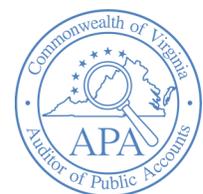




VIRGINIA DEPARTMENT OF
EMERGENCY MANAGEMENT
DISASTER GRANTS – PUBLIC ASSISTANCE
(PRESIDENTIALLY DECLARED DISASTERS)
FEDERAL PROGRAM

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
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AUDIT SUMMARY

Our audit of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program, administered by the Department of Emergency Management for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- two matters involving internal control and its operations necessary to bring to management's attention; and
- two 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

Strengthen Internal Controls over Time and Effort Reporting for Federal Grants

Type of Finding: Internal Control and Compliance

Emergency Management needs to strengthen internal controls over time and effort reporting for federal grants to ensure salary charges accurately reflect the work performed by its employees. Emergency Management receives a significant portion of its funding from the federal government in the form of grants, and uses a portion of these funds to support payroll costs. Emergency Management currently estimates how much of an employee's salary will be supported with federal funds, but does not perform subsequent reviews to confirm the estimates are consistent with the work performed by the employee. Emergency Management has been unable to perform after-the-fact reviews of the estimates because it has lacked the resources necessary to perform the reviews.

Code of Federal Regulations, 2 CFR §200.430(I) (ii), requires the records supporting charges to federal awards be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Further, 2 CFR §200.430(I)(viii) requires the entity's system of internal control include processes to review after-the-fact interim charges made to a federal awards based on budget estimates and make adjustments to the final amounts charged to the federal award. Without performing after-the-fact reviews of budget estimates, Emergency Management cannot provide these reasonable assurances.

Emergency Management should evaluate its practices to determine which method is best for satisfying the time and effort reporting requirements for federal grants. In February 2016, Emergency Management implemented an automated solution to capture time, attendance, and leave usage. Emergency Management should determine whether it can use this solution to support payroll charges to federal grants. If Emergency Management continues to use budget estimates, it should perform routine after-the fact reviews to confirm budget estimates are consistent with the work performed by its employees and make adjustments when necessary.

Issue Management Decisions on Sub-Grantee Single Audit Findings

Type of Finding: Internal Control and Compliance

Emergency Management is not reviewing sub-grantee Single Audit reports and as a result is not issuing management decisions on audit findings in a timely manner. During the 2013 Single Audit cycle, three sub-grantees had findings related to federal awards passed through from Emergency Management. Emergency Management did not issue management decisions on sub-grantee Single Audit findings because it lacked the resources to conduct the audit report reviews and perform follow up procedures.

Management decisions are the pass-through entities evaluation of the sub-grantee's audit findings and corrective action plan and include the issuance of a written decision to the sub-grantee as to what corrective action is necessary. Code of Federal Regulations, 2 CFR §200.331(d), requires the pass-through entity to review financial and performance audit reports, issue a management

decision(s) for audit findings pertaining to the Federal award(s) provided to sub-grantees, and follow up on the sub-grantee's corrective action. Without reviewing the Single Audit reports and issuing management decisions, Emergency Management cannot provide assurance that its sub-grantees are taking timely corrective action on its audit findings.

Emergency Management recently hired several grants management personnel to assist with monitoring efforts. As part of these efforts, the newly hired grants management personnel will follow up on sub-grantee Single Audit findings from the last several years to confirm the sub-grantee has taken sufficient corrective action to address the findings. Going forward, Emergency Management should issue management decisions in a timely manner and use information from the Federal Audit Clearinghouse to confirm that it has issued management decisions on all sub-grantee Single Audit findings.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 15, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program**, administered by the Department of Emergency Management (Emergency Management), for the year ended June 30, 2016. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. 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. 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 objective was to audit the Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and Cardinal, and in supplemental information submitted to the Department of Accounts; reviewed the adequacy of the Emergency Management's internal controls over the federal program; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. Emergency Management transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on February 1, 2016.

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 materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program.

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 inquires of appropriate personnel, inspection of documents, records, contracts, and observation of 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 and Cardinal, and in supplemental information submitted to the Department of Accounts for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management’s attention and corrective action. These matters are described in the section entitled “Audit Findings and Recommendations.”

The results for the Commonwealth’s Single Audit for the year ended June 30, 2016, are contained in a separate report which will be available on APA’s website at www.apa.virginia.gov in February 2017.

Exit Conference and Report Distribution

We discussed this report with management on October 26, 2016. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

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



COMMONWEALTH of VIRGINIA
Department of Emergency Management

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November 2, 2016

Martha S. Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

I appreciate the opportunity to provide management responses to the Auditor of Public Accounts audit for the Virginia Department of Emergency Management (VDEM) regarding Disaster Grants – Public Assistance federal program for the fiscal year ended June 30, 2016.

Strengthen Internal Controls over Time and Effort Reporting for Federal Grants

VDEM needs to strengthen internal controls over time and effort reporting for federal grants to ensure salary charges accurately reflect the work performed by its employees. VDEM receives a significant portion of its funding from the federal government in the form of grants, and uses a portion of these funds to support payroll costs. VDEM currently estimates how much of an employee's salary will be supported with federal funds, but does not perform subsequent reviews to confirm the estimates are consistent with the work performed by the employee. VDEM has been unable to perform after-the-fact reviews of the estimates because it has lacked the resources necessary to perform the reviews.

Management Response

VDEM concurs with this finding. VDEM has recently gone through a major reorganization and has had the opportunity to restructure our payroll allocations. The new structure is in line with the 2 CFR 200.430 (I) (ii). In addition, we have also recently become users of the Commonwealth's time and attendance system (TAL) that where practical will utilize to complete the certifications as required by the code. All new policies and procedures will be documented by revisions to Standard Operating Procedures and any additional reporting responsibilities for employees will be delivered in the form of training to ensure compliance.

"Working to Protect People, Property and Our Communities"

Issue Management Decisions on Sub-Grantee Single Audit Findings

VDEM is not reviewing sub-grantee Single Audit reports and as a result is not issuing management decisions on audit findings in a timely manner. During the 2013 Single Audit cycle, three sub-grantees had findings related to federal awards passed through from VDEM. VDEM did not issue management decisions on sub-grantee Single Audit findings because it lacked the resources to conduct the audit report reviews and perform follow up procedures.

Management Response

VDEM concurs with this finding. In 2014 the internal audit functions were reassigned from the audit section to the grants division. This function was incorporated into the sub-grantee monitoring plan. However, from June 2014 to July 2016, the Finance and Grants Division operated at 70% reduction in staff. During this time period the staff could only accomplish the day-to-day critical activities. Currently, VDEM has moved ahead with filling vacancies and this task will be accomplished within the monitoring plans.

Sincerely,



Jeffrey D. Stern, Ph.D.

JDS/bcf

“Working to Protect People, Property and Our Communities”

AGENCY OFFICIALS

As of June 30, 2016

Jeffrey D. Stern, Ph.D.
State Coordinator

Curtis Brown
Deputy State Coordinator