

Most recent audit reveals state still has problems distributing disaster money

Written by By Laura Paskus NM Political Report
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SANTA FE – Another audit turned in months after it was due reveals the state Department of Homeland Security and Emergency Management still has problems with finances and management—some of which date back years—but is showing some signs of improvement.

The 2016 audit was publicly released in late October when State Auditor Tim Keller sent a letter back to the department's secretary, M. Jay Mitchell.

The independent audit reveals 14 significant problems, some of which were also found in previous years' audits.

NM Political Report requested an interview with Mitchell or the department's Chief Financial Officer, Sarah Peterson. The public information officer could not make either available for an interview, but Mitchell did respond via email.

"The most recent audit you are inquiring about reflects issues and status from over 17 months ago, many of which were self-identified by the department and are the result of systemic issues that were created over 10 years ago," Mitchell wrote, adding that the problems were not properly addressed in subsequent years.

The secretary added that the department plans to submit its 2017 audit in January, and the 2018 audit will be completed and submitted ahead of the state's deadline in November 2018.

For now, the public view into the agency's finances is the 2016 audit, which shows the state

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agency continues to hold onto federal disaster money meant for local communities. Some of those grants date back a decade, and when combined with newly authorized federal emergency funds, as of the end of June, New Mexico was still holding onto \$30 million in unspent federal grant money.

After a governor declares a disaster and the Federal Emergency Management Administration (FEMA) allocates funding, state and local governments also contribute money to qualify for matching grants. Once a project is finished and inspected, FEMA pays the state, which is supposed to send that money to the local entity “as expeditiously as possible.”

But that hasn’t been done in a timely manner, which sometimes means local governments, contractors and businesses are not reimbursed for recovery work until years later.

Some of the local governments still awaiting federal funds at the end of June included counties and tribes across the state that were affected by flooding disasters, winter storm and freezing emergencies as well as wildfires like the Whitewater-Baldy, Little Bear, Thompson and Dog Head blazes. The audit’s spreadsheet also shows a \$545,168 balance related to recovery from the Gold King Mine Spill.

There are also gaps in the auditor’s knowledge of what is happening at the state agency.

“For six of the 10 opinion units, the auditor issued qualified opinions, indicating that the [independent public accountant] was unable to obtain sufficient information with respect to the completeness and accuracy of these funds and activities, which may in turn result in material misstatements to the financial statements,” Keller wrote in the letter. “The audit does indicate some progress is being made; however, many of the same issues remain.”

State law requires that all public agencies in New Mexico—from the largest cabinet-level departments to the smallest local irrigation districts—complete audits each year that gauge the accuracy of their financial reporting and help identify errors or problems. When turning in an audit to the Office of the State Auditor, the independent accountant is required to offer an opinion about the agency’s financial reporting.

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A “disclaimer”—which DHSEM received on its 2015 audit—means the agency didn’t provide accountants with enough information for them to offer an opinion. This year’s “qualified” opinion represents an improvement, but still is not good news. It means the auditor didn’t obtain sufficient information from the agency, but this year, the auditor concluded that possible misstatements could be “material but not pervasive.”

That knocked DHSEM off OSA’s At-Risk List of agencies with adverse or disclaimed opinions. The list currently includes seven public entities including the towns of Bernalillo, Estancia and Vaughn and Northern New Mexico College.

For years, problems have been blamed on high turnover and staff vacancies. Keller’s letter to Mitchell notes that the March 2017 hiring freeze ordered by Gov. Susana Martinez contributed to that problem, and did not save state agencies money as intended. Instead, Keller notes that DHSEM outsourced assistance “at considerable cost.” The audit reveals that the agency issued about \$1.5 million in contracts in 2016, including \$537,753 to an outside accounting firm, nearly a half-million dollars to two different temporary staffing companies and \$110,000 to a Dallas-based company for IT services.

In 2016, Keller asked that the governor help in address “allegations and concerns” about the agency. He suggested that the state’s Department of Finance and Administration (DFA) oversee disaster grants and take over DHSEM’s critical financial functions. Martinez did not respond to the State Auditor’s letter, but a spokesman for her office praised Mitchell for having “righted the ship” and for making “significant and undeniable progress when it comes to [the state agency’s] finances.”

In 2015, both FEMA and the U.S. Department of Transportation investigated the state agency for problems managing federal grants. FEMA commended Mitchell and staff for making improvements, but in its 12-page letter to the department, it also noted that DHSEM still lacked standard file management conventions.

The 2016 audit notes that DHS has been working with FEMA “on a number of issues” related to grant management and as part of this, the federal agency has made “several monitoring visits.” Both the independent audit and Keller’s letter say the state agency is making “progress toward resolving these issues.”

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A spokesman for FEMA, when asked for information related to the audit, wrote via email: "I'm going to have to tell you the same thing this year that I said last year. Work with the state on questions about the audit."

Some of the problems noted within the 2016 audit, performed by the independent accounting firm CliftonLarsonAllen, include:

Non-compliance with the requirements of certain federal grants, including public assistance disaster grants, Emergency Management Performance Grants and the Homeland Security Grant Program. Of 12 public assistance disaster grant reports auditors selected for testing, DHS was "unable to provide documentation to support the amounts reported in the financial report" for any of them. In addition, six of those reports were not filed in a timely manner. They noted similar problems on financial reports tested from the other two federal grants.

Non-compliance with the Federal Funding Accountability and Transparency Act

A lack of "effective internal control structure" over timely and accurate financial reports

A lack of processes and controls to reconcile payroll data. During a review of five entries, auditors found that two were posted to the incorrect fund and/or account.

A lack of internal controls to "ensure timely and accurate reporting" of its capital assets. (DHS had been reporting, for example, a building with an original cost of \$2.3 million, which is also reported by the General Services Department; the net book value of the building is \$1.3 million. It also lacked documentation of another asset valued at \$182,000 that it could not locate or had disposed of and not documented.)

Incorrect coding of expenditures to the correct operating unit. Auditors added that for two types of federal grants, DHS "intends to reconcile all prior grants before closing them out, however, we are currently unable to obtain sufficient audit evidence to determine if the Department complied with the applicable compliance requirements related to the period of availability."

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Emergency Management Performance Grant-funded personnel have not met the required exercises and training.

Failure to maintain a cash receipts log.

Courtesy of NM Political Report

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