirements.

- Require local jurisdictions to submit reports detailing how the equipment is being used and attest to the accuracy of the report.

- Require local jurisdictions to maintain mileage logs for vehicles purchased with Grant funds.

- Develop and implement procedures for reviewing whether local jurisdictions' equipment purchases meet the intent of federal requirements outlined by ODP. TEEX should require local jurisdictions to provide documentation to justify equipment purchases that do not appear to meet the intent of federal requirements outlined by ODP.

- Use the status of the local jurisdictions' emergency operation plans as a risk factor in its formalized monitoring risk assessment process. TEEX should continue to use this information in awarding future Grant funds. TEEX should require local jurisdictions receiving Grant funds to complete terrorism attachments to their plans.

Management's Response

See Appendix 4 for management's response.

TEEX Should Ensure That Its Automated Systems Provide Complete and Accurate Information for Tracking and Monitoring Grant Funds

TEEX's Web-based Domestic Preparedness Assessment system (DPA), which is used for tracking and monitoring equipment Grant funds, does not provide complete and accurate information. As a result, local jurisdictions could exceed their award amounts or leave funds unused. In addition, DPA has significant access and security control weaknesses that leave it vulnerable to unauthorized or inappropriate use.

TEEX's internal accounting system, Masterpiece, is used as a "cash basis" accounting system for the Grant. We found the information in this system to be fairly accurate and identified only minor control weaknesses. However, Masterpiece does not provide complete information regarding Grant status.

In addition, because neither DPA nor Masterpiece contain complete Grant information, TEEX does not have a single, comprehensive information system that would allow it, COGs, and local jurisdictions to track and monitor Grant funds.

Chapter 5-A
TEEX Should Ensure that It Has Complete and Accurate Information to Track and Monitor Funds Awarded to Local Jurisdictions

TEEX does not have complete and accurate information about the status of the equipment funding portion of Grant funds awarded to local jurisdictions. TEEX, COGs, and local jurisdictions use DPA to track the amounts awarded to local jurisdictions, the amounts they have obligated or encumbered, and the amounts actually spent. Because this information is not complete and accurate, TEEX cannot determine whether it needs to reallocate Grant funds before the Grant period expires. As of June 2004, TEEX had spent $111,210 in Grant funds developing DPA.

We found that some of the information in DPA for 9 of the 10 local jurisdictions we visited was not recorded correctly. Our reviews identified the following:

- DPA does not prevent local jurisdictions' invoices from exceeding their award amounts. In addition, DPA does not always process invoice adjustments accurately, which could cause a local jurisdiction's uncommitted (available) balance to be over- or understated.

- Information in DPA for equipment purchased from the prime vendor is not complete and accurate. The prime vendor provides TEEX a downloaded file that includes all jurisdictions' equipment purchases with its monthly bill. We compared a sample of equipment purchases listed on the bills with those listed in DPA and found that, for 42 percent of the items tested, order numbers were either not in DPA or the total purchase amount for the order number did not match.

- DPA does not always have up-to-date prices for equipment purchased or ordered from the prime vendor. In some cases, this occurs because the prime vendor changes the price (sometimes significantly) for a piece of equipment on back order. TEEX has not provided the local jurisdictions a process by which back-ordered equipment can be deleted from their equipment lists.

- DPA does not have a method to prevent purchases from the prime vendor that are not on local jurisdictions' authorized equipment lists. Local jurisdictions use the prime vendor's Web site in building their authorized equipment lists. The prime vendor is notified when local jurisdictions are approved to purchase the equipment but is not provided the approved list. In addition, the prime vendor's Web site does not maintain the lists built by the jurisdictions. Therefore, the local jurisdictions re-enter their information to place their orders, which allows them to change items or quantities. We found that some local jurisdictions were ordering and receiving equipment not on their authorized equipment lists or changing the quantities of the items.

The information in Masterpiece is generally accurate, but this information is not complete because it is maintained on a "cash basis."

TEEX uses Masterpiece, its internal accounting system, as a "cash basis" accounting system for the Grant. While we found Masterpiece to contain fairly accurate information and only minor control weaknesses, it does not provide complete information regarding the status of the grant. Masterpiece tracks the amounts that local jurisdictions have been awarded and the amounts they have actually spent. TEEX does not use Masterpiece to track funds that local jurisdictions are obligated to pay vendors but have not yet spent (such as for equipment on back order). Masterpiece is capable of encumbering funds; TEEX uses this function in other areas, but it uses DPA as the encumbrance system for this Grant.

For example, Masterpiece shows that 1999 through 2003 supplemental equipment Grant funds of $110,518,540 had been awarded to local jurisdictions and that $24,540,773 had been spent as of June 30, 2004. This could be interpreted to mean that local jurisdictions are not spending their funds. However, DPA shows that TEEX has approved equipment purchases of $90,105,237 and has released approximately two-thirds of that amount for actual purchases.

TEEX staff manually enter the information for the equipment portion of the Grant into both systems—once into Masterpiece and once into DPA. This increases both the risk of data entry errors and the time it takes staff to process payments. TEEX has not adequately reconciled the two systems. Errors can occur and accumulate into significant differences in amounts between the systems if they are not reconciled.

Recommendations

TEEX should:

- Make the necessary system changes to ensure that DPA does not allow jurisdictions to exceed their award amounts and that it accurately accounts for adjustments.

- Work with the prime vendor to correct problems in downloading information into DPA for equipment purchases.

- Develop and implement a process for local jurisdictions to change their equipment lists when items have been on back order for an extended period.

- Develop and implement a process to prevent local jurisdictions from purchasing from the prime vendor equipment that is not on the approved list.

- Reconcile the DPA and Masterpiece systems. TEEX should also research possible methods for minimizing or eliminating double data entry by staff.

Management's Response

See Appendix 4 for management's response.

Chapter 5-B
TEEX Should Address Significant Access and Security Control Weaknesses in DPA

DPA has significant access and security control weaknesses, which leave it vulnerable to unauthorized or inappropriate use. Some weaknesses pose a serious risk that unauthorized parties could view or compromise jurisdictions' equipment lists over the Internet.

DPA users (COGs and local jurisdictions) can see other users' passwords, giving them the information necessary to log in as another user and add, change, or delete information, such as equipment on the authorized equipment lists. Furthermore, because this is a Web-based system, this weakness increases the risk that an intruder could access a user's account and use it to get other users' account names and passwords. DPA has a log that records such activity, but it has not been reviewed. Our testing of access controls also identified the following:

- TEEX's requirements for users' passwords are not adequate to make accessing DPA difficult for intruders. TEEX does not require passwords to be complex or to have the appropriate minimum length. DPA does, however, lock users out after an acceptable number of attempts to use an invalid password.

- DPA does not automatically log users off the system after a period of time without activity, which increases the risk that an unauthorized user could take advantage of a computer that is logged into DPA but is not being used. The fact that DPA is a Web-based system further increases this risk because some local jurisdictions and COGs may not have adequate security on their systems.

In addition, there are opportunities for TEEX to improve security for DPA:

- Backups of information on the DPA system are performed and maintained, but the backup media are not transferred to a secure, off-site location frequently enough. Currently, the transfer of backup media to the off-site location occurs only weekly.

- TEEX has a documented disaster recovery plan for DPA. However, the plan has not yet been tested. Comprehensive disaster recovery planning can reduce liability and disruption to normal operations, ease decision making during a disaster, and minimize financial loss. Texas Administrative Code, Section 202.6(a)(5), requires all state agencies to maintain a written disaster recovery plan for information resources and test the plan at least once annually.

- Within the prime vendor's Web site used by local jurisdictions to build their equipment lists and place orders, we were able to guess the passwords and access two local jurisdictions' accounts within seconds. One of these jurisdictions was one of the largest cities in Texas. Access to these accounts allows editing of these jurisdictions' account information and equipment purchase lists.

  While certain authorization procedures help provide a degree of control in the purchasing process, a high level of risk for fraud still exists.

  In addition, each jurisdiction's contact person has the ability to enter shipping addresses into DPA, build the equipment list, and place orders. This may give these individuals too much access, allowing them to place equipment orders and ship the equipment to themselves.

We also reviewed the controls over the operating system used for DPA and found that it has adequate security. Passwords are appropriate and changed on a regular basis, security logs are maintained and reviewed regularly, and adequate firewalls and antivirus software protect the system.

Recommendations

TEEX should:

- Make changes to DPA so that passwords cannot be seen by other users.

- Improve DPA password parameters and implement DPA session timeouts.

- Regularly review DPA event logs for security events.

- Transfer DPA backups to its secure, off-site location more often than weekly.

- Test its disaster recovery plan (including its disaster recovery plan for DPA) at least once a year.

- Work with ODP and the prime vendor to improve its password parameters.

- Limit the contact people's ability to enter and change shipping addresses.

Management's Response

See Appendix 4 for management's response.

Chapter 5-C
TEEX Should Address Control Weaknesses in the Masterpiece System and Its Operating System

While the Masterpiece system and its operating system have generally effective access and security controls in place, some general controls need improvement. It is important that Masterpiece have adequate controls because TEEX uses the financial information contained in it for Grant reporting. Our testing of Grant information

accounted for by Masterpiece identified only minor exceptions, such as account coding errors.

Masterpiece. The Masterpiece system design provides built-in controls for segregation of duties. However, this system control is weakened by access rights granted by TEEX. A large number of users have the ability to input and change vouchers, which include vouchers for this Grant. Some users with conflicting review duties can perform all steps for the voucher and payment processes. In addition, other users who should not have any voucher capabilities for this grant, such as a network analyst, have access.

Furthermore, application programmers have access to create, modify, and release vouchers and to generate checks in the system. Programmers should not have access to actual (live) data but rather to test data. Security administrators, who can perform or grant themselves access to any function in the system, also have the ability to generate checks. In addition, the two systems analysts who provide technical support for Masterpiece also have administrator access.

Operating System. Access and security controls over the operating system are generally effective. The system does have security controls, such as requiring regular changes to passwords and providing a limit on the number of invalid access attempts. However, weaknesses related to general controls include the following:

- TEEX division managers do not perform a periodic review of their employees' accounts to ensure that the levels of access are appropriate. In addition, the minimum length of operating system passwords is not sufficient to make gaining access difficult for intruders.

- The operating system does log users off after business hours if there is no activity during a certain amount of time. However, that time period is too long. In addition, the system does not log off users with no activity during business hours.

- Backups of the operating system are generated nightly. However, the backup media are not stored in a secure and protected location. In addition, the transfer of the backup media occurs only weekly.

- The operating system is protected from external access. However, TEEX could do more to prevent unauthorized internal access.

- A user account on the operating system with system-level privileges that has not been used is still active.

- TEEX very rarely issues user IDs to contractors or temporary personnel. On occasions when they are issued, notifying the Information Technology Department of the individual's departure is the responsibility of the person/manager who has the new user sign the Statement of Responsibility. This may increase the risk that such IDs are not promptly removed from the system.

Recommendations

TEEX should:

- Improve Masterpiece password parameters and implement Masterpiece session timeouts.

- Review all employees' Masterpiece access rights for appropriateness and change those rights as users' job duties change.

- Further restrict access to the Masterpiece computing environment.

- Move Masterpiece backup media to a protected location more often than weekly.

- Ensure that Masterpiece user IDs are issued to contractors and temporary personnel and that their access is removed promptly upon their departure.

Management's Response

See Appendix 4 for management's response.

TEEX and the Three COGs We Visited Have Generally Used Grant Administrative and Planning Funds as Intended

TEEX and the three COGs we visited have generally used administrative and planning funds as intended. However, we noted that both TEEX and the three COGs have opportunities to improve their budgeting and controls over expenditures.

Overall, TEEX has generally used administrative and planning funds in ways that are allowable and reasonable for Grant purposes. However, we did note a few areas in which controls over payments could be strengthened. Specifically, the invoices for some payments to contractors did not contain sufficient detail to determine what services were provided. In addition, TEEX staff amended some travel vouchers to add charges without proper approval.

TEEX did not develop realistic operating budgets during the Grant years tested. Prior to the 2002 grant, TEEX received extensions to expend all Grant funds, including administrative funds. However, TEEX exhausted the administrative budget for the 2002 Grant before the associated programs had ended. This situation occurred in part because TEEX hired employees to fill 13 unbudgeted positions.

TEEX does not adequately track, monitor, investigate, or resolve significant variances in its budgets. TEEX states that it has not amended the budgets because the variances have not exceeded 10 percent of the total Grant award. It uses the 10 percent rule established in the federal Office of Management and Budget's Circular A-133 as its internal policy. That rule allows for the transfer of funds from one cost category to another as long as the amount of funds transferred does not exceed 10 percent of the total Grant award. However, it does not appear reasonable to apply this policy to the administrative budget because the total administrative budget is already less than 10 percent of the total Grant award. For example, the total Grant award for 2002 was $16,196,000. To exceed the 10 percent transfer rule, TEEX would have had to overspend its administrative budget of $404,900 by $1,214,700.

TEEX does not have a subrecipient agreement with the Governor's Office for the approximately $767,000 in administrative funds that TEEX allocated to the Governor's Office of Homeland Security for the 2003 supplemental grant. However, the budget that TEEX submitted to the U.S. Department of Homeland Security indicated that the State Homeland Security Office would receive these funds. During the period we tested, the Governor's Office had not requested any reimbursements from these funds, and as of the end of our audit fieldwork, the funds had not been reallocated.

The three COGs we visited generally used the planning funds they received from the 2003 supplemental Grant as intended. However, we noted a few exceptions at the COGs we visited. For example, one COG charged 47 percent of a manager's salary over a two-month period to the Grant for supervising two employees who worked on the Grant. The remaining 53 percent of this manager's salary was charged to other sources for the supervision of 18 other employees. This indicates that the allocation of this manager's salary across all funding sources may not have been reasonable.

TEEX's review of COGs' budgets does not always ensure that these budgets are accurate. For example, the budgets for two of the three COGs we visited showed that their projected expenditures for the 2003 supplemental Grant period exceeded the amounts

they had been awarded for that period. In both cases, the COGs included funds for the 2004 Grant, which had not yet been awarded, in their expenditure projections. According to these two COGs, TEEX approved one of the budgets and did not provide feedback on the other. According to *Uniform Grant Management Standards* (published in January 2001), "actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant."

Recommendations

TEEX should:

- Strengthen controls over expenditures, including requiring proper support for all invoices and changes to travel vouchers.

- Develop realistic administrative budgets that accurately reflect proposed expenditures.

- Use quarterly monitoring reports to identify, investigate, and resolve significant variances, and document decisions reached or actions taken when significant variances occur in their administrative budgets.

- Enter into a subrecipient agreement with the Governor's Office of Homeland Security if that office intends to expend Grant funds. In addition, TEEX should ensure that the Governor's Office of Homeland Security budget is amended to reflect the actual amount of funds that office intends to use.

- Strengthen its process for reviewing COGs' program budgets to ensure that these budgets are accurate, and provide feedback on these budgets to COGs in a timely manner.

Management's Response

See Appendix 4 for management's response.

Appendices

Objectives, Scope, and Methodology

Objectives

Our objectives were to determine whether:

- Homeland security funds are being used as intended.

- State agencies that pass homeland security funds to local governments or contract with other entities have adequate internal processes to ensure that funds are used for their intended purposes.

Scope

The scope of our audit covered the 1999 through 2003 supplemental Grant years for the State Homeland Security Grant Program (Grant) from the U.S. Department of Homeland Security. The Texas Engineering Extension Service (TEEX) is part of the Texas A&M University System and has been designated by the Governor as the State Administrative Agency for the Grant. TEEX administered $136,053,000 for these Grant years. The majority of the funding is passed through to councils of government and local jurisdictions for homeland security efforts. The 2004 Grant totaling $115,110,000 was not reviewed as part of our audit because the funding was still being awarded at the time of our audit and no funds had been expended.

Methodology

The audit methodology consisted of conducting interviews; collecting and reviewing information; conducting site visits to councils of governments (COGs) and local jurisdictions; and performing tests, procedures, and analyses against predetermined criteria.

Information collected included the following:

- Interviews with TEEX management and staff

- Interviews with K2Share staff

- Interviews with COG and local jurisdiction management and staff

- Physical observation of selected equipment purchases at 10 local jurisdictions

- Documentary evidence such as:

  - Policies and procedures

  - Applicable federal and state statutes and guidelines

  - TEEX 1999 Monitoring Plan and Report

- ◆ Subrecipient agreements and contracts

- ◆ Purchase vouchers and supporting documentation

<u>Procedures, tests, and analyses conducted</u> included the following:

- Review of TEEX 1999 site visit files to determine whether the methodology and procedures were sufficient to ensure that funds were used as intended

- Tests of selected payments from the 1999 through 2003 supplemental Grant years

- Tests of selected expenditures at three COGs

- Tests of equipment purchases from Grant funds at 10 local jurisdictions

- Comparison of equipment purchases using the various Grant purchase methods to determine which methods provide maximization of funds

- Review of TEEX's Grant budgets

- Review of COGs' Grant budgets

- Review of information system controls over the Domestic Preparedness Assessment (DPA) and Masterpiece systems

<u>Criteria used</u> included the following:

- Grant application kits for the 1999 through 2003 supplemental Grant years

- Grant award and extension letters related to the Grant for the 1999 through 2003 supplemental Grant years

- U.S. Office of Domestic Preparedness's authorized equipment purchase lists

- U.S. Office of Management and Budget's circulars

- U.S. Department of Justice's *Financial Guide*

- *Texas Uniform Grant Management Standards*

- *Texas Homeland Security Strategic Plan*

- *Texas Domestic Preparedness Assessment Handbook of Instructions*

- Subrecipient agreements between TEEX, the COGs, and local jurisdictions

- Contracts between TEEX and Fisher Scientific

- Contracts between TEEX and K2Share

- House Bill 9, Texas Legislature, 78th Session

- Standard audit criteria

Other Information

We conducted fieldwork from July 2004 to October 2004. This audit was conducted in accordance with generally accepted government auditing standards. The following members of the State Auditor's staff performed this review:

- Kimberlee N. McDonald (Project Manager)

- Jeffrey Grymkoski (Assistant Project Manager)

- Brandie A. Barr

- Anthony Patrick, MBA

- Ann E. Paul, CPA

- Dean Duan, CISA (Information Systems Team Member)

- Wei Wang, CIA, CPA

- Max Viescas, CPA, CIA

- Rene Valadez

- Chuck Dunlap, CPA (Quality Control Reviewer)

- Nicole M. Guerrero, MBA (Audit Manager)

Background Information on Overall Homeland Security Funding and State Homeland Security Grant Program Funding
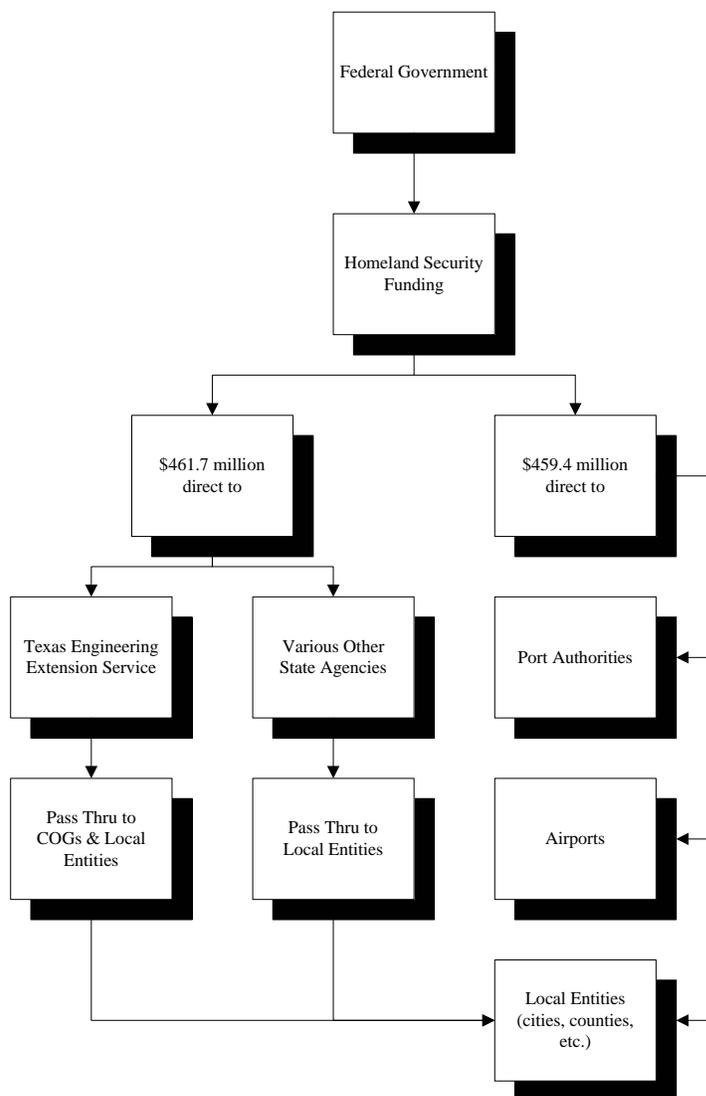
Overall Homeland Security Funding

Texas entities receive homeland security funding directly from the federal government as well as through the State. The Governor's Office of Homeland Security reports that local entities, such as counties, cities, port authorities, and airports, have received $459.4 million directly from the federal government for homeland security purposes. This funding did not come through the State, nor does the State have any strategic control over how these funds are used. In addition, these amounts are self-reported and may not be complete because there are no reporting requirements related to these funds. (Beginning with the 2003 grant, part of this funding is now administered by TEEX.) See Figure 2 for a flowchart that summarizes the flow of homeland security funding into Texas.

Based on a State Auditor's Office survey of selected state agencies, $461.7 million in homeland security funding has been awarded to state agencies for various homeland security–related efforts for fiscal years 2002 through 2004. Of that amount, 28 percent ($128.4 million) remains at the state level for use by these state agencies. The majority (72 percent, or $333.3 million) of this funding is passed on to the local level.

As part of the fiscal year 2006–2007 appropriations requests, the Legislative Budget Board has developed a separate schedule for state agencies to report new homeland security funding. Prior to the implementation of this schedule, it was sometimes difficult to identify homeland security funding for state agencies.

Figure 2

Flow of
Homeland Security Funding
into Texas

```
                        ┌─────────────────────┐
                        │  Federal Government  │
                        └─────────────────────┘
                                   │
                        ┌─────────────────────┐
                        │  Homeland Security   │
                        │      Funding         │
                        └─────────────────────┘
                           │              │
              ┌────────────────┐     ┌────────────────┐
              │ $461.7 million │     │ $459.4 million │
              │   direct to    │     │   direct to    │
              └────────────────┘     └────────────────┘
                 │         │                  │
        ┌──────────────┐ ┌──────────────┐ ┌──────────────┐
        │ Texas Eng.   │ │ Various Other│ │ Port         │
        │ Extension    │ │ State        │ │ Authorities  │
        │ Service      │ │ Agencies     │ │              │
        └──────────────┘ └──────────────┘ └──────────────┘
              │                │                  │
        ┌──────────────┐ ┌──────────────┐ ┌──────────────┐
        │ Pass Thru to │ │ Pass Thru to │ │ Airports     │
        │ COGs & Local │ │ Local        │ │              │
        │ Entities     │ │ Entities     │ │              │
        └──────────────┘ └──────────────┘ └──────────────┘
              │                │                  │
                        ┌──────────────────┐
                        │ Local Entities   │
                        │ (cities,         │
                        │ counties, etc.)  │
                        └──────────────────┘
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Note: The above information and flowchart regarding homeland security funding does not include funding from the Federal Emergency Management Agency for disaster recovery. Because disaster recovery funding has been in existence for many years, it has not been included. The flowchart also does not include bioterrorism funding. The State Auditor's Office released a report on bioterrorism preparedness efforts in June 2004 (*An Audit Report on the Department of Health's Implementation of Its Bioterrorism Preparedness Plans,* SAO Report No. 04-036).

State Homeland Security Grant Program

As part of a federal effort to distribute funds to emergency prevention, preparedness, and response personnel, the U.S. Department of Justice and more recently the U.S.

Department of Homeland Security provide funding to states to enable them to provide planning, equipment, training, exercise, and administrative funding to first responders.

The State Homeland Security Grant Program (or Domestic Preparedness Equipment Program, as it was earlier called) is intended for the purchase of specialized equipment for first responders in law enforcement and in the areas of fire, emergency medical, and hazardous materials response services. The funds are to be used to enhance the capabilities of state and local units of government to respond to acts of terrorism involving chemical and biological agents, as well as radiological, nuclear, and explosive devices.

Receipt of the funds under the program was contingent upon the states' development of two separate, but related, documents. The first was a state-based needs assessment, and the second was a three-year statewide domestic preparedness strategy. The needs assessment required each state to assess its requirements for equipment, first responder training, and other resources needed to respond to an attack involving weapons of mass destruction.

The Grant requires that at least 80 percent of the Grant funding be used at the local level. Although up to 20 percent may be used at the state level, the Governor's Office has chosen to maintain only approximately 4 percent at the state level. The majority of this amount was allocated to TEEX for administering the Grant and to COGs for Grant planning purposes. The other 96 percent of the funding is passed through to local jurisdictions for the purchase of equipment.

A survey of eight states receiving large amounts of 2003 Grant funding comparable to the amount that Texas received (California, Georgia, Illinois, Michigan, New Jersey, North Carolina, Ohio, and Pennsylvania) revealed that only one other state, Illinois, allocated more to local jurisdictions than Texas (98 percent). Six of the eight states surveyed maintained the allowable 20 percent at the state level.

The Governor's Office, through the State Director of Homeland Security, directs policy for the Grant program. TEEX is the Governor-appointed State Administrative Agency that manages the Grant. TEEX's mission as the State Administrative Agency is to improve the ability of Texas to respond to a potential terrorist incident, working in partnership with local jurisdictions, other state agencies, and the COGs.

The State received $12,081,000 in Grant funds for the 1999 through 2001 Grant years. Local jurisdictions were allocated Grant funds for the purchase of equipment but never received Grant funds directly. TEEX handled the purchase and delivery of the equipment to the local jurisdictions and paid the vendors. The Texas A&M System Purchasing Department was used for the purchasing process.

After the terrorist attacks of September 11, 2001, the number of participating local jurisdictions in Texas grew from 95 local jurisdictions in 2001 to 753 in 2003. As a result, the State received $123,972,000 in Grant funds for the 2002 through 2003 supplemental Grant years. Table 1 shows the award amounts of and the federal administrating agencies for the grants.

Table 1

Program Name	Administered By	Award Date	Award Amount
Fiscal Year 1999 State Domestic Preparedness Equipment Program	U.S. Department of Justice, Office of Justice Programs	9/12/2000	$2,912,000
Fiscal Year 2001 State Domestic Preparedness Equipment Program (includes fiscal years 2000 and 2001)	U.S. Department of Justice, Office of Justice Programs	6/14/2002	$9,169,000
Fiscal Year 2002 Domestic Preparedness Grant Program	U.S. Department of Justice, Office of Justice Programs	9/30/2002	$16,196,000
Fiscal Year 2003 State Homeland Security Grant Program	U.S. Department of Homeland Security, Office for Domestic Preparedness	5/6/2003	$29,538,000
Fiscal Year 2003 Supplemental State Homeland Security Grant Program	U.S. Department of Homeland Security, Office for Domestic Preparedness	6/11/2003	$78,238,000
Fiscal Year 2004 Homeland Security Grant Program	U.S. Department of Homeland Security, Office for Domestic Preparedness	3/29/2004	$115,110,000

Eligibility

Texas counties, incorporated municipalities, and federally recognized tribes that complete the statewide assessment and have an emergency operations plan are eligible for funding. Port authorities, transit agencies, and school districts associated with eligible cities and counties may also receive funding. COGs receive grants for specific regional purposes.

Allocation to Regions and Local Jurisdictions

For the 2002 through 2003 supplemental Grant years, the regional funding was determined by an equal weighting of population and the number of jurisdictions in the region. Fifty percent of each region's funding was distributed by TEEX to eligible jurisdictions as a base grant. Each COG's governing board determined the distribution for the remaining 50 percent based on regional priorities.

In addition to the equipment funding for the purchase of specialized equipment, the Grant also provided funding for planning, training, and exercises.

- Planning funds were to be used for assessments, strategy development, and plan development. The 24 COGs and the Texas Association of Regional Councils received planning funds to assist the local jurisdictions.

- Training funds were to be used to pay backfill overtime costs for attending Office for Domestic Preparedness (ODP) approved training and for presenting training.

- Exercise funds were to be used to pay exercise expenses and backfill overtime costs. The Texas Weapons of Mass Destruction Exercise Program is the primary exercise program under the Grant.

Amounts of Homeland Security Grant Funds TEEX Has Awarded to Local Jurisdictions

Figure 3 shows the dollar amounts of Grant funds that TEEX awarded to counties in Texas for the 1999 through 2003 supplemental Grant years.
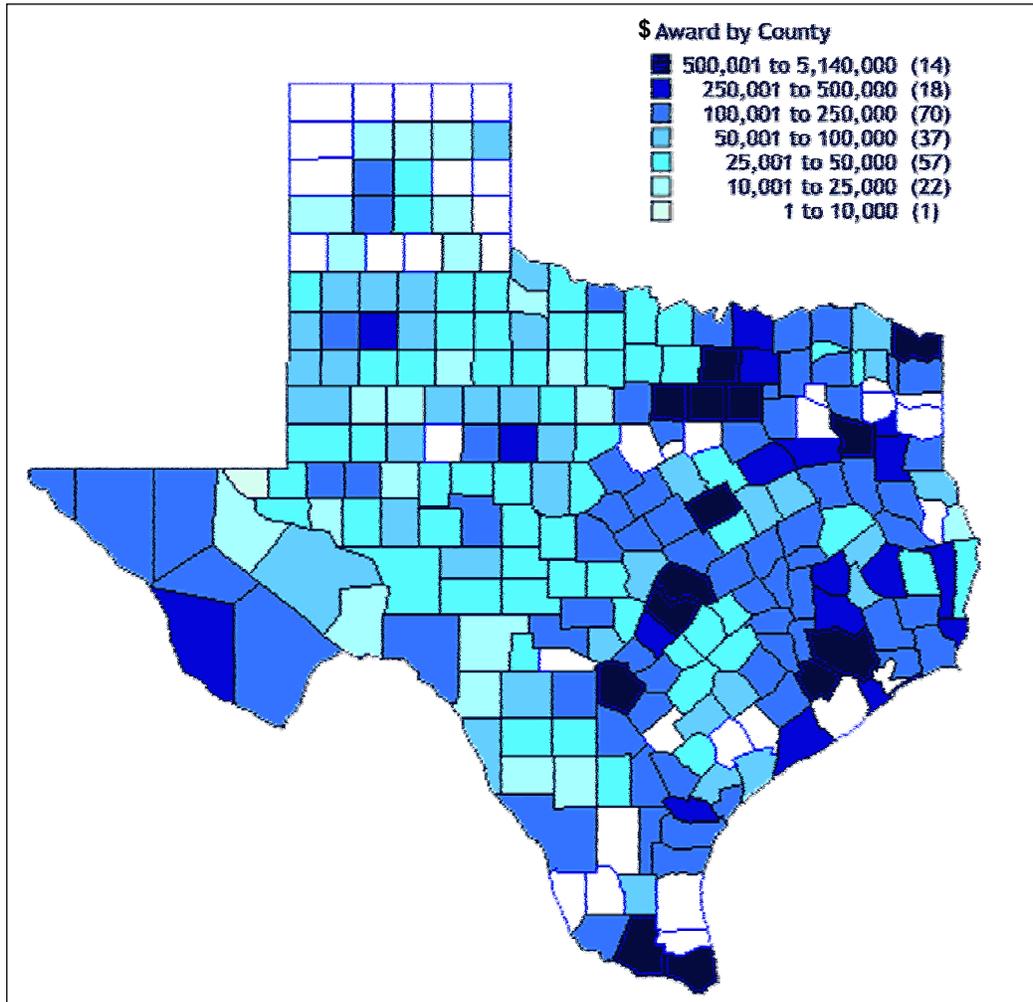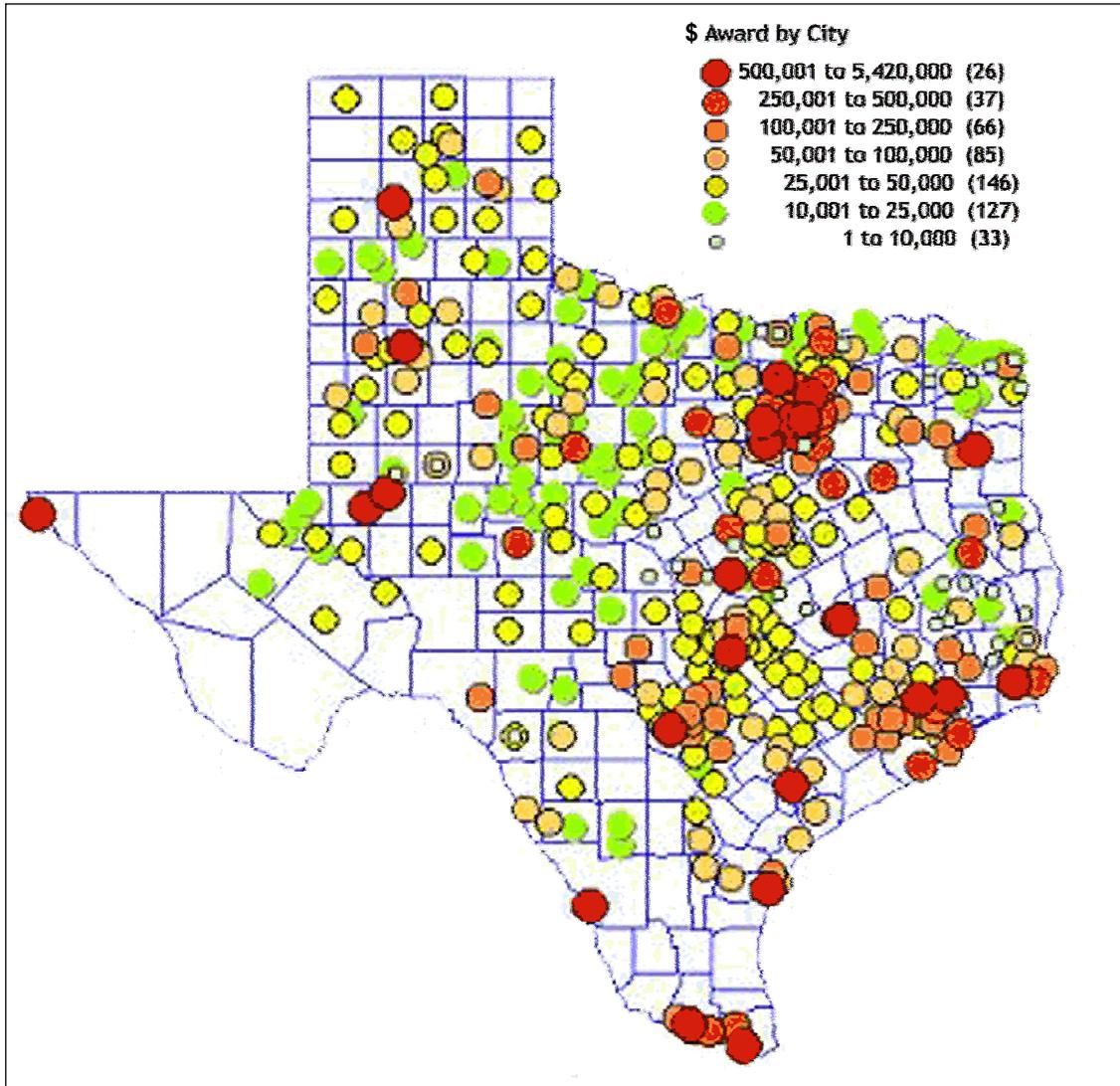
Figure 3 - Awards by County

Figure 4 shows the dollar amounts of Grant funds that TEEX awarded to cities in Texas for the 1999 through 2003 supplemental Grant years.

Figure 4 – Awards by City

See the State Auditor's Office Web site at www.sao.state.tx.us for the supplemental tables that show the award and expenditure amounts by local jurisdiction for the 1999 through 2003 supplemental Grant years.

TEEX
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December 23, 2004

Mr. John Keel, CPA
State Auditor
P.O. Box 12067
Austin, Texas 78871-2067

Dear Mr. Keel:

Transmitted herewith is the Texas Engineering Extension Service's (TEEX) response to your report titled *A Financial Review of the Texas Engineering Extension Service's Administration of Homeland Security Grant Funds*. We appreciate the work of your audit staff during this review and the opportunity to strengthen the administration of federal programs, particularly those in the critical area of homeland security. The State Homeland Security Grant Program has grown from a $2.5 million program in 2000 to a program with over $150 million in 2004. TEEX had begun expansion of both personnel and automation capabilities at the time of the audit field work and is continuing to add capability to meet increasing demands. TEEX had identified needed program adjustments and began implementation of improvements addressed in the State Auditor's Office (SAO) recommendations, such as monitoring, prior to the completion of the audit. TEEX agrees with many of the recommendations in the audit, and could accept others with some changes in wording. We appreciate your recommendations which will help us improve program delivery to the citizens of Texas.

However, TEEX cannot agree with those recommendations in Chapter One that attempt to establish a direct relationship between the local assessments and equipment approval because the Office for Domestic Preparedness (ODP), the granting agency, requirement is to link actions to the State Strategy. TEEX must follow the program guidelines and requirements established by the ODP, U.S. Department of Homeland Security (DHS). The Governor's Office, through the State Homeland Security Director, has emphasized that TEEX will comply with ODP guidelines and the State Strategy.

One of the key congressional measurements of ODP's performance is the amount of time it takes to disperse money to local jurisdictions, and ODP emphasizes timeliness in its awards to the states. As a result, ODP's directions to TEEX emphasize the need to dispense money to local jurisdictions as quickly as possible. For example, TEEX was given 45 days to obligate $100 million in the FY 2003 and FY 2003 supplemental grants. ODP requires that funds are available to participating jurisdictions, their purchases conform to their state's strategy (not the jurisdiction's assessment), and their purchases are on the Approved Equipment List (AEL). TEEX has met all of these requirements.

Chapter 3A of the audit fails to take into account that the Prime Vendor Program offered through the Defense Logistics Agency (DLA), is an ODP approved program designed to facilitate equipment procurement. The DLA states that the program provides "fair and reasonable pricing." TEEX made the program available to sub-grantees because ODP encouraged its use, but allowed them to select whether to use the Prime Vendor Program or to procure items using local procurement methods.

*A Member of The Texas A&M University System*

An argument can be made (as the SAO has) for increased centralized control of the precise way in which jurisdictions use available Homeland Security grant funding. However, the State Homeland Security Strategy for Texas directs a regional approach and pushes as much decision-making authority as possible down to the local jurisdictions. By providing greater project focus and increasing monitoring, TEEX will be able to strengthen the regional approach while increasing local accountability.

TEEX continues to meet or exceed requirements set for it by both ODP:

- TEEX was appointed as the State Administrative Agency (SAA) in 2000 by then-Governor Bush and was reappointed by Governor Perry in 2003;

- ODP has used Texas and its SAA, TEEX, as a model for implementing the program in other states;

- The TEEX-developed *texasdpa.com* site is currently used as the basis for a national level online system;

- Texas was the first state to have its 2004 State Homeland Security Strategy (prepared by TEEX) unconditionally approved by ODP.

In summary, we will seriously consider the SAO's recommendations in order to strengthen the program, taking into account the ODP program requirements. We are all undoubtedly committed to the same objective of administering all public funds in the most judicious manner and assisting communities prepare for possible acts of terrorism. We appreciate the assistance from your office in improving this process.

Respectfully yours,
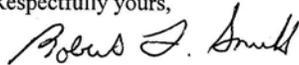
Robert L. Smith
Director

cc: The Honorable C. Suzanne Mencer, Mr. Steve McCraw, Mr. Jay Kimbrough, Mr. John Sneed, Dr. Robert McTeer, Dr. G. Kemble Bennett, Ms. Cathy Reiley, Ms. Catherine A. Smock

Note for the State Auditor: This response provides a recommended summary followed by the Management Response to the recommendations of the report. The Management Response is organized by chapters from the Discussion Draft. Although the recommendations are not numbered in the Discussion Draft, this report addresses the recommendations as though they were sequentially numbered within each chapter and start at one within each chapter. The recommendations made by the State Auditor's Office are included for ease of reference.

Management Response for Chapter 1-A

SAO Recommendation 1 (Chapter 1-A): TEEX should develop and implement a process for TEEX to follow when reviewing local jurisdictions' domestic preparedness assessments for completeness and accuracy.

TEEX does not agree with the recommendation as presented for assessments already completed for the following reasons:

▪ *The Office for Domestic Preparedness established a Data Review Project that triggered review of assessment results based upon set parameters. TEEX participated in this project. This was a formal review.*

▪ *The majority of the assessments are approaching two years since completion. The scope of the allowable equipment has changed, meaning that the assessment does not fully capture all equipment needs as now defined by the Office for Domestic Preparedness.*

▪ *The assessment in its current format is now closed and TEEX does not anticipate reopening the current format assessment. Grant awards to individual jurisdictions will be made by the Councils of Governments for the 2005 grant year and all funding must be tied to a project.*

TEEX agrees with the recommendation as written for any future assessment efforts.

Management Response for Chapter 1-B

SAO Recommendation 1 (Chapter 1-B): Use local jurisdictions' assessments as a tool to review equipment purchases for consistency with gaps identified in the assessment process. TEEX should incorporate this procedure in its processes for reviewing equipment lists

TEEX does not agree with this recommendation for the following reasons.

▪ *The Office for Domestic Preparedness requires that the State Strategy be the controlling document rather than the local assessments. Jurisdictions purchase equipment in accordance with local, regional and state strategies. Equipment that may not appear to meet local assessments may be required to meet the various strategies applicable.*

▪ *The State Director of Homeland Security has emphasized that the Strategy shall be the basis for the program, and not the assessment.*

SAO Recommendation 2 (Chapter 1-B): Strengthen its policies and procedures to ensure that equipment purchases comply with Grant provisions.

TEEX does not agree with this recommendation as worded. TEEX could accept a recommendation that reads: "TEEX should strengthen its policies and procedures to assure, to the reasonable extent possible, that equipment purchases comply with Grant provisions." *The term "ensure" requires an absolute that is not attainable without constant visibility of all actions of all jurisdictions at all times. All items purchased under the grants were reviewed for compliance with federal requirements. The instance cited by the State Auditor's Office relates to approval of items on a 2003 Authorized Equipment List against a 2002 grant. Some jurisdictions may have indicated adequate communications equipment for first responders in the assessment. However, the equipment on hand may not have been up to current standards or was not interoperable and needed to be upgraded or replaced to comply with the State Strategy.*

SAO Recommendation 3 (Chapter 1-B): Strengthen its policies and procedures for reviewing and approving/disapproving equipment lists by documenting and clearly defining TEEX and COGs' role. TEEX should communicate the COGs' role to them.

TEEX agrees with the recommendation and will strengthen its policies and procedures for reviewing and approving/disapproving equipment lists by documenting and clearly defining TEEX and COGs' role. TEEX will communicate the COGs' role to them. *COGs are used in a planning function, not in an administrative function to approve equipment lists. Their role as planners is to define the projects in the region and to assist jurisdictions in implementing those projects. Each COG is responsible for meeting its regional strategy and is required to review and authorize all regional fund expenditures. COGs only evaluated that their regional equipment had been purchased, not how the local base-grant purchases were used. TEEX ensures that jurisdictions do not exceed their total Grant award.*

SAO Recommendation 4 (Chapter 1-B): Develop and implement procedures for reviewing whether local jurisdictions' equipment purchases meet ODP intent. TEEX should require local jurisdictions to provide documentation to justify equipment purchases that do not appear to meet the intent of federal requirements outlined by the Office of [for] Domestic Preparedness (ODP).

TEEX does not agree with this recommendation for the following reasons:

- *Equipment in 2004 and 2005 is tied to projects that support the State and Urban Area Strategies.*

- *All equipment is from the Authorized Equipment List, which is the objective measurement of meeting ODP intent.*

TEEX accepts the responsibility of requiring jurisdictions to justify equipment where available information is not adequate to determine that the equipment can be used as specified in the Authorized Equipment List.

Additional Discussion for Chapter 1

Within the SAO recommendations, many references are made to TEEX "ensuring" that certain things are occurring. However, TEEX cannot "ensure" those things are happening. TEEX can "assure, to the reasonable extent possible," that those things occur. Therefore, within all recommendations, TEEX reads the word "ensure" to be "assure, to the reasonable extent possible," and bases its responses on that reading.

ODP does not require a direct link between the assessment and equipment purchases. TEEX used the assessment to calculate base grant amounts for jurisdictions. The controlling document for grant distribution is the State Strategy, which is based upon the assessment data. The program has had changes at the Federal Level for each grant award. One of the most significant changes each year has been an increase in the categories of equipment and specific items on the list of authorized equipment. These changes have been in response to nationwide requests from the local level. The expanding equipment list meant that the equipment needs section of the assessment, which only included equipment authorized by ODP at the time of the assessment, became obsolete with the addition of new equipment. The assessment served to establish a benchmark and to help define the overall scope of needs. The 2002, 2003, and 2003 II and 2004 grants (excluding the Urban Area Security Initiative) used the assessment data to help calculate base grants.

Management Response for Chapter 2

SAO Recommendation 1 (Chapter 2): Develop subrecipient agreements that hold local jurisdictions and COGs accountable for Grant funds. The agreements should clearly define expectations by including goals, objectives or projects and a measurement of performance.

TEEX agrees with the recommendation and will modify 2004 subrecipient agreements so that they refer to the Initial Strategy Implementation Plan which establishes specific projects and ties all projects to the State Strategy.

SAO Recommendation 2 (Chapter 2): Develop and include detailed performance measures in all subrecipient agreements with local jurisdictions and COGs. Consider basing these measures on the goals and objectives contained in the Part II of the Texas Homeland Security Strategic Plan. Part II (published on January 30, 2004) presents both (1) detailed goals and objectives to support the Governor's vision to improve the State's ability to detect, mitigate, prepare for, respond to, and recover from a terrorist incident involving weapons of mass destruction and (2) an evaluation plan for monitoring the implementation of this plan. These measures could provide a basis for establishing performance measures for COGs and local jurisdictions.

TEEX agrees with the recommendation and will develop and include detailed performance measures in all subrecipient agreements with local jurisdictions and COGs for the 2004 grant years and beyond. *The Strategy referenced applies to the 2004 grant year and beyond. TEEX will send adjustments to the 2004 agreements and incorporate the recommendations in the 2005 program.*

SAO Recommendation 3 (Chapter 2): Modify reimbursement procedures to require COGs to bill more frequently for costs incurred so that TEEX can better track and monitor how much each COG has spent and for what purposes.

TEEX agrees with the recommendation and will specify regular billing periods in the Councils of Governments agreements.

SAO Recommendation 4 (Chapter 2): Require progress reports from jurisdictions that provide information on how equipment purchased is being used and how it has improved the jurisdiction's preparedness. Develop clear and concise instructions for COGs to use when preparing their progress reports.

TEEX agrees with the recommendation and will amend reporting requirements for pre-2004 grants. *For the 2004 and 2005 Grant programs, required progress reports are the Initial Strategy Implementation Plan (ISIP) and Biennial Strategy Implementation Reports (BSIR) completed by each jurisdiction. TEEX will also ensure that the requirements for these reports and for any Councils of Governments reporting are clearly defined.*

Additional Discussion for Chapter 2

The pre-2004 grants did not contain a requirement for TEEX to tie funding to goals, projects or the local assessment. Jurisdictions were expected to use Grant funds to purchase equipment from the Approved Equipment List (AEL)to improve local preparedness and to achieve regional goals. This expectation was measured by TEEX through the process of approving and reviewing equipment lists built by each jurisdiction. COGs were tasked with developing regional goals and ensuring regional purchases were made in accordance with those goals. The 2004 and subsequent Grants require jurisdictions to complete an Initial Strategy Implementation Plan, and Biennial Strategy Implementation Reports which will serve to measure their performance. Jurisdictions were relieved of some reporting requirements because of the on-line list approval process. All jurisdictions met their reporting requirements by their entry of information into the on-line system. However, TEEX recognizes that jurisdictions should provide information on their progress. The 2004 and 2005 programs accomplish this through the Biannual Strategy Implementation Reports which will record progress towards specific projects.

Management Response for Chapter 3-A

SAO Recommendation 1 (Chapter 3-A): Require jurisdictions to analyze which purchase method provides the best value for the items being purchased. (Thresholds, such as those outlined in the Uniform Grant Management Standards and the State Contracting Guidelines, could be used.)

TEEX does not agree with the recommendation as written. TEEX could agree with a recommendation that reads: "Recommend local jurisdictions analyze which purchase method provides the best valued for the items being purchased." *TEEX does not have authority to require local jurisdictions to change their procurement policies unless they do not comply with state procedures.*

SAO Recommendation 2 (Chapter 3-A): Require the local jurisdictions' procurement policy comply with procurement standards outlined in the Department of Justice Financial Guide or the Uniform Grant Management Standards to ensure local policy provides best value.

TEEX does not agree with the recommendation. TEEX does not have the authority to require local jurisdictions to change their procurement policies unless they do not comply with state procedures.

SAO Recommendation 3 (Chapter 3-A): Ensure that local jurisdictions are aware of the various purchase options, including those under the local purchase method such as the TBPC co-op program.

TEEX does not agree with this recommendation as written for the following reasons:

- *TEEX can provide information, as it currently does, that all purchasing options which meet state and local requirements may be used.*

- *TEEX can ensure that agreements and grant guidance provide information but cannot ensure that a jurisdiction is aware of a fact, even when they sign an agreement.*

SAO Recommendation 4 (Chapter 3-A): Ensure that local jurisdictions are able to use their cost savings as a result of using the most cost-effective purchase method

TEEX agrees with the recommendation and will continue to make savings available as invoices are processed.

Management Response for Chapter 3-B

SAO Recommendation 1 (Chapter 3-B): Ensure that local jurisdictions submit packing slips for equipment within a reasonable timeframe; consider implementing some measure that would penalize jurisdictions for not submitting them

TEEX does not agree with the recommendation as written. TEEX could agree with a recommendation that reads: "Provide in subrecipient agreements the requirement to submit packing slips in a timely manner and clearly define the consequences for a jurisdiction failing to provide the packing slips."

SAO Recommendation 2 (Chapter 3-B): Ensure that local jurisdictions notify TEEX when equipment is returned or exchanged. TEEX should also provide credit information to local jurisdictions in a timely manner.

TEEX does not agree with the recommendation as written. TEEX could agree with a recommendation that reads: "Require local jurisdictions to notify TEEX when equipment is returned or exchanged. TEEX should also provide credit information to local jurisdictions in a timely manner." *TEEX will add language requiring notification of returns or exchanges in future subrecipient agreements. For the 2004 and subsequent Grants, TEEX will place Prime Vendor orders for the jurisdiction. Additionally, the Prime Vendor has agreed to break up orders to make them smaller,*

therefore reducing the chance that one back-ordered item will delay the entire bill and improving TEEX's ability to track receipt of items by the subgrantees.

SAO Recommendation 3 (Chapter 3-B): Ensure in a timely manner that all equipment items have been received by the local jurisdictions by matching billing information with a packing slip.

TEEX does not agree with the recommendation as written. TEEX could accept a recommendation that reads: "Assure, to the reasonable extent possible, that equipment items have been received by the local jurisdictions by the timely matching of billing information with a packing slip." *This was an existing procedure that has been refined and improved over the last six months.*

TEEX reconciles packing slips to the bill. If a jurisdiction has lost a packing slip, it is required to sign a statement that equipment billed to TEEX has been received. Additionally, jurisdictions must reconcile their billing against the DPA site and indicate which items have been received. Jurisdictions are made aware that when they close an item by reconciling it, they are prohibited from changing that line item again.

SAO Recommendation 4 (Chapter 3-B): Work with the DLA to find a more timely method of billing for equipment purchases

TEEX does not agree with this recommendation for the following reasons:

- *The procedures and policies of the Defense Logistics Agency apply to all users, not just Texas. The ODP is the agency to work any issues with the DLA regarding the Homeland Security Grant Program.*

- *TEEX and other state administrative agencies have voiced concerns regarding the billing process to ODP, but DLA had not made changes in the billing process by the end of the audit.*

Management Response for Chapter 3-C

SAO Recommendation 1 (Chapter 3-C): Determine which method of reimbursement it is going to allow for local purchases:

TEEX does not agree with this recommendation because the method of reimbursement has been constant since the award of the 2002, 2003, and 2003 II grants. *The subrecipient agreement contained incorrect wording, which TEEX found shortly after sending the agreements, which would not have complied with the Texas Uniform Grant Management System (TUGMS). An email clarification was sent to make sure the system of reimbursement explanation met TUGMS standards.*

SAO Recommendation 2 (Chapter 3-C): Amend the contracts, if necessary, between TEEX and the local jurisdictions to accurately reflect the reimbursement requirements for local purchases

TEEX does not agree with this recommendation for the following reason:

- *The 2004 subrecipient agreement clarifies that jurisdictions are not required to pay for the equipment before they are reimbursed. It was communicated to pre-2004 Grant recipients via email rather than a formal grant adjustment notice. Amendment of the pre-2004 Grant subrecipient agreements is not efficient due to the large number of subrecipient agreements and the fact that the grant performance periods end in April 2005.*

SAO Recommendation 3 (Chapter 3-C): Ensure that local jurisdictions are aware of and comply with the correct reimbursement process for local purchases.

TEEX does not agree with the recommendation as written. TEEX could agree with a recommendation that reads: "Assure, to the reasonable extent possible, that local jurisdictions are informed of and comply with the correct reimbursement process for local purchases." *Local jurisdictions are only reimbursed with presentation of proper documentation.*

Additional Discussion for Chapter 3

Since the terrorist attacks in 2001, ODP has emphasized the necessity to disburse funds to local jurisdictions as fast as possible. To speed up the process of distributing equipment to jurisdictions, ODP encouraged TEEX to take advantage of the Prime Vendor system established by the Defense Logistics Agency (DLA). While the Prime Vendor may not deliver the best price, the prices they do deliver are negotiated by the DLA and are deemed "fair and reasonable". The Prime Vendor also delivers the benefit of one-stop-shopping, removes the necessity of the bidding process, and provides speedy delivery of most items. Some items are backordered due to high demand, but it is unlikely that equipment will be available to other vendors that do not possess the Prime Vendor's purchasing power.

It is unlikely that grant balances will seem higher than they actually are because the DPA site encumbers grant funds as the equipment on a jurisdiction's list is approved. When TEEX releases funds for any purchase method, the available grant balance is reduced by the amount of the release, and therefore only reflects unencumbered funds. The jurisdiction cannot exceed the amount of funds released to the Prime Vendor since a debit account is created with the Prime Vendor and a jurisdiction is not able to spend more than is contained within their account. The fund balance on the DPA site is not based on the invoice being received at TEEX.

TEEX does not recommend any purchase method over any other. TEEX encourages jurisdictions to purchase the best value equipment. TEEX believes that purchasing decisions are best made at the local level rather than the state level. However, TEEX will increase its efforts to recommend that jurisdictions research purchases before placing their orders.

Once a jurisdiction receives an award, it can spend that amount no matter what approved equipment they buy. Therefore, any savings they realize through different purchase decisions will increase the amount of approved equipment the jurisdiction can purchase.

Management Response to Chapter 4

SAO Recommendation 1 (Chapter 4): Develop a more formalized monitoring process, including methodology and risk assessment, that incorporates risk factors. Each factor should be weighted and quantified in order to measure the level of risk for each subrecipient. In addition, based on the level of risk determined, TEEX should identify the level of review necessary for each subrecipient selected:

TEEX agrees with this recommendation and has already begun implementation of a more formalized monitoring process, including methodology and risk assessment, that incorporates risk factors. *TEEX has developed and implemented a risk-based audit program which will identify the highest-risk jurisdictions based on several weighted factors. Jurisdictions with the highest risk will be scheduled for site visits. Visits to jurisdictions will cover all grant years for which the jurisdiction has received funding. TEEX has hired two qualified individuals and has posted positions for six additional staff. In addition, TEEX will post a Monitoring Program Manager position in January 2005,*

SAO Recommendation 2 (Chapter 4): Conduct scheduled site visits of local jurisdictions over the Grant period. Some unannounced site visits should also be conducted based on risk.

TEEX does not agree with this recommendation as written. TEEX could agree with a recommendation that reads: "Conduct scheduled site visits of local jurisdictions over the Grant period as indicated by risk factors. Some unannounced site visits should also be conducted based on risk." *The Grants awarded in 2002 and 2003 were intended mainly as equipment grants to allow local jurisdictions to purchase needed emergency response equipment. Until those jurisdictions actually purchased and received their equipment, site visits would not have been practicable. TEEX has completed monitoring visits to a selection of jurisdictions that received funds under the 1999, 2000 and 2001 Grants. Over 10 percent of jurisdictions for the 1999 Grant, and 26 percent of all jurisdictions who received funds from the 2000-2001 Grants received site visits. All purchases are monitored for compliance with the Authorized Equipment List (AEL) as they come into TEEX for reimbursement. Visits based on risk will be selected based upon the program referenced in response to Recommendation 1 of Chapter 4 (above).*

SAO Recommendation 3 (Chapter 4): Strengthen its procedures to ensure that local jurisdictions are aware of, understand, and comply with all Grant requirements.

TEEX does not agree with this recommendation as written. TEEX could agree with a recommendation that reads: "Strengthen its procedures to assure, to the reasonable extent possible, that local jurisdictions are informed of, understand, and comply with all Grant requirements."

SAO Recommendation 4 (Chapter 4): Require local jurisdictions to submit reports detailing how the equipment is being used and attest to the accuracy of the report.

TEEX agrees with this recommendation and will require local jurisdictions to submit reports detailing how the equipment is being used and attest to the accuracy of the report. *The 2004 and 2005 ISIP and BSIR reports will address this issue. TEEX will modify the 2004 subrecipient agreements to clarify the use of the BSIR.*

SAO Recommendation 5 (Chapter 4): Require local jurisdictions to maintain mileage logs for vehicles purchased with Grant funds

TEEX agrees with this recommendation and will require local jurisdictions to maintain mileage logs for vehicles purchased with grant funds.

SAO Recommendation 6 (Chapter 4): Develop and implement procedures for reviewing whether local jurisdictions' equipment purchases meet the intent of federal requirements outlined by ODP. TEEX should require local jurisdictions to provide documentation to justify equipment purchases that do not appear to meet the intent of federal requirements outlined by ODP

TEEX does not agree with this recommendation as written. *This is an identical recommendation to one in Chapter 1-B (SAO Recommendation 4). The reasons are the same as those provided in the Chapter 1-B response:*

- *Equipment in 2004 and 2005 is tied to projects that support the State and Urban Area Strategies.*

- *All equipment is from the Authorized Equipment List, which is the objective measurement of meeting the ODP intent.*

TEEX accepts the responsibility of requiring jurisdictions to justify equipment when available information is not adequate to determine that the equipment can be used as specified in the Authorized Equipment List.

SAO Recommendation 7 (Chapter 4): Use the status of the local jurisdictions' emergency operation plans as a risk factor in its formalized monitoring risk assessment process. TEEX should continue to use this information in awarding future Grant funds. TEEX should require local jurisdictions receiving Grant funds to complete a terrorism attachment to their plan

TEEX agrees with this recommendation and will use the status of the local jurisdictions' emergency operation plans as a risk factor in its formalized monitoring risk assessment process. TEEX will continue to use the status of plans in awarding future grant funds. TEEX will coordinate with the Governor's Division of Emergency Management to establish a time-line for requiring local jurisdictions receiving grant funds to complete a terrorism attachment to their plan as a condition of grant eligibility.

Management Response for Chapter 5-A

SAO Recommendation #1 (Chapter 5-A): Make the necessary system changes to ensure that DPA does not allow jurisdictions to exceed their award amounts and that it accurately accounts for adjustments

TEEX agrees with this recommendation and has made the necessary system changes to ensure that DPA does not allow jurisdictions to exceed their award amounts and that it accurately accounts for adjustments. *These refinements were completed during the audit field work period. The system is currently working as recommended. The DPA site does not allow a local jurisdiction to submit a list for*

approval if the total dollar amount will exceed the awarded amount. Invoices are posted on the DPA site and any difference in invoiced amount and encumbered amount is displayed on the website. Jurisdictions cannot receive subsequent releases without reconciling their posted invoices.

SAO Recommendation #2 (Chapter 5-A): Work with the prime vendor to correct problems in downloading information into DPA for equipment purchases.

TEEX agrees with this recommendation and worked with the prime vendor to correct problems in downloading information into DPA for equipment purchases. *Improvements in the system were made during the period of audit fieldwork.*

SAO Recommendation #3 (Chapter 5-A): Develop and implement a process for local jurisdictions to change their equipment lists when items have been on back order for an extended period.

TEEX agrees with this recommendation and developed and implemented a process for local jurisdictions to change their equipment lists when items have been on backorder for an extended period. *Procedures are in place to facilitate cancellation of items. This process must involve the approval hierarchy as is required for all equipment purchases and cannot be left solely to the discretion of the jurisdiction.*

SAO Recommendation #4 (Chapter 5-A): Develop and implement a process to prevent local jurisdictions from purchasing from the prime vendor equipment that is not on the approved list.

TEEX agrees with this recommendation and developed and implemented a process to prevent local jurisdictions from purchasing from the prime vendor equipment that is not on the approved list. *This was completed during SAO's fieldwork. For the 2004 and subsequent grants, TEEX will place orders directly from the DPA site to the Prime Vendor once the equipment list is approved. This cannot be implemented in pre-2004 Grants due to cost restrictions.*

SAO Recommendation #5 (Chapter 5-A): Reconcile the DPA and Masterpiece systems. TEEX should also research possible methods for minimizing or eliminating double data entry by staff:

TEEX agrees with this recommendation and will reconcile the DPA and Masterpiece systems as well as research possible methods for minimizing or eliminating double data entry by staff. *An automated system is being evaluated to reconcile DPA and Masterpiece. The current data entry process provides an additional check of account balances, approved equipment purchases, and acts as a fraud filter.*

Management Response for Chapter 5-B

SAO Recommendation #1 (Chapter 5-B): [TEEX should]: Make changes to DPA so that passwords cannot be seen by other users

TEEX agrees with this recommendation and made changes to DPA so that passwords cannot be seen by other users. This recommendation was completed during the audit field work period.

SAO Recommendation #2 (Chapter 5-B): [TEEX should] Improve DPA password parameters and implement DPA session timeouts:

TEEX agrees with this recommendation and improved DPA password parameters for all new registrations as well as implementing DPA session timeouts. This recommendation was completed during the audit field work period.

SAO Recommendation #3 (Chapter 5-B): [TEEX should] Regularly review DPA event logs for security events:

TEEX agrees with this recommendation and regularly reviews DPA event logs for security events. This recommendation was implemented during the audit field work period.

SAO Recommendation #4 (Chapter 5-B): [TEEX should] Transfer DPA backups to its secure, off-site location more often than weekly:

TEEX agrees with this recommendation and is in discussion with the contractor to transfer DPA backups to its secure, off-site location more often than weekly.

SAO Recommendation #5 (Chapter 5-B): [TEEX should] Test its disaster recovery plan (including its disaster recovery plan for DPA) at least once a year.

TEEX agrees with this recommendation and is in discussion with the contractor to test its disaster recovery plan (including its disaster recovery plan for DPA) at least once a year.

SAO Recommendation #6 (Chapter 5-B): [TEEX should] Work with ODP and the prime vendor to improve its password parameters.

TEEX agrees with this recommendation and has expressed the concerns to the prime vendor to improve its password parameters.

SAO Recommendation #7 (Chapter 5-B): [TEEX should] Limit the contact people's ability to enter and change shipping addresses.

TEEX agrees with this recommendation and is working with the prime vendor to remove the ability to change shipping addresses from the Points of Contact.

Management Response for Chapter 5-C

SAO Recommendation #1 (Chapter 5-C): Improve Masterpiece password parameters and implement Masterpiece session timeouts.

TEEX agrees with this recommendation and has strengthened OS/400 complexity rules to improve security. TEEX implemented a procedure for Masterpiece users that they shall either log off from Masterpiece, or lock the PC workstation whenever

they leave their session unattended. The change was implemented December 17, 2004.

SAO Recommendation #2 (Chapter 5-C): Review all employees' Masterpiece access rights for appropriateness and change those rights as users' job duties change.

TEEX agrees with this recommendation and now reviews all employees' Masterpiece access rights for appropriateness and changes those rights as users' job duties change. *This was implemented during the audit field work period on August 30, 2004.*

SAO Recommendation #3 (Chapter 5-C): Further restrict access to the Masterpiece Computing Environment.

TEEX does not agree with this recommendation. *However, TEEX will continue its monitoring of system security in coordination with Texas A&M University.*

SAO Recommendation #4 (Chapter 5-C): Move Masterpiece backup media to a protected location more than weekly.

TEEX agrees with this recommendation and now moves Masterpiece backup media to a protected location more than weekly. *The change was implemented December 17, 2004.*

SAO Recommendation #5 (Chapter 5-C): Ensure that Masterpiece user IDs are issued to contractors and temporary personnel and that their access is removed promptly upon their departure.

TEEX agrees with this recommendation and has previously implemented the recommendation. *Current procedures require that Masterpiece user IDs are issued to contractors and temporary personnel and that their access is removed promptly upon their departure.*

Additional Discussion for Chapter 5

The automated grant information tracking programs developed by TEEX are under constant review and revision to improve accuracy and usability at all levels. TEEX staff works with jurisdictions daily to expedite their purchasing process and their completion of the more than 2,500 grants that the SAA (TEEX) administers.

Management Response for Chapter 6

SAO Recommendation #1 (Chapter 6): Strengthen controls over expenditures, including requiring proper support for all invoices and changes to travel vouchers.

TEEX agrees with this recommendation and will strengthen controls over expenditures, including requiring proper support for all invoices and changes to travel vouchers.

SAO Recommendation #2 (Chapter 6): Develop realistic administrative budgets that accurately reflect proposed expenditures

TEEX agrees with this recommendation and will maintain realistic administrative budgets that accurately reflect proposed expenditures.

SAO Recommendation #3 (Chapter 6): Use quarterly monitoring reports to identify, investigate, and resolve significant variances, and document decisions reached or actions taken when significant variances occur in their administrative budgets.

TEEX agrees with this recommendation and will use quarterly monitoring reports to identify, investigate, and resolve significant variances, and document decisions reached or actions taken when significant variances occur in their administrative budgets.

SAO Recommendation #4 (Chapter 6): Enter into a subrecipient agreement with the Governor's Office of Homeland Security if that office intends to expend Homeland Security Grant Program Funds. In addition, ensure that the Governor's Office of Homeland Security budget is amended to reflect the actual amount of funds that office intends to use.

TEEX agrees with this recommendation and will enter into a subrecipient agreement with the Governor's Office of Homeland Security if that office intends to expend Homeland Security Grant Program Funds. *The Governor's Office did not accept any Grant funds for pre-2004 grants. TEEX has entered into a subrecipient agreement for the 2004 Grant with the Governor's Office of Homeland Security.*

SAO Recommendation #5 (Chapter 6): Strengthen its process for reviewing COGs' program budgets to ensure that these budgets are accurate, and provide feedback on these budgets to COGs in a timely manner.

TEEX agrees with this recommendation and will strengthen its process for reviewing COGs' program budgets to ensure that these budgets are accurate, and provide feedback on these budgets to COGs in a timely manner. *TEEX is implementing a new review of COG budgets in January 2005.*

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Brian McCall, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Texas A&M University System

Mr. Lowry Mays, Chairman, Board of Regents
Mr. Earl Nye, Vice Chairman
Mr. Phil Adams
Dr. Susan Rudd Bailey
Dr. Wendy Gramm
Mr. Bill Jones
Mr. Lionel Sosa
Mr. R.H. (Steve) Stevens, Jr.
Mr. John D. White
Dr. Bob McTeer, Chancellor

Texas A&M University

Dr. G. Kemble Bennett, Vice Chancellor and Dean of Engineering

Texas Engineering Extension Service

Mr. Robert L. Smith, Director