



VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2013 THROUGH JANUARY 31, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Department of Emergency Management (Emergency Management) for the period July 1, 2013, through January 31, 2016, found:

- Proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System (CARS);
- Four matters involving internal control and its operation necessary to bring to management's attention;
- Two instances of non-compliance with applicable laws and regulations or other matters that are required to be reported; and
- Emergency Management took appropriate corrective action to resolve all findings reported in our previous report.

Emergency Management implemented Cardinal, the Commonwealth's new accounting and financial reporting system, on February 1, 2016. With Emergency Management's transition to Cardinal, the audit period for fiscal year 2016 covered only the period of July 1, 2015, through January 31, 2016.

In May 2014, the Governor appointed a new State Coordinator and Deputy State Coordinator. Since then, management has evaluated and revised its organizational structure in an effort to become more effective and efficient. Management has also recently filled several of vacancies and intends on using the additional resources to complete its outstanding commitments. While this report includes several internal control and compliance findings, the severity and scope of the current findings is less than in our previous audits; and we observed overall improvements in the fiscal functions. We encourage management to continue to monitor its resource levels to ensure it maintains proper internal control and compliance.

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STATUS OF INFORMATION TECHNOLOGY TRANSFORMATION

As of July 2016, Emergency Management continues to work with the Commonwealth's Information Technology Infrastructure Partnership and Northrup Grumman (IT Partnership) to reach a solution that meets Emergency Management's high availability and unique systems requirements.

As the two entities work towards a solution, the Commonwealth is paying an additional \$38,500 per month to the IT Partnership to support "legacy assets" in addition to Emergency Management's regular monthly service fees to support its non-transformed information technology environment. Legacy assets consist of network devices and components that are not included as standard service offerings. Emergency Management has incurred these additional fees since January 1, 2011. These fees have increased over the last several years as the costs to maintain legacy assets has increased. A fully transformed information technology infrastructure environment typically does not incur legacy asset fees.

Over the last several years, Emergency Management and the IT Partnership have worked together to develop detailed draft work requests for the transformation solution as well as an estimated cost structure for the project. Additionally, Emergency Management engaged a third party vendor to review all transformation documents to ensure it included all of Emergency Management's requirements and to substantiate whether the proposed solution is technically feasible and realistic. Based on the third party provider's input, Emergency Management and the IT Partnership have made revisions to the work requests, but have not finalized when the transformation efforts will be complete.

However, with less than three years remaining of the IT Partnership contract and the decision by the Commonwealth to adapt a multi-sourcing model for IT infrastructure services, Emergency Management needs to re-evaluate how to proceed with its transformation efforts. The Commonwealth is using a phased approach to disentangle services from the IT Partnership, starting in 2016 with messaging and mainframe services. It is the Commonwealth's goal to have all IT Partnership services disentangled and available through multi-sourced contracts that offer a wider array of capabilities than previously offered by July 2019.

We encourage Emergency Management to review the multi-sourced service contracts as they become available during the upcoming years and evaluate whether they can provide the necessary security safeguards to protect Emergency Management's sensitive data and operations.

AUDIT FINDINGS AND RECOMMENDATIONS

During the audit, we identified several internal control weaknesses and compliance issues that we believe are related to a lack of available resources. Over the last several years, Emergency Management has experienced a significant amount of turnover in its Finance Division and has not been able to fill all of the vacancies timely. As a result, Emergency Management's leadership reallocated some of the resources in the Grants Management Office (Office) to assist the Finance Division (Finance) with its operations. However, the Office did not have additional resources to fully execute its grants management program and was unable to complete several of its grants management initiatives, resulting in some of the findings discussed below.

In May 2014, the Governor appointed a new State Coordinator and Deputy State Coordinator. Since then, management has evaluated and revised its organizational structure in an effort to become more effective and efficient. As part of its re-organization, Emergency Management appointed a Deputy Coordinator to oversee its mission support or administrative functions and is making efforts to centralize its grants management function. Further, Emergency Management recently filled several of its vacancies and intends on using those additional resources to complete its outstanding grants management commitments. Emergency Management's leadership should continue to monitor its resource levels to ensure it maintains proper internal control and compliance.

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.

Complete Sub-Grantee Risk Assessments in a Timely Manner

Type of Finding: Internal Control

The Office is not completing sub-grantee risk assessments in a timely manner for its preparedness grants. During the audit period, the Office experienced turnover and assumed additional responsibilities due to staffing vacancies in Finance. As a result, the Office was unable to conduct risk assessments for the past several annual grant cycles or perform on-site monitoring reviews as required by its grants monitoring policy and procedure.

The Office's policies and procedures require grant administrators to complete risk assessments for its sub-grantees on an annual basis. Between July 2013 and January 2016, Emergency Management disbursed federal monies to over 130 recipients from seven different preparedness grants. Without conducting sub-grantee risk assessments in a timely manner, the Office is unable to determine the extent of sub-grantee monitoring procedures. Additionally, the

Office is unable to substantiate whether it monitored the sub-grantee's activities as necessary to ensure that they complied with federal and state regulations.

Emergency Management recently hired several individuals to fill the vacancies in the Office. The Grants Director plans to use the additional resources to complete the outstanding risk assessments and conduct on-site monitoring reviews, where necessary. Emergency Management's leadership should continue to monitor the Offices' resource levels to ensure it is sufficient to keep pace with the required workload.

Strengthen Internal Controls over Agency Transaction Vouchers

Type of Finding: Internal Control

Emergency Management needs to strengthen internal controls over agency transaction vouchers. Of 25 agency transaction vouchers reviewed during the audit, Emergency Management coded two of the vouchers to the wrong general ledger account. Emergency Management subsequently detected and corrected one of the errors; however, they did not detect or correct the other agency transaction voucher. Additionally, insufficient review by agency staff of agency transaction vouchers resulted in errors that then required processing additional agency transaction vouchers to correct those errors. Lastly, Finance experienced turnover in key positions and did not update its procedures to include detailed instructions for processing agency transaction vouchers.

Emergency Management primarily uses agency transaction vouchers for grant accounting, correcting account coding, and moving revenues and expenditures between funds. Although Emergency Management has documented procedures, the procedures did not include detailed information on how to properly code an agency transaction voucher. Without detailed procedures, Emergency Management is at risk of misstating the information recorded in CARS.

In February 2016, Emergency Management implemented the Commonwealth's Cardinal system, which replaced CARS. Cardinal does not include transaction codes that automatically debit and credit the associated general ledger accounts and as a result, agency staff are now required to determine which general ledger accounts the transaction impacts. With the transition to the new system, it is important that Emergency Management update procedures to include more detailed guidance and provide training on how to code agency transaction vouchers. Additionally, Finance's management should provide more oversight over agency transaction vouchers to ensure proper coding. By doing such, Emergency Management will be able to provide assurance that the information recorded in Cardinal is accurate.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

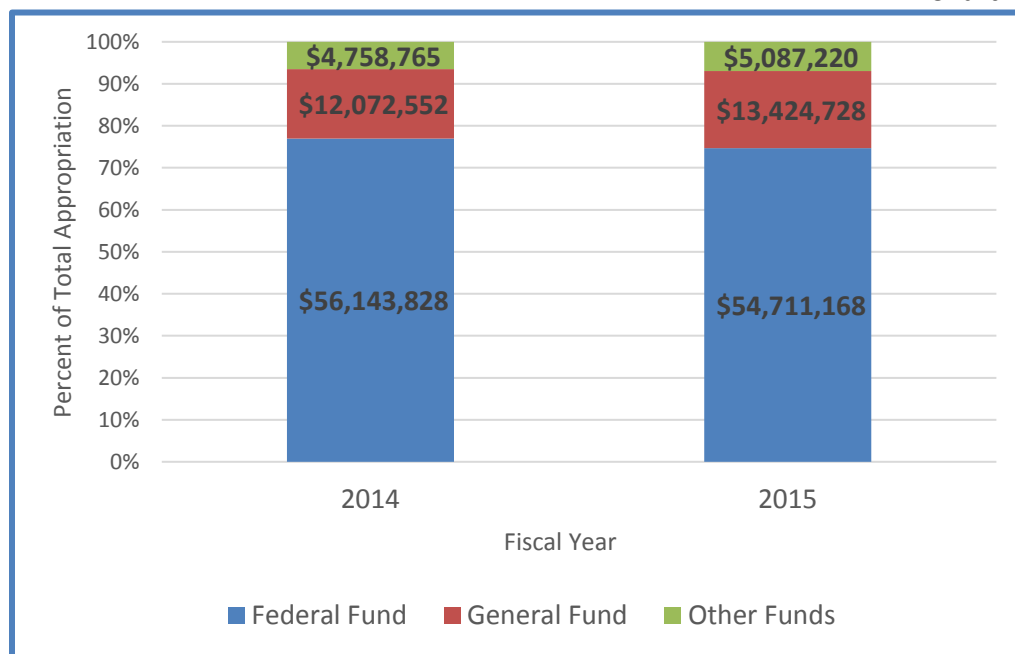
Emergency Management's mission is to protect the lives and property of Virginia's citizens and visitors from emergencies and disasters by coordinating the State's emergency preparedness, mitigation, response, and recovery efforts. In its efforts, Emergency Management works with local governments, state and federal agencies, and voluntary organizations to provide resources and expertise.

Financial Information

Emergency Management's primary source of funding is federal grants as shown in Chart 1 with over 70 percent of funds coming from the Federal Fund. Emergency Management receives federal funding for presidentially declared disaster response activities, as well as homeland security and hazard mitigation projects. They also receive General Fund appropriations which they use to match federal funds in presidentially declared disasters, and to provide assistance for disasters declared by the Governor that are not large enough to qualify for federal assistance.

Appropriations by Fund for Fiscal Year 2014 and 2015

Chart 1



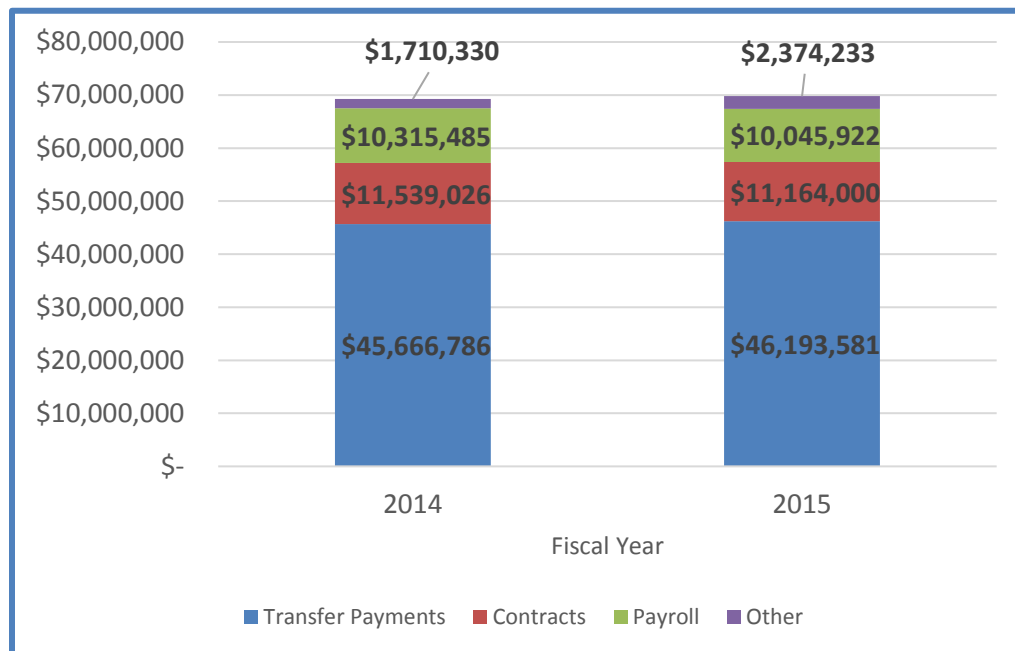
Source: CARS

The Department of Planning and Budget (Planning and Budget) approves General Fund appropriations, or sum sufficient appropriations, based on authorizations by the Governor in the event of a disaster. [Appendix A](#) shows active disasters as of June 30, 2015, including amounts authorized by the Governor for each disaster, the appropriation set by Planning and Budget and the corresponding expenses by year.

Emergency Management spends the majority of its funds on transfer or pass-through payments to sub-grantees, as shown in Chart 2. The majority of sub-grantees are local governments; however, Emergency Management also provides funding to other State agencies and non-governmental organizations. Sub-grantees use these funds to support their disaster recovery, hazard mitigation, and/or homeland security initiatives. As a condition to accepting grant awards from the federal government, Emergency Management is responsible for overseeing or monitoring its sub-grantees to ensure they comply with applicable laws and regulations.

Expenses by Type for Fiscal Year 2014 and 2015

Chart 2



Source: CARS



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 1, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

We have audited the financial records and operations of the **Department of Emergency Management (Emergency Management)** for the period of July 1, 2013, through January 31, 2016. 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, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Emergency Management's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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 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.

Cash receipting
Contract procurement
Expenses – payroll and transfer payments
Fuel charge cards
Grants management
Information system security
Petty cash
Small purchase charge cards

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 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, 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.”

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

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

Summary of Authorizations, Appropriations, and Expenses for Active Disasters

| Disaster Name | Year | Authorized Amount | Amount Appropriated | 2013 and Prior | Expenses (by Fiscal Year) | | |
|---|------|---------------------|---------------------|---------------------|---------------------------|--------------------|---------------------|
| | | | | | 2014 | 2015 | Total |
| November Rains | 2009 | \$ 2,693,126 | \$ 2,693,126 | \$ 2,584,775 | \$ 51,203 | \$ 22,615 | \$ 2,658,593 |
| December Snow | 2009 | 7,511,725 | 3,781,183 | 3,052,083 | 412,963 | 388,340 | 3,853,386 |
| January Snow | 2010 | 168,349 | 168,349 | 49,959 | 50,040 | 68,350 | 168,349 |
| February Snow | 2010 | 5,867,063 | 3,973,282 | 2,724,426 | 1,031,050 | 350,740 | 4,106,216 |
| Hurricane Earl | 2010 | 100,000 | 86,423 | 18,354 | 68,069 | - | 86,423 |
| December Snow | 2010 | 110,798 | 110,769 | 40,210 | 59,790 | 10,769 | 110,769 |
| April Events | 2011 | 6,670,333 | 2,300,000 | 1,553,996 | 124,217 | 90,480 | 1,768,693 |
| Governors Donation Program for April Events | 2011 | 600,000 | 300,000 | - | - | - | - |
| Hurricane Irene | 2011 | 14,442,062 | 10,095,100 | 7,308,647 | 1,717,121 | 857,390 | 9,883,158 |
| August Earthquake | 2011 | 10,187,268 | 6,204,829 | 1,212,170 | 1,656,712 | 4,447,711 | 7,316,592 |
| September Rains /Flood | 2011 | 1,453,360 | 400,000 | 139,233 | 93,307 | 29,143 | 261,683 |
| June Storm Derecho | 2012 | 4,396,308 | 2,550,000 | 1,433,283 | 866,959 | 118,512 | 2,418,754 |
| Hurricane Sandy | 2012 | 3,013,818 | 1,500,000 | 679,324 | 378,034 | 392,240 | 1,449,598 |
| March Snow | 2013 | 500,000 | 200,000 | 14,374 | 119,916 | 1,867 | 136,157 |
| February Winter Storm | 2014 | 300,000 | 206,272 | - | 22,044 | 184,227 | 206,271 |
| March Winter Storm | 2014 | 250,000 | 38,375 | - | 5,852 | 32,771 | 38,623 |
| Winter Storm/Snow/Flood | 2015 | 450,000 | - | - | - | 100,917 | 100,917 |
| Total | | \$58,714,210 | \$34,607,708 | \$20,810,835 | \$6,657,278 | \$7,096,070 | \$34,564,182 |

Source: Department of Emergency Management Sum Sufficient Schedule as of June 30, 2015



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) for the fiscal years ended June 30, 2014 and June 30, 2015, and the period beginning July 2, 2015 through January 31, 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 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.

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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.

Complete Sub-Grantee Risk Assessments in a Timely Manner

The office is not completing sub-grantee risk assessments in a timely manner for its preparedness grants. During the audit period the office experienced turnover and assumed additional responsibilities due to staffing vacancies in Finance. As a result the office was unable to conduct risk assessments for the past several annual grant cycles or perform on-site monitoring reviews as required by its grants monitoring policy and procedure.

Management Response

VDEM concurs with this finding. Much like the response to #2, from June 2014 to July 2016, VDEM's 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 protocol. Monitoring (risk assessments) will be completed on both the 2014 and 2015 grant cycles to ensure compliance over all active grants.

Strengthen Internal Controls over Agency Transaction Vouchers

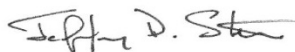
VDEM needs to strengthen internal controls over agency transaction vouchers. Of 25 agency transaction vouchers reviewed during the audit, VDEM coded two of the vouchers to the wrong general ledger account. VDEM subsequently detected and corrected one of the errors; however, they did not detect or correct the other agency transaction voucher. Additionally, insufficient review by agency staff of agency transaction vouchers resulted in errors that then required processing additional agency transaction vouchers to correct those errors. Lastly, Finance experienced turnover in key positions and did not update its procedures to include detailed instructions for processing agency transaction vouchers.

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Management Response

VDEM concurs with this finding. VDEM receives both general funds and numerous non-general state and federal grants, which creates a highly complex environment for chart of accounts coding. VDEM agrees that the agency should limit the use of Agency Transaction Vouchers (ATVs) to correct voucher or payroll processing errors. In order to improve the coding quality of those transactions, the budget manager has instituted quarterly training of the Chart of Accounts. He also has met with each division team to confirm its specific coding based on eligible grants. The accounts payable manager has also received additional training in order to better understand the appropriate codes to be used. All journal entries are now reviewed by the chief fiscal officer with the goal of increasing the coding accuracy and also identifying the root cause of the coding error. The agency has built a critical feedback loop back to the original coder in order to reduce the errors going forward and thereby limit the number of ATVs. In addition, the procedures for ATVs are being updated with final versions to be completed by December 31, 2016.

Sincerely,



Jeffrey D. Stern, Ph.D.

JDS/bcf

“Working to Protect People, Property and Our Communities”

DEPARTMENT OF EMERGENCY MANAGEMENT

As of January 31, 2016

Jeffrey D. Stern, Ph.D.
State Coordinator

Curtis Brown
Deputy State Coordinator