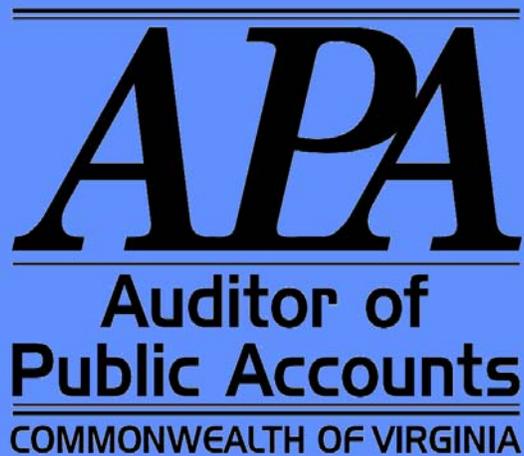


**VIRGINIA DEPARTMENT OF  
EMERGENCY MANAGEMENT**

**REPORT ON AUDIT  
FOR THE YEARS ENDED  
JUNE 30, 2006 AND JUNE 30, 2007**



## **AUDIT SUMMARY**

Our audit of the Virginia Department of Emergency Management found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System, except those relating to the Public Assistance Grant as discussed under Audit Findings and Recommendations below;
- 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.

Over the last year, Emergency Management has experienced significant employee turnover in both the finance and human resource divisions. The current Director of Finance transferred from being the Director of Human Resources, leaving that position vacant. The Accounting Manager has less than a year's experience; the Accounts Payable Supervisor started in January 2008; and there are currently three vacant staff positions in the finance division, out of a total staffing level of ten. The Human Resource division currently has two vacant positions, the Director and one staff, out of a total staffing level of six.

This turnover has led to many new staff in key positions, as well as increased individual workloads to compensate for the vacant positions. There has also been limited time to properly train both the new managers and staff, ensure that everyone understands their responsibilities, and allow the managers to effectively review staff performance.

During the audit of Emergency Management, we encountered numerous situations where employee turnover, combined with a lack of experienced, knowledgeable staff, and insufficient supervisory reviews, resulted in a significant number of clerical errors, incomplete work, improper processing of accounting transactions, and the failure to understand the need for strong internal controls. We also found that staff did not understand the interdependencies among the departments and the need to work together to ensure strong internal controls. Also contributing to the problems we encountered is a lack of agency specific policies and procedures that staff could use to perform their work.

This report contains more specific examples of issues caused by turnover.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### Improve Internal Controls over Processes

Over the last year, Emergency Management has experienced significant employee turnover in both the finance and human resource divisions. The current Director of Finance transferred from being the Director of Human Resources, leaving that position vacant. The Accounting Manager has less than a year's experience; the Accounts Payable Supervisor started in January 2008; and there are currently three vacant staff positions in the finance division, out of a total staffing level of ten. The Human Resource division currently has two vacant positions, the Director and one staff, out of a total staffing level of six.

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The significant turnover, combined with the lack of documented agency specific policies and procedures, resulted in the auditors finding the following errors. This is a partial listing and is included for illustrative purposes.

#### I-9 Compliance

We checked the employment records of 10 employees and found the following issues in the records:

- One did not have the employee's date of birth;
- One lacked the employer's review by signature and date;
- One had no supervisor signature and date;
- Two did not document the first day of employment; and
- Seven did not properly list the documents used to verify the employee's identity and employment eligibility.

#### Payroll

We tested the processing of payroll information and found:

- Supervisors did not review and approve payroll changes before processing.
- Staff could not locate source documents supporting an employee bonus.
- Three of eleven part-time employees reviewed had no records available authorizing either their exemption status or waiver of the 1500 hour rule. The agency also had no procedure for tracking this information.
- Staff did not perform the required reviews to determine whether the payroll service bureau processed the payroll correctly.

- Supervisors did not terminate employee's CIPPS Access until auditors notified the agency nine months later.

#### Expenses

We checked that the agency properly ordered goods and services and properly paid for them.

- Staff could not find approved purchase orders, requisitions, or contracts to support the payment of invoices for four of nine vendor payments.
- Staff miscalculated payment due dates, delaying payments in two of nine cases.
- Staff made coding errors on a purchase order and voucher.
- There was no evidence that staff performed monthly reconciliation of small purchase charge cards.

#### Revenues

- Staff had difficulty finding the appropriate documentation for five out of eight federal funds requests and their deposits.
- Staff miscoded one of eight deposits to the wrong fund and program.

Management of Emergency Management needs to continue to recruit qualified candidates to fill necessary positions, obtain support from the Secretary of Public Safety, the Department of Accounts, and the Department of Human Resource Management to train new managers and staff, develop agency-specific policies and procedures, and ensure compliance with state and federal requirements. Failure to do so could impair the agency's ability to respond to disasters and meet federal filing requirements necessary for funding.

#### Establish Policies and Procedures over Federal Reporting

Emergency Management's accounting records did not agree with the state match reported on the quarterly financial status reports submitted for fiscal year 2007 relating to the Public Assistance Grant. The agency's accounting records contained more expenses than reported. Emergency Management could not provide any support for why the agency excluded amounts from the accounting records when reporting state match.

Emergency Management does not have a mechanism to ensure that it is properly reporting state match and fully recovering all costs. Emergency Management experienced significant turnover in the finance department, losing some key staff members who had responsibility for preparing the quarterly reports.

Emergency Management should establish written policies and procedures for preparing the financial status reports, and ensure personnel responsible for preparing and approving the reports understand the procedures. Emergency Management should also maintain adequate supporting documentation of any differences between the accounting records and federal reports.

#### Improve Continuity and Disaster Recovery Plans

Emergency Management does not have an adequate business impact analysis, risk assessment, continuity of operations plan or disaster recovery plan for its sensitive and mission critical applications. In our review of the documentation, we identified the following concerns:

- The identified essential business functions in the Business Impact Analysis are not consistent with the prioritized essential business functions in Emergency Management's Continuity of Operations plan.

- Inadequate detail in the Risk Assessment to identify the IT systems needed to support four of Emergency Management's essential business functions.
- Inadequate distribution of the continuity of operations plan to Emergency Management's key personnel and inadequate testing of the plan.
- No disaster recovery plan.

Inadequate documentation of Emergency Management's continuity of operations and disaster recovery plans places the confidentiality, integrity, and availability of the Commonwealth's sensitive and mission critical information at risk. The Commonwealth's information security standards require that agencies develop business impact analysis, risk assessments, continuity of operations plans, and disaster recovery plans for sensitive and mission critical applications. Additionally, agencies must perform annual tests of these plans.

Emergency Management should apply the Commonwealth's information security standards consistently to all applications housing sensitive and mission critical information. Emergency Management should start this process by dedicating the necessary resources to review and remediate the risks to their sensitive and mission critical applications.

## 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 a federal disaster declaration.

## FINANCIAL OPERATIONS

Emergency Management had total expenses of \$80.7 million and \$57.0 million in fiscal year 2006 and 2007 respectively with the largest expenses from the federal fund.

### Analysis of Budget and Actual Expenses

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 4,588,606	\$ 6,552,133	\$ 5,007,438	\$ 3,620,998	\$ 4,003,632	\$ 4,003,632
Special revenue fund	2,916,091	3,302,148	2,303,719	2,728,707	2,874,788	2,362,866
State Sum Sufficient Fund	-	6,312,216	6,312,216	-	8,253,584	7,595,313
Commonwealth Transportation Fund	930,850	930,850	930,850	828,741	831,451	831,451
Federal grants	<u>34,371,007</u>	<u>46,089,119</u>	<u>41,397,208</u>	<u>4,159,031</u>	<u>76,762,759</u>	<u>60,964,423</u>
 Total	 <u>\$42,806,554</u>	 <u>\$63,186,466</u>	 <u>\$55,951,431</u>	 <u>\$11,337,477</u>	 <u>\$92,726,214</u>	 <u>\$75,757,685</u>

Source: Commonwealth Accounting and Reporting System

The final budget increases were \$20.4 million and \$81.4 million in fiscal years 2007 and 2006 respectively and represent additional federal funding and state appropriations for disaster related services and Homeland Security grants. Although Emergency Management received the additional funding based on funding from the prior year, there were less declared disasters in fiscal year 2006 than there were in 2005, leaving approximately \$16.9 million unexpended. Additional appropriations were also received to support the sum sufficient fund for assistance to localities for various emergency and disasters that occurred throughout the Commonwealth over the past several years. Emergency Management anticipated having several large contractor expenses at the end of fiscal year 2007 that were not incurred as expected, which caused the actual expenses to be less than the final budget.

In addition to expenses included in the budget to actual analysis above, Emergency Management also incurred \$4.9 million and \$1.1 million in capital outlay project expenses during fiscal year 2006 and 2007 respectively. In fiscal year 2006 approximately 98 percent of capital outlay expenses paid for equipping the Emergency Operations Center, and in fiscal year 2007 83 percent of capital outlay went for the same type of costs. The remaining expenses in both fiscal years paid for the Environmental Cleanup of Emergency Fuel Storage Facility project.

## Federal Program

The primary funding source for Emergency Management is from federal grants. Both federal and state governments 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. During fiscal year 2007, Emergency Management had one major federal grant.

The Public Assistance Grant spent \$13.5 million and \$17.1 million in fiscal year 2006 and 2007 respectively in federal funds to provide assistance to the state, localities, and private non-profit organizations in designated emergency or major disaster areas. The grant provides assistance for the removal or wreckage and debris from private and public lands, performance of emergency protective measures, emergency transportation assistance, emergency communications, and permanent restoration of eligible facilities.

Emergency Management serves as the grant administrator for all funds provided under the Public Assistance Grant program. Emergency Management provides technical advice and assistance to eligible applicants; provides state support with project identification activities; ensures all potential applicants know of available public assistance; and submits documents necessary for the award of grants. Emergency Management also ensures that applicants adhere to all program and administrative requirements.

### Federal Expenses and Transfers

Expense Categories:	<u>2007 Expenses</u>	<u>Percent of Total</u>	<u>2006 Expenses</u>	<u>Percent of Total</u>
Aid to Localities	\$51,093,162.14	70.0%	\$30,664,988.02	58.2%
Transfers to state agencies	8,316,816.80	11.4%	10,764,287.91	20.4%
Other transfer payments	2,489,888.86	3.4%	2,384,792.51	4.5%
Contractual Services	6,018,304.59	8.2%	4,766,946.86	9.1%
Personal Services	3,074,127.36	4.2%	3,149,109.12	6.0%
Other	<u>2,017,118.41</u>	<u>2.8%</u>	<u>949,217.84</u>	<u>1.8%</u>
Totals	<u>\$73,009,418.16</u>	<u>100.0%</u>	<u>\$52,679,342.26</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

### Non-Federal Expenses

In addition to the major federal program, Emergency Management had approximately \$16 million and \$15.1 million in non-federal expenses in fiscal year 2006 and 2007 respectively consisting primarily of transfer payments, payroll and contractual services.

### Non-Federal Expenses

Expense Categories:	<u>FY06</u>	<u>Percent of Total</u>	<u>FY07</u>	<u>Percent of Total</u>
Disaster assistance to localities	\$ 7,764,273.05	48.4%	\$ 4,271,376.73	28.2%
Personal Services	4,835,999.00	30.1%	5,254,927.72	34.7%
Contractual Services	2,243,646.84	14.0%	4,522,665.92	29.8%
Other	<u>1,201,857.81</u>	<u>7.5%</u>	<u>1,109,735.42</u>	<u>7.3%</u>
Grand Total	<u>\$16,045,776.70</u>	<u>100.0%</u>	<u>\$15,158,705.79</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

Disaster assistance to localities payments are state funds provided to localities to help cover the cost of disasters not large enough to qualify for federal assistance and as matching funds when federal funds are

available. During fiscal year 2006, there were more locality payments to deal with disasters such as Tropical Depression Gaston, Hurricane Katrina/Rita, June 2006 Rains, Tropical Storm Ernesto, and Hurricane Floyd. Fiscal year 2007 contractual payments increased due to costs associated with the Virginia Tech Review Panel as a result of the tragic event that occurred in April 2007.

#### Emergency Operations Center

Emergency Management manages and staffs the Virginia Emergency Operations Center (VEOC), which serves as the hub of state operations when emergencies and disasters strike or threaten the Commonwealth. Emergency Management staffs the VEOC to respond to calls for assistance from any of the 135 local governments throughout the Commonwealth. The VEOC also serves as the State Search and Rescue Coordination Center and provides the emergency communication support for the agency's Hazardous Materials Emergency Response Program, which includes receiving calls, dispatching Regional Hazmat Officers, and coordinating the responses to local hazardous material emergencies.

The VEOC is located at the Virginia Department of State Police (State Police). The building construction was complete and opened in January of 2006. State Police funded the building's construction and Emergency Management transferred approximately \$6 million to the State Police for equipping the building during fiscal year 2006 and 2007 combined. Both Emergency Management and State Police jointly own the building with the State Police managing the facility. The Memorandum of Understanding between Emergency Management and State Police splits operating costs based on the square footage owned by each entity. Shared costs for utilities are 23 percent for Emergency Management and 77 percent for State Police. However, since Emergency Management owns a majority of the basement, any cost in the basement is split 70 percent Emergency Management and 30 percent State Police.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

March 4, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Department of Emergency Management** (Emergency Management) for the years ended June 30, 2007 and June 30, 2006. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of Emergency Management's internal controls, and test compliance with applicable laws and regulations.

## Audit Scope and Methodology

The 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 materiality and control 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.

Public Assistance grant revenues and transfer payments  
System Access  
Payroll expenditures  
I-9 Compliance  
Network Security

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, grant agreements, personnel and payroll files, vouchers, deposit certificates, and contracts, and observation of Emergency Management's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that the Emergency Management properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System, except those discussed above under Audit Findings and Recommendations. 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 28, 2008. Management's response has been included at the end of this report.

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  
clj:20



# COMMONWEALTH of VIRGINIA

## Department of Emergency Management

MICHAEL M. CLINE  
State Coordinator

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March 31, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, VA 23218

Déar Mr. Kucharski:

We appreciate the opportunity to review and respond to the Auditor of Public Accounts' Single Audit Report dated June 30, 2007.

Recognizing we have had some significant turnover in both the Human Resources and Finance divisions that have impacted those areas, we concur with your findings and are in the process of addressing all of the issues identified.

We look forward to working with the Auditor of Public Accounts to address these and other issues as the Virginia Department of Emergency Management continues to find the best way to provide for the public safety of the Commonwealth.

Sincerely,

Michael M. Cline

MMC/VDW/mmb

- C: The Honorable John Marshall  
Secretary of Public Safety
- Janet Clements
- James Keck

AGENCY OFFICIALS

VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT

Michael M. Cline, State Coordinator

Janet L. Clements, Deputy Coordinator

James W. Keck, Deputy Coordinator

