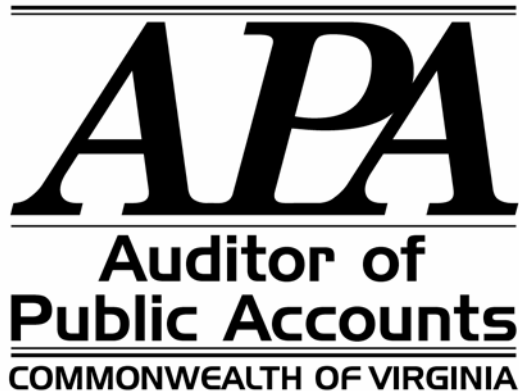


**VIRGINIA DEPARTMENT OF
EMERGENCY MANAGEMENT**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Department of Emergency Management for the year ended June 30, 2005, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance or other matters that are required to be reported.

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AGENCY HIGHLIGHTS

Background

The Virginia Department of Emergency Management (the Department) directs and coordinates the Commonwealth's Comprehensive Emergency Management Program. The Department 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. The Department develops and maintains the Commonwealth's emergency plans as blueprints for responses to a variety of scenarios, and assists communities in developing localized emergency operations plans. The Department offers training courses in emergency management, hazardous materials response, and search and rescue. The Department'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

The Department received over \$112 million in funding during fiscal year 2005 with federal funds representing the largest funding source. The following table summarizes the Department's budgeted expenses compared to actual funding during fiscal year 2005.

Analysis of Budgeted Expenses and Actual Funding

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General fund	\$ 3,097,206	\$ 2,982,122	\$ 2,988,542
Special revenues	2,728,707	13,807,252	13,318,712
Commonwealth transportation	828,741	828,741	839,043
Federal grants	<u>4,159,031</u>	<u>68,235,472</u>	<u>94,866,041</u>
Total	<u>\$10,813,685</u>	<u>\$85,853,587</u>	<u>\$112,012,338</u>

Source: Original Budget – Appropriation Act Chapter 951, Adjusted Budget, and Actual Fund – Commonwealth Accounting and Reporting System

The Department adjusted its original budget for federal grants to aid in the recovery disasters, such as Hurricane Isabel (\$19 million) and Tropical Depression Gaston (\$15 million). Actual Funding for federal grants exceeded their budget due to how the State Comptroller accounts for pass-through funds in the Commonwealth Accounting and Reporting System (CARS). The Department receives the funds as revenue and then transfers the money to other agencies, such as the Department of Transportation (\$17 million), which budgets and spends the funds. During fiscal year 2005, the Department received and transferred \$38 million in federal funding to other agencies. In addition, the Department transferred \$49 million in federal aid to localities.

Federal Programs

The Department receives its primary funding 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 federal disasters. The Department had two major federal grants for fiscal year 2005.

The State Homeland Security Grant Program (SHSGP) had expenses of \$37 million to enhance the capability of state and local governments to prevent, deter, respond to, and recover from incidents of terrorism. Federal regulations require that at least 80 percent of SHSGP funds go to local units of government with the remaining funds available to state agencies and other independent authorities. The federal government requires the allocation of SHSGP funds based on the localities population, regardless of risk; whereas the Department makes state agencies allocations on a competitive basis.

The Department reviews and approves the spending plans before awarding SHSGP funds to localities. The plans must demonstrate how the localities' expenses will support the statewide security strategy. This is challenging for both the Department and localities as the Department has only 60 days after receiving notice of the federal award to allocate funds and return approved spending plans to the federal government. After awarding the grants, the Department approves all purchases made by localities under the SHSGP.

The Public Assistance Grant spent \$45 million 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 of wreckage and debris from private and public lands, performance of emergency protective measures, emergency transportation assistance, emergency communications, and permanent restoration of eligible facilities.

The Department serves as the grant administrator for all funds provided under the Public Assistance Grant Program. The Department 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. The Department also ensures that applicants adhere to all program and administrative requirements.

Federal Expenses and Transfers

	<u>Expenses</u>	<u>Percent of Total</u>
Expense categories:		
Personal services	\$ 2,978,903	3.2%
Contractual services	2,098,869	2.2%
Aid to localities	49,792,676	52.7%
Transfers to state agencies	38,271,478	40.5%
Other	<u>1,295,345</u>	<u>1.4%</u>
Totals	<u>\$94,437,271</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

Agency Non-Federal Expenses

In addition to the two federal programs discussed, the Department had approximately \$17 million in non-federal expenses; with personal services, contractual services, and disaster assistance to localities accounting for 93 percent of total funds spent.

	<u>Expenses</u>	<u>Percent of Total</u>
Expense categories:		
Personal services	\$ 3,871,229	22.8%
Contractual services	1,778,613	10.5%
Disaster assistance to localities	10,291,959	60.6%
Other	<u>1,039,022</u>	<u>6.1%</u>
Totals	<u>\$16,980,823</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

Personal Services are employee benefits, salaries and wages and the Department currently has 108 full time employees and 25 wage employees. The Department also employs adjunct instructors and pays them on an as needed basis. The Department of Accounts Payroll Service Bureau processes the Department's payroll.

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.

Office of Commonwealth Preparedness

Office of Commonwealth Preparedness (Office) located in the Governor's Office serves as a single point of contact in Virginia for the Department of Homeland Security, and works with federal, state, and local officials as well as the private sector, to develop a seamless and coordinated security and preparedness strategy. The Department keeps the financial records for the Office, which has an Assistant to the Governor and four other staff

Emergency Operations Center

The Department 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. The Department continuously staffs the VEOC to respond to calls for assistance from any of 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.

VEOC is located a new facility costing \$20 million and opened in January 2006 and has over 17,000 square feet of useable space. The Department of State Police funded the building's construction and the Department transferred approximately \$6.3 million to the State Police for equipping the building. Both the Department and the State Police jointly own the building with State Police managing the facility. Both departments are working on a memorandum of understanding to detail the sharing of operating costs.

Statewide Drill

Just before the start of the 2005 hurricane season the Department, as required for the first time by the Code of Virginia (§ 44-146.17:2), conducted a statewide drill to test the state's response to a large-scale disaster. The Department made requests to every locality for them to participate in the statewide drill however, only 19 of the 135 localities participated in the one-day event. The Department used software as part of the statewide drill to simulate the disaster and test how the VEOC would operate during a large-scale natural disaster.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 17, 2006

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

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Emergency Management** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

INDEPENDENT AUDITOR'S REPORT

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Department's financial transactions on the Commonwealth Accounting and Reporting System and test compliance for the Statewide Single Audit. In support of this objective, we reviewed the adequacy of the Department's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope And Methodology

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.

We gained 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Major Federal Grants and Contracts
- Disaster Assistance to Localities
- Payroll Expenditures
- Contractual Services
- System Access

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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, personnel records, vouchers, skilled services contracts, disaster agreements, and federal award documents; and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

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 and the Appropriation Act.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

EXIT CONFERENCE

We discussed this report with management on February 7, 2006.

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 and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS:sks
sks:22

AGENCY OFFICIALS

DEPARTMENT OF EMERGENCY MANAGEMENT

Michael Cline, State Coordinator of Emergency Management

Janet Clements, Chief Deputy State Coordinator

James Keck, Deputy State Coordinator for Administration

Linda Coleman, Chief Financial Officer

