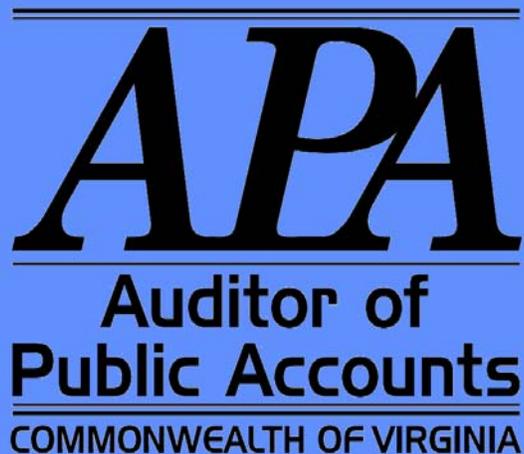


**VIRGINIA DEPARTMENT OF
EMERGENCY MANAGEMENT**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2010 THROUGH JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Department of Emergency Management (Emergency Management) for the period July 1, 2010, through June 30, 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- six matters involving internal control and its operations necessary to bring to management's attention;
- three instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- Emergency Management has made progress, but has not completely resolved our prior year finding "Improve Controls over Small Purchase Charge Card." As a result, this finding is repeated in this report.

As of April 2013, Emergency Management and the Commonwealth's Information Technology (IT) partnership continue to work towards finalizing a plan for Emergency Management's transformation and migration to the IT Partnership's network domain. The two parties are developing a solution that meets Emergency Management's high availability and unique systems requirements. While working towards a solution that meets Emergency Management's high availability and unique requirements, the Commonwealth is paying an additional \$14,000 per month to support legacy assets.

We encourage Emergency Management to continue these negotiations to achieve a fully transformed environment that meets its mission to the citizens of the Commonwealth and eliminates as much of the legacy asset fees as possible. We also recommend that Emergency Management work with the Secretaries of Public Safety and Technology to ensure the final transformed environment meets any budgetary constraints.

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STATUS OF INFORMATION TECHNOLOGY TRANSFORMATION

As of April 2013, Emergency Management and the Commonwealth's IT partnership continue to work towards finalizing a plan for Emergency Management's transformation and migration to the IT Partnership's network domain. The two parties are developing a solution that meets Emergency Management's high availability and unique systems requirements.

As the two entities work towards a solution, the Commonwealth is paying an additional \$14,000 per month to the IT Partnership to support "legacy assets" that is in addition to Emergency Management's regular monthly service fees to support its non-transformed IT environment. Legacy assets consist of network devices and components that are not included as the standard service offering outlined in the Comprehensive Infrastructure Agreement (CIA).

The legacy asset additional fee was instituted as part of the April 2010 CIA amendment and became effective January 1, 2011. Emergency Management has incurred these additional fees since then. A fully transformed IT infrastructure environment typically does not incur legacy asset fees.

Recently, Emergency Management and the IT Partnership agreed on a conceptual transformation design. While a conceptual design only contains high-level objectives and lack details, it shows that negotiations are progressing and a final solution is closer.

We encourage Emergency Management to continue these negotiations to achieve a fully transformed environment that meets its mission to the citizens of the Commonwealth and eliminates as much of the legacy asset fees as possible. We also recommend that Emergency Management work with the Secretaries of Public Safety and Technology to ensure the final transformed environment meets any budgetary constraints.

AUDIT FINDINGS AND RECOMMENDATIONS

During our audit, we identified a number of internal control weaknesses in the Finance area that we believe may be partially attributable to an inadequate number of trained and qualified staff. There are currently a number of vacant positions in Finance and several organizational changes were made during and after the audit period which resulted in shifting responsibilities among Finance staff. This staffing level became further strained when various disasters occurred and Finance staff assumed additional disaster response duties. Depending on the magnitude and timing of the disasters, this can strain Finance staffing levels and make it difficult for day to day responsibilities to get carried out effectively.

One other contributing factor during the period which impacted resources in the Finance area was a system crash of the Financial Management System (FMS). This crash occurred in September 2011 as a result of a hardware failure and resulted in the loss of several years' worth of critical data. As a result, Finance staff had to reenter financial transactions into FMS which required a considerable amount of resources.

Emergency Management has a unique mission and one of the challenges the Department faces is the ability to respond to disasters effectively while also maintaining day to day operations. Management should examine the Finance area to determine the appropriate staffing level for effective performance of their responsibilities and ensure that necessary positions are filled promptly. In addition, management should reexamine the role of the Finance area in disaster response to ensure that staff is available for disaster response activities, while also maintaining critical day to day operations.

Evaluate Petty Cash Needs and Strengthen Controls

Emergency Management needs to review current petty cash funds on hand and evaluate whether these funds are necessary. Emergency Management maintains two \$5,000 cash funds as well as a petty cash checking account of over \$20,000. Given that many agency staff have access to small purchase charge cards, the petty cash funds are not used frequently and had minimal activity during the audit period.

Additionally, Emergency Management needs to strengthen the controls over any petty cash funds that they do decide to maintain. We found several internal control weaknesses in the current procedures including a lack of timely reimbursements, a lack of periodic counts of the cash funds, and inaccurate monthly petty cash reconciliations.

Overall, Management needs to evaluate the need for petty cash funds and determine an appropriate amount based on their planned uses for the funds. Management then needs to strengthen the procedures over any petty cash funds that they decide to retain. Procedures need to be in place to ensure the petty cash funds are reimbursed timely. In addition, petty cash funds should be reconciled on a monthly basis and any reconciling items should be promptly resolved. Management should also ensure the critical petty cash functions are performed by different individuals where possible to ensure an adequate segregation of duties. Inadequate procedures over petty cash funds, as well as having excessive petty cash funds on hand, increases the risk of misuse.

Improve Controls over Small Purchase Charge Card

As reported in our prior audit, Emergency Management needs to continue to improve internal controls over small purchase charge cards (SPCC). Emergency Management has issued charge cards to approximately 42 employees and we found the following issues related to small purchase charge card purchases:

- Multiple instances where receipts or other documentation were not maintained to support the transactions. The majority of these instances were attributable to one cardholder.

- An instance where the SPCC reconciliation was not reviewed and approved by the supervisor prior to payment.
- An instance where a SPCC reconciliation was not timely, but was submitted three months after the Bank of America statement date.
- Multiple instances where an employee exceeded their transaction limit or monthly limit and there was no documentation provided to show that these instances were approved or reviewed by the SPCC program administrator.

Overall, management needs to strengthen procedures over SPCC activity to ensure compliance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual. Although we did find some improvements in procedures since our prior audit, further improvement is needed. All cardholders must retain documentation to support their purchases, and any reconciliations needs to be properly performed as well as reviewed and approved in a timely manner. In addition, any situations which require a cardholder to exceed their preset limits need to be approved by the SPCC program administrator and this approval should be documented. Management should ensure all cardholders are trained in the SPCC policies and procedures and take appropriate corrective action as needed if procedures are not followed.

Improve Information System Access Controls

Emergency Management needs to improve information system access controls for critical systems. We reviewed access controls over FMS and found there are no written policies and procedures over granting and deleting system access or performing periodic access reviews. We also tested FMS access for a sample of employees and found their access was reasonable, but there was no documentation maintained to show who requested or approved the access. An access review was performed in September 2011, but this was done because the system had crashed and all access had to be reestablished.

We also reviewed Commonwealth Accounting Reporting System (CARS) and Commonwealth Integrated Payroll Personnel System (CIPPS) access and found instances where system access was not terminated timely. In one instance, CARS and CIPPS access was not terminated until six months after an employee's termination date and in another instance we could not determine if an employee's CARS access was terminated timely due to a lack of documentation.

Overall, Emergency Management needs to improve system access controls over critical information systems like FMS, CARS and CIPPS. Management should develop written procedures for FMS access that include the process for granting and deleting access and maintaining documentation surrounding the access changes. In addition, the procedures need to include a periodic review of FMS user capabilities to ensure the access is reasonable based on current job responsibilities and that users have not been granted access to multiple capabilities within the system that may allow the user to circumvent internal controls. We also recommend the agency gain knowledge on how to export user access listings from FMS into reviewable databases. Based on our audits of other agencies, we believe FMS has this capability and this information would help to facilitate periodic access reviews. In addition, Emergency Management should ensure that access to critical systems is deleted timely when an employee is terminated. Access controls are important for ensuring that only authorized employees have access to process information in Emergency Management's critical information systems.

Improve Controls Over Fuel Card Management

Emergency Management uses the Office of Fleet Management Services (OFMS) Policies and Procedures Manual for their fuel card program, but they are not following the procedures in the manual.

Emergency Management has issued approximately 116 fuel charge cards, but we found that cardholders do not submit gas receipts to the Fuel Card Account Custodian (Custodian) for review as required by OFMS. As a result, the Custodian did not review the gas purchases to ensure the purchases were appropriate and in conjunction with State business; and did not reconcile charges prior to processing payments to the card vendor.

Overall, Emergency Management needs to follow procedures outlined in the OFMS Manual. Fuel card holders need to submit gas receipts to the Custodian to ensure the purchases are appropriate and to reconcile charges to the monthly vendor statement. Inadequate procedures over the fuel card management increase the risk of inappropriate use of the fuel cards.

Follow FMS to CARS Reconciliation Procedures

Emergency Management needs to review their FMS to CARS reconciliation process to ensure it is effective and efficient. Emergency Management revised their FMS to CARS reconciliation procedures in September 2012 based on a review performed by the Department of Accounts. Although this occurred after the audit period, we reviewed these procedures and the November 2012 reconciliation to ensure these procedures were being followed.

We found that the monthly reconciliation was not reviewed or approved in a timely manner. In addition, we found fiscal staff only partially followed the procedures resulting in an ineffective reconciliation process. Fiscal staff perform a detailed weekly reconciliation of individual transactions. In addition, fiscal staff perform a detailed analysis at the general ledger account level to further identify and explain variances in monthly balances between the two systems. Together this information should be used as the basis for certifying a monthly reconciliation process required by the Department of Accounts; however, it does not appear that the monthly analysis at the account level is being reviewed or used in the process. As a result, the reconciliation process is not as effective as it needs to be.

Overall, Emergency Management needs to ensure Finance staff is following the reconciliation procedures. Procedures should be in place that will meet requirements stated in the CAPP Manual and improve efficiency in the reconciliation process. In addition, the FMS to CARS reconciliation should be reviewed and approved by management by signing and dating the monthly reconciliation documents to verify that it has been reviewed and approved timely.

Strengthen Procedures Over the Virginia Disaster Relief Fund

Emergency Management needs to strengthen procedures over grant awards made from the Virginia Disaster Relief Fund. This fund was established in 2011 to make grant awards to non-profit organizations to assist citizens with disaster related repairs not already covered by state or federal disaster assistance.

Under current procedures, Emergency Management sends a letter and guidelines to the non-profit organization once a grant is approved, but there is not a formal agreement between the parties. The lack of a formal agreement signed by both parties detailing the terms of the award increases the risk that funds could be misused or parties will not fully understand their responsibilities.

We recommend Emergency Management strengthen the award process by developing a formal grant agreement which clearly details the specific terms of the award and the responsibilities of the non-profit organization. The grant agreement should be authorized by all parties before any grant funds are disbursed. Given the nature of non-profit organizations, Emergency Management should also ensure the grant agreement is authorized by the appropriate individuals within the non-profit organization. Formalizing this process will strengthen the controls over these funds and reduce the likelihood of misuse of these funds.

AGENCY OVERVIEW

The Virginia Department of Emergency Management (Emergency Management) directs and coordinates the Commonwealth's Comprehensive Emergency Management Program. Emergency Management works with local governments, state and federal agencies, and voluntary organizations to provide resources and expertise for disasters in four major areas: preparedness, response, recovery, and mitigation.

FINANCIAL INFORMATION

Federal grants are the primary funding source for Emergency Management. The agency receives federal funding for federally approved disaster response activities as well as homeland security projects and hazard mitigation projects. Emergency Management also receives some General Fund appropriations primarily for disaster relief assistance. These funds are used to match federal funds in federal declared disasters and to provide assistance for those disasters declared by the Governor that are not large enough to qualify as a federal disaster.

In addition to state and federal funding, Emergency Management administers two other funds for disaster assistance. The Governor established the Tornado Relief Fund and the Virginia Disaster Recovery Fund in fiscal year 2011 to assist victims of a disaster when state, federal, and private aid is not available. The state initially contributed \$600,000 to the funds, and the Emergency Management also receives donations from individuals, companies, and nonprofit organizations.

The majority of Emergency Management's expenses are transfer payments to localities for either homeland security projects or disaster assistance. Emergency Management's expenses are recorded under four programs, the most significant of these programs are discussed below, and budget and actual expenses by program is shown for fiscal years 2011 and 2012.

Emergency Preparedness Program includes the Homeland Security Grant Program (HSGP) which involves non-disaster grants. State agencies and localities can apply for grants to assist in covering costs to prepare for a disaster. The HSGP includes expenses for planning, organization, equipment, training, exercise, maintenance, and sustainment. Some of these grant funds cover projects which span multiple years.

Emergency Response and Recovery Program covers disaster expenses, which include Hazard Mitigation, Public Assistance, Individual Assistance, and Crisis Counseling. When a disaster occurs, the disaster will be declared a local, state or federal disaster depending on the severity and if the specified dollar thresholds are met. The disaster declaration affects whether the expenses will be funded with federal, state or local funds. If a disaster is federally declared, the federal government will fund part of the costs, usually 75 percent, with the state and or localities covering the remaining 25 percent.

Virginia Emergency Operations Center (VEOC) includes expenses incurred by Emergency Management to manage and staff the center. The VEOC is located on the grounds of the Virginia State Police Headquarters and serves as the operations center for state efforts before, during and after emergencies and disasters occur.

Analysis of Budget and Actual Expenses By Program

	Fiscal Year 2011			Fiscal Year 2012		
	Original Budget	Final Budget	Actual Expenses	Original Budget	Final Budget	Actual Expenses
Emergency Preparedness	\$22,862,300	\$42,670,568	\$40,680,328	\$22,862,300	\$36,699,364	\$34,889,453
Emergency Response and Recovery	13,271,853	21,890,269	21,559,948	13,271,853	27,773,039	23,167,157
Virginia Emergency Operations Center	2,494,601	2,909,601	2,482,572	2,494,601	3,280,101	2,689,479
Administrative and Support Services	<u>5,000,533</u>	<u>8,825,469</u>	<u>7,906,431</u>	<u>4,905,911</u>	<u>8,652,317</u>	<u>7,339,980</u>
Total	<u>\$43,629,287</u>	<u>\$76,295,907</u>	<u>\$72,629,279</u>	<u>\$43,534,665</u>	<u>\$76,404,821</u>	<u>\$68,086,069</u>

Due to the nature of Emergency Management's programs, the budget can significantly change once it is approved by the General Assembly. The Emergency Preparedness program's budget increased significantly during both years due to Homeland Security grants that had to be carried forward to subsequent years due to the nature of the projects. Projects funded with these grant funds often span multiple years.

The increase in the budget for the Emergency Response and Recovery program is due to multiple disasters that occurred during fiscal 2011 and 2012 which included tornadoes, Hurricane Irene, Tropical Storm Lee, and the Louisa earthquake. It is expected that the program budget will increase based on the number of significant disasters in any given year.



Commonwealth of Virginia

Auditor of Public Accounts

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April 30, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Department of Emergency Management** (Emergency Management) for the period July 1, 2010, through June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Emergency Management's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Emergency Management's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Petty Cash
- Expenses
- Small Purchase and Fuel Charge Cards
- Information Security and System Access
- Sub Recipient Monitoring

We performed audit tests to determine whether Emergency Management's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Emergency Management's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Emergency Management properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Emergency Management records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Emergency Management has taken adequate corrective action with respect to audit findings reported in the prior report that are not repeated in this report.

Exit Conference and Report Distribution

We discussed this report with management on May 23, 2013. Management concurred with the findings in our report and chose not to do a formal response.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW/alh

VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT

AGENCY OFFICIALS

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