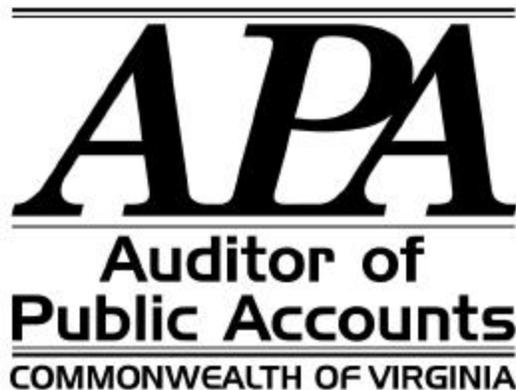


**DEPARTMENT OF FIRE PROGRAMS
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD JANUARY 1, 2001
THROUGH DECEMBER 31, 2001**



AUDIT SUMMARY

Our audit of the Department of Fire Programs for the period January 1, 2001 through December 31, 2001 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider a reportable condition; however, we do not consider this to be a material weakness; and
- no instances of noncompliance that are required to be reported.

Our audit findings are discussed in the section entitled, "Internal Control and Compliance Finding and Recommendations."

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AGENCY OFFICIALS

March 20, 2002

The Honorable Mark Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Fire Programs** (the Department) for the period January 1, 2001 through December 31, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department'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.

The Department'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. 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 that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are described in the section titled, "Internal Control and Compliance Finding and Recommendations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department continues to implement corrective action plans with respect to the previously reported findings, "Improve Controls Over Cash Receipts" and "Improve Procedures over Receivables," and in response to our September 1999 letter regarding the Fire Services Grant Fund program. Accordingly, we included these findings in the section entitled, "Status of Corrective Actions."

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 1, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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STATUS OF CORRECTIVE ACTIONS

The Department of Fire Programs (the Department) continues to improve its internal controls and address matters raised in our prior reports. Our previous audit noted the Department and the Virginia Fire Services Board should periodically review the minimum amounts of Aid to Localities distributed to cities, towns, and counties and recommend any increases to these amounts. The Virginia Fire Service Board took action in August 2000, independent of the legislature, to increase the fiscal year 2002 minimum aid to localities. The minimum funding increased from \$10,000 to \$12,000 for counties and independent cities and from \$4,000 to \$6,000 for incorporated towns.

Our prior year's audit also noted the Department lacked formal policies and procedures covering system security, system backup and recovery, and document retention. Further, they had not prepared a risk analysis that identifies mission critical functions. The Department of Information Technology is managing the requirements, design, development, testing, and implementation of the new Fire Training System (FTS). The project will have a network database with the regional offices having full access and capabilities. Upon completion of the new system in June 2002, the Department will work with the Department of Information Technology to formalize policies and practices for security.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department has adopted as its mission to help protect life, property, and the environment against the devastating effects of fire and disasters, man-made and natural. The Department provides financial assistance to local fire departments, as well as training and technical assistance. There is a central office and a bookstore in Richmond.

The Department receives support from several other agencies. The Department of Criminal Justice Services performs fiscal processing, the Department of Human Resource Management performs personnel functions, and the Department of Accounts' payroll service bureau processes the payroll.

The Department's funding comes primarily from an annual transfer from the State Corporation Commission (SCC). The SCC collects one percent of the total direct gross premium income from certain property and casualty insurance companies and transfers it to the Department in June. The Department also collects revenues for the sales of training materials and fees for some training programs.

Aid To Localities

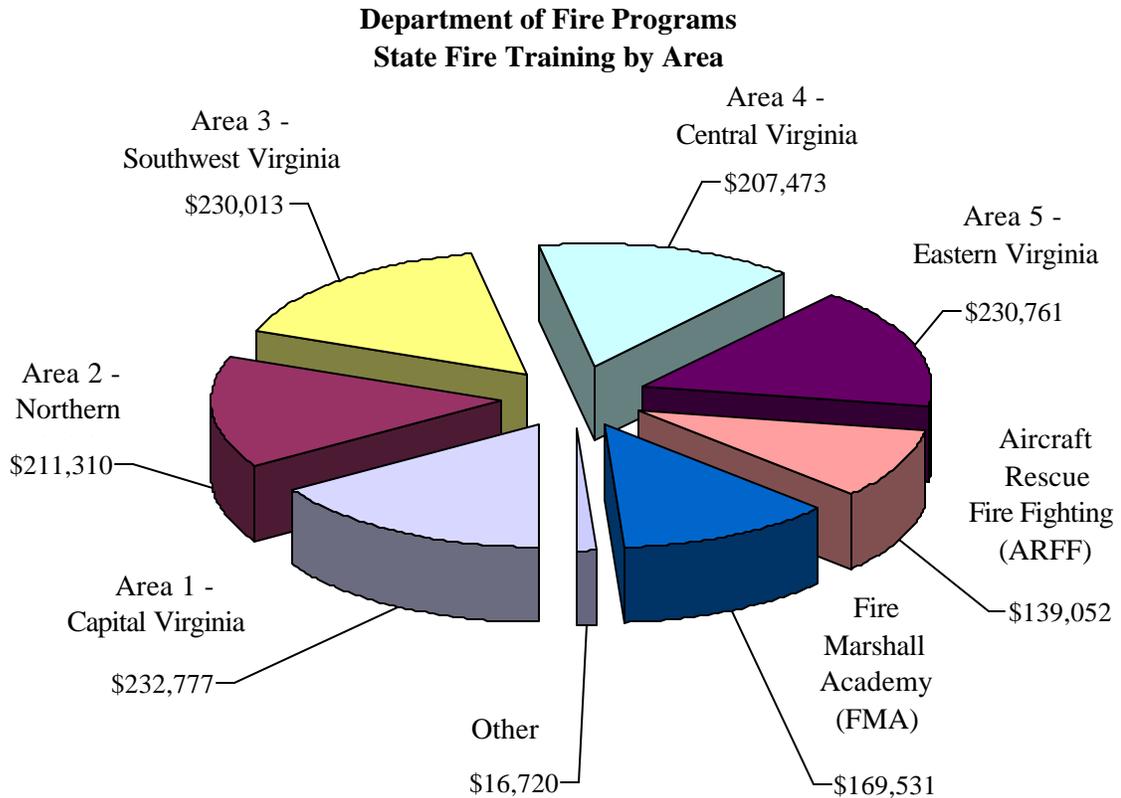
The Fire Programs Fund received approximately \$15 million from the SCC in June 2001. The Department, under the Code of Virginia and Appropriations Act, distributes a portion of this money to various state agencies in support of their programs. The second portion of the distribution is \$1 million for the repair and construction of burn buildings for fire fighter training and helping jurisdictions acquire computer hardware to maintain the national data collection of fire incidents.

The Department then allocates seventy-five percent of the remaining balance in the Fire Programs Fund to localities for fire service operations such as training, equipment, and improving or constructing training facilities. During fiscal year 2002, the Department will distribute a total of \$10,277,262 in grants.

The heavily populated localities dominate the receipt of aid. For the 2002 distribution, three localities alone will receive 21 percent of the total available aid. The Department uses the remaining amount in the Fire Programs Fund for operating expenses, including the costs of training programs and facilities.

Training

There are five area offices and two program offices that administer training programs throughout the state. The Department approved an additional area office to open effective July 1, 2002. The Department spent a total of \$1,437,637 on training in fiscal year 2001. The following diagram depicts the cost of training per area and program office throughout the state.



INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improper Control Over Fixed Assets

The Department does not have policies and procedures to ensure the recording of assets and a proper reconciliation of the Fixed Asset Accounting Control System. The State Comptroller requires state agencies and institutions to have policies and procedures that ensure recording of assets in the Fixed Asset Accounting Control System and subsequent reconciliation of transactions.

The Department of Criminal Justice Services assumed fiscal management functions for the Department on July 1, 1997. However, the Memorandum of Understanding between the two parties did not address fixed asset accounting. As a result, each party assumed the other was doing the fixed assets accounting; therefore, neither party properly recorded or reconciled information in the fixed assets since signing the agreement.

The Director of Fire Programs should resolve the recording and reconciliation issue with the Department of Criminal Justice Services or establish written policy and procedures to record and reconcile all assets in the fixed asset system. Regardless of who assumes responsibility in the future, the Director of Fire Programs should undertake an inventory of all assets on hand and record them in the system.

DEPARTMENT OF FIRE PROGRAMS
Richmond, Virginia

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