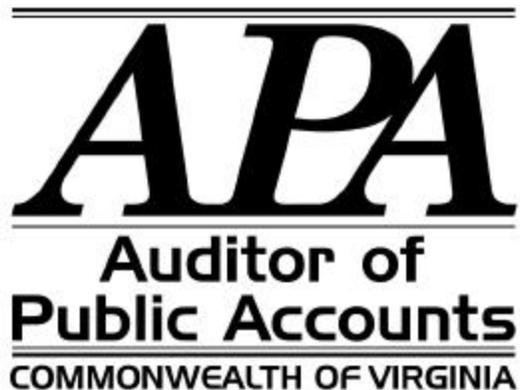


**DEPARTMENT OF EMERGENCY MANAGEMENT
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit for the Department of Emergency Management for the year ended June 30, 2002 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;
- an instance of noncompliance with applicable laws and regulations that is required to be reported; and
- adequate corrective action with respect to the audit finding reported in the prior year.

We recommend that the Department improve subrecipient monitoring for the Hazard Mitigation Grant Program.

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February 10, 2003

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

The Honorable Kevin G. Miller
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 Emergency Management** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, 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
Federal Contract Management

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 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 a certain matter involving internal control and its operation that we consider to be a reportable condition. 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. A reportable condition, entitled "Improve Subrecipient Monitoring" is described in the section titled "Internal Control Findings and Recommendations." We do not believe this reportable condition is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Improve Subrecipient Monitoring" is described in the section titled "Internal Control Findings and Recommendations."

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 6, 2003.

AUDITOR OF PUBLIC ACCOUNTS

JHT:cam
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AGENCY HIGHLIGHTS

The Department of Emergency Management directs and coordinates the Commonwealth's Comprehensive Emergency Management Program. The Department's major activities include developing and implementing hazards crisis response, recovery, and reduction programs for major emergencies and disaster relief, and ensuring the provision of assistance to local governments and citizens. In addition, the Department provides terrorism training to fire, rescue, and law enforcement professionals and coordinates efforts with hazardous materials teams to provide a response to a terrorist incident.

The Department receives its primary funding from Federal grants. Both 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 for a federal disaster declaration. There were five disasters declared during fiscal year 2002. The following chart illustrates total funds available and total expenses incurred by the Department for fiscal year 2002.

Operating funds available:	
General fund	\$ 3,270,986
Special revenue	5,954,430
Commonwealth Transportation	961,554
Federal trust fund	23,771,560
Fund balances:	
Special revenue	1,692,009
Commonwealth Transportation	600
Federal trust fund	<u>482,999</u>
Total funds available	<u><u>\$ 36,134,138</u></u>
Expenses:	
Disaster planning and relief	\$ 18,634,813
Personal services	5,127,498
Contractual services	2,230,414
Transfers out	6,370,953
Other*	<u>2,035,077</u>
Total expenses	<u><u>\$ 34,398,755</u></u>

Source: CARS 402 Report as of June 30, 2002

*Other includes payments for supplies, equipment, rent, site improvements, and utilities.

In fiscal year 2002, the Department was appropriated \$3,752,656 in capital projects funds to clean up the Emergency Fuel Storage Facility. The Department spent only \$269,663 of this appropriation and was reappropriated \$3,475,000 in fiscal year 2003 for the completion of the project.

Budget Cuts

The Department's budget reduction was \$129,000 in fiscal year 2002, which came from fiscal year 2001 carryover funds. In fiscal years 2003 and 2004, the Department plans to have additional cuts of \$305,225 and \$313,288, respectively. To meet these cuts the Department plans to use non-general funds where possible to replace general funds, reduce discretionary spending, and reduce Hazard Material and Chemical Emergency Preparedness planning support provided to local governments. To further reduce costs, the Department plans on distributing the agency newsletter via internet publication, reducing the number of search and rescue training classes held each year, and restricting pager and cell phone usage.

OFFICE OF COMMONWEALTH PREPAREDNESS

The Department maintains financial activity records for the Office of Commonwealth Preparedness. This office works with federal, state, and local officials, as well as the private sector, to develop a coordinated security and preparedness strategy. The Office serves as the single point of contact in Virginia for President Bush's Office of Homeland Security. John Hager, Assistant to the Governor, leads this Office and the Office has a Deputy, an Administrator, and an Assistant. The duties of this Office include the following:

- Using state resources for safeguarding Virginia and its citizens.
- Working with federal officials to obtain additional federal resources and coordinate policy.
- Coordinating working relationships between state agencies and the Governor's Cabinet.
- Serving as a direct liaison between the Governor and local governments and first responders on issues of emergency preparedness.
- Educating the public on homeland security and overall preparedness issues.
- Chairing the Governor's Secure Virginia Initiative Panel to make recommendations on preparedness (legislation, regulation, policy, budget).
- Chairing the Virginia Military Advisory Council.
- Reviewing all disaster, emergency management, and terrorism management plans for the state and its agencies.

For fiscal year 2002, the Office received \$251,434 in federal grant funds through the Department of Criminal Justice Services. Seventy-seven percent of these funds paid salaries and benefits of agency personnel. The remaining funds funded other miscellaneous expenses to support the Office such as training, travel, and office furniture and machines.

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Subrecipient Monitoring

To aid in hazard mitigation projects, the Department passes through to subrecipients the majority of the funding it receives under the Hazard Mitigation Grant Program. Circular A-133 requires that the Department, as a pass-through agency, monitor the subrecipients' activities as necessary to ensure that the federal awards were used for authorized purposes. As part of monitoring subrecipient activities, the Department should perform site visits and final project inspections before closing out a Hazard Mitigation Grant Program project. The Department did not perform these reviews due to time constraints placed on the Department by the Federal Emergency Management Agency and due to insufficient resources.

We recommend that the Department develop and implement procedures to conduct site visits and final project inspections in order to ensure that the subrecipient completed the approved scope of work.

DEPARTMENT OF EMERGENCY MANAGEMENT
Richmond, Virginia
As of June 30, 2002

Michael Cline, State Coordinator

Ralph Jones, Operations Senior Director

Harry Colestock, Recovery and Administrative Services Director

Linda Coleman, Fiscal Director