

**VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2010**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the Department of Emergency Management, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### **Improve Controls over Small Purchase Charge Cards**

Emergency Management's Accounts Payable Supervisor, who is primarily responsible for processing payments, is currently serving as their small purchase charge card program administrator and is a small purchase charge cardholder. Program administrator's have responsibility for managing the agency's small purchase charge card program, reviewing and approving who has charge cards, and setting their purchasing limits. By allowing the Accounts Payable Supervisor to administer the small charge card program, have a charge card, and process transactions, Emergency Management has no separation of duties in the oversight of the program.

Further, no one in management reviewed the Account Payable Supervisor's use of the card, including purchasing logs and charges, for over nine months. Also, upon request, no one could locate the file of monthly reconciliation logs for the month of May 2010.

Although there is no indication of any improper transactions, Emergency Management is placing itself at risk that improper transactions could occur and go undetected. Separation of duties is a fundamental internal control that provides an independent review of transactions prior to payments.

Having the Accounts Payable Supervisor also be the Small Charge Card Administrator does not violate the concept of a separation of duties. However, allowing this individual to have a card does negate this internal control and by not having a timely, complete, and independent review of the card usage makes the control useless. Emergency Management should immediately address this issue by either removing the card, reassigning duties, or examining other alternatives.

### **Properly Cross-Train Essential IT Responsibilities**

Emergency Management does not cross-train employees with essential Information Technology (IT) responsibilities. Emergency Management experienced employee turnover in key positions during this past year, which resulted in a lack of understanding of its IT emergency preparedness documents. This lack of understanding may result in inefficient coordination of the Commonwealth's emergency preparedness, response, and recovery efforts in the event of a disaster.

Specifically, Emergency Management personnel could not locate its IT risk management and disaster recovery plans upon the auditor's initial request. Emergency Management redirected the auditor to two different locations before Emergency Management presented the requested plans. Upon examination of the plans, we found that the disaster recovery plan did not mention two essential systems, the Financial Management System (FMS) and the Geographic Information System (VIPER). Further, FMS and VIPER are not included in the business impact analysis and continuity of operations plan, respectively. This inconsistency is the result of inadequate review and change management processes, and does not comply with the requirements of the Commonwealth's information security standard, SEC 501-01.

We recommend that Emergency Management dedicate the necessary resources to implement a cross-training program to ensure Emergency Management's personnel understand and know how to maintain continuity in case of a disaster. Cross training will ensure that personnel have the knowledge, skills, and abilities to maintain operations if essential employees leave the agency. We further recommend that Emergency Management thoroughly review its change management policies and procedures to ensure that personnel update and maintain their emergency preparedness documentation on a consistent basis.

## Other Recommendations

### **VDEM Transformation Update**

As of January 2011, Emergency Management, in conjunction with the IT Partnership (Virginia Information Technologies Agency and Northrop Grumman), have yet to finalize plans for Emergency Management's transformation and migration to the IT Partnership's network domain. While there are several complicating factors to Emergency Management's transformation status, until the parties reach an agreement, the Commonwealth will incur substantial penalty fees, which Emergency Management will need to pay in addition to their monthly service fees.

The IT Partnership has worked with Emergency Management to develop proposals to address Emergency Management's concerns regarding transformation and migration. The majority of the current negotiations center around ensuring that the agency can, at all times, efficiently coordinate the state's emergency preparedness, mitigation, response and recovery efforts. In addition to detailed technical concerns, Emergency Management and the IT Partnership must also agree on billing, as well as staffing requirements.

We believe that the Secretaries of Public Safety and Technology need to help move this process along to reduce the cost to the Commonwealth and realistically determine what solution accomplishes Emergency Management's actual needs within a realistic budget. As the previous finding indicates, Emergency Management needs to focus its attention elsewhere to address its needs.

## AGENCY HIGHLIGHTS

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. Emergency Management develops and maintains the Commonwealth's emergency plans and blueprints for responses to a variety of scenarios, and assists communities in developing localized emergency operation plans. Emergency Management offers training courses in emergency management, hazardous materials response, and search and rescue. Emergency Management's staff also works with the Federal Emergency Management Agency (FEMA) to coordinate and administer federal financial aid programs after disaster declaration.

## FINANCIAL OPERATIONS

Emergency Management had total expenses of \$57.5 million in fiscal year 2010. Expenses from the Emergency Preparedness program accounted for the majority of expenses.

### Analysis of Budget and Actual Expenses

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Emergency Preparedness	\$28,024,656	\$40,483,446	\$40,070,272
Emergency Response and Recovery	9,926,768	9,209,823	9,000,237
Administrative and Support Services	3,674,561	6,033,548	5,692,999
Virginia Emergency Operations Center	3,210,367	3,045,376	2,719,520
Executive Management	<u>(840,297)</u>	<u>-</u>	<u>-</u>
Total	<u>\$43,996,055</u>	<u>\$58,772,193</u>	<u>\$57,483,028</u>

*Source: Commonwealth Accounting and Reporting System*

*Note: Figures do not include capital outlay amounts.*

The increase in the Emergency Preparedness program's final budget resulted from an additional \$12.46 million in Homeland Security grant funding received and transferred to localities and other state agencies. The increase in the Administrative and Support Services final budget resulted mainly from grant funds received to purchase communication equipment, a mobile command post, and first responder vehicles.

### Federal Program

Federal grants are the primary funding source for Emergency Management. Both the federal and state government provide assistance for Presidential-declared disasters on a reimbursement basis. In addition, the Commonwealth also provides funds for those disasters declared by the Governor that are not large enough to qualify as a federal disaster. The federal grants also provide funds for homeland security projects and hazard mitigation projects that receive approval from FEMA and the other federal grantee agencies.

The majority of federal expenses were transfer payments, which consisted of payments to provide assistance to the state, localities, and private non-profit organizations in designated emergency or major disaster areas. Federal contractual expenses for fiscal year 2010 were primarily for the Homeland Security Exercise and Evaluation Program, along with telecommunication expenses, charge card payments, and building maintenance and rental contracts. The Homeland Security Exercise and Evaluation Program provides Emergency Management the funds to design, evaluate, and test plans intended to help Emergency

Management efficiently mitigate an emergency. The remaining expenses were for personal services including payroll and benefit payments, supplies, equipment, and insurance.

2010 Federal Expenses and Transfers

<u>Expense Category:</u>	<u>Expense</u>	<u>Percent of Total</u>
Transfer Payments	\$35,517,812	75%
Contractual Services	6,444,446	14%
Personal Services	4,456,118	9%
Other	<u>677,886</u>	<u>2%</u>
Totals	<u>\$47,096,262</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

Non-Federal Expenses

In addition to the federal expenses, Emergency Management had approximately \$10.5 million in non-federal expenses in fiscal year 2010. The majority of these expenses consisted of transfer payments, payroll, and contractual services.

2010 Non-Federal Expenses and Transfers

<u>Expense Category:</u>	<u>Expense</u>	<u>Percent of Total</u>
Personal Services	\$ 4,895,613	47%
Contractual Services	2,464,183	23%
Transfer Payments	1,710,216	16%
Other	<u>1,440,853</u>	<u>14%</u>
Totals	<u>\$10,510,866</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

Non-federal transfer payments, or disaster assistance to locality payments, are state funds sent to localities to help cover the cost of disasters not large enough to qualify for federal assistance. These payments cover matching funds when federal funds are available. During fiscal year 2010, Emergency Management's transfer payments helped provide financial assistance for issues caused by prior year disasters. Personal services expenses included overtime hours worked during open disasters as well as the need to temporarily increase staffing levels, pending reimbursement from federal funds.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

February 16, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
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 year ended June 30, 2010. 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, and test compliance with applicable laws and regulations.

## 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 and regulations.

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.

Federal Grant Expenditures  
Contractual Expenditures  
Travel Expenditures  
Small Purchase Charge Card

Information Security  
Federal Reporting  
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 and regulations. 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."

### Exit Conference and Report Distribution

We discussed this report with management on March 3, 2011. Management concurred with the findings identified in our report and chose not to provide 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

AVG/clj

VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT

Michael M. Cline, State Coordinator

Jack King, Chief Deputy Coordinator

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