

AUDIT SUMMARY

Our audit of the Department of Emergency Services for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in the internal controls tested, but we did identify certain matters that we consider reportable conditions

The Department should:

- comply with the CMIA Agreement for appropriate disposition of refunds. {see [page 3](#)}
- Finance division should notify the Recovery and Administration division when it approves payments for processing. {see [page 3](#)}

Additional findings are included in the section entitled “Internal Control and Compliance Findings and Recommendations.”

January 12, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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 Services** for the year ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Department's internal control structure, test its compliance with applicable laws and regulations, and evaluate the accuracy of financial transactions on the Commonwealth Accounting and Reporting System.

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 other such 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:

Revenue and Cash Receipts
Expenditures
Federal Contract Management

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered the materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure

are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure 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. These reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations". We believe none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations found issues of noncompliance that we are required to report herein under Government Auditing Standards, and are included in the section entitled "Internal Control and Compliance Findings and Recommendations".

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 12, 1999.

AUDITOR OF PUBLIC ACCOUNTS

THC:whb
whb:

AGENCY HIGHLIGHTS

The Department of Emergency Services directs and coordinates the Commonwealth's Comprehensive Emergency Management Program. The Department's major activities include developing and implementing emergency response programs for disaster relief, providing assistance to local governments, and to disaster-affected political subdivisions for emergencies.

Through the Department, the Commonwealth was one of the first states to participate in the Emergency Management Assistance Compact. This compact is an agreement between states to assist each other during times of major disasters. Currently, there are twenty states whose legislative bodies have adopted the compact. Under the terms of the agreement, the state requesting assistance reimburses the state providing assistance for its costs. The requesting state also assumes legal responsibility for the assisting state workers. During fiscal year ending June 30, 1998, the Commonwealth deployed vehicles and manpower to the state of Florida to assist with forest fires. The Department acted as a coordinator between Virginia's Departments of Transportation and Forestry and the Virginia National Guard to facilitate the operation. This was the initial execution of the compact since adoption.

The Department receives its primary funding from Federal grants. The federal government provides assistance for presidential declared disasters only, while the Commonwealth provides funds for disasters declared by the Governor. There were no disasters declared during the fiscal year. Total revenues and expenses for fiscal year ended June 30, 1998 were \$23.6 million and \$15.3 million respectively.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

During the past three fiscal years, the Department has experienced significant turnover in essential accounting positions. The Fiscal division has filled several of these positions. The lack of consistent staffing within accounting resulted in the following issues. In addition to these issues, the Department of Accounts performed a Compliance Review and noted non-compliance with several petty cash procedures. The Department should implement corrective action to address these findings and those noted by the Department of Accounts.

Comply with Cash Management Improvement Act Agreement

The Department did not follow procedures outlined in the Cash Management Improvement Act Agreement. This Agreement requires agencies to either reduce future drawdowns for refunds or send the refund to the federal government. For all refunds tested, the Department held these amounts for an excessive period and did not reduce future drawdowns. Not following these procedures results in an interest liability for the Commonwealth. The Department should have procedures to dispose of refunds timely.

Properly follow procedures over payment processing functions

The Finance division does not notify the Recovery and Administration division when approved payments are processed and paid. The Recovery and Administration division initiates public assistance payments for disasters. The Finance division processes these payments. Internal policy requires finance to send a confirmation to Recovery and Administration upon payment. This lack of communication resulted in staff spending excessive amounts of time to research payments before closing out a project. Additionally, the request for payment documents are not pre-numbered making this process more difficult and increasing the likelihood of improper transactions. The Finance division should follow established procedures.