

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF EMERGENCY MANAGEMENT
AND HOMELAND SECURITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

AUDITORS OF PUBLIC ACCOUNTS
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January 13, 2010

**AUDITORS' REPORT
DEPARTMENT OF EMERGENCY MANAGEMENT
AND HOMELAND SECURITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008**

We have examined the financial records of the Department of Emergency Management and Homeland Security (DEMHS) for the fiscal years ended June 30, 2007 and 2008. This report of that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Department has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

Title 28 of the General Statutes contains the Department of Emergency Management and Homeland Security's statutory authority and responsibility. The Department was created effective January 1, 2005, pursuant to Public Act 04-219. The functions, powers, duties and personnel of the Division of Homeland Security within the Department of Public Safety and the Office Of Emergency Management within the Military Department were transferred to the Department of Emergency Management and Homeland Security in accordance with the provisions of Sections 4-38d, 4-38e and 4-39.

The Department's principal responsibilities are:

1. to coordinate with State and local government personnel, agencies, authorities and the private sector to ensure adequate planning, equipment, training and exercise activities by such personnel, agencies and authorities and the private sector with regard to homeland security;
2. to coordinate, and as may be necessary, to consolidate homeland security communications and communications systems for the State government with State and local government personnel, agencies, authorities, the general public and the private sector;
3. to distribute, and as may be appropriate, to coordinate the distribution of information and security warnings to State and local government personnel, agencies, authorities and the general public; and
4. to establish standards and security protocols for the use of any intelligence information.

The Agency is comprised of the following divisions:

Office of the Commissioner
Business Office
Emergency Management
Information Technology Training and Special Projects
Office of Counter Terrorism
Strategic Planning and Grant Administration

The Department's human resources functions are handled by the Department of Administrative Services' Small Agency Resource Team.

James M. Thomas was appointed Commissioner, effective January 7, 2005, and Wayne E. Sandford was appointed to serve as Deputy Commissioner, effective February 4, 2005. Both served in those capacities during the audited period.

In accordance with Section 28-1b of the General Statutes, the Department has a 25 member advisory Council entitled the Emergency Management and Homeland Security Coordinating Council that provides continuing guidance. The Council assists in setting the strategic direction of the Department by discussing, developing and, as appropriate, assisting with policy and program implementation.

RÉSUMÉ OF OPERATIONS:

General Fund:

Receipts:

General Fund receipts totaled \$198 during the audited period and consisted of refunds of expenditures.

Expenditures:

General Fund expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Personal Services and employee expenses	\$3,605,621	\$3,672,112	\$3,768,285
Purchased and Contracted Services	304,161	353,871	461,094
State aid grants	0	202,305	289,260
Other	100	361	211
Total General Fund Expenditures	<u>\$3,909,882</u>	<u>\$4,228,648</u>	<u>\$4,518,850</u>

Special Revenue Funds:

Federal and Other Restricted Accounts Fund:

Receipts:

Federal and Other Restricted Accounts Fund receipts for the fiscal years examined are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Federal aid			
Homeland Security Program	\$ 3,325,452	\$15,629,913	\$13,478,902
FEMA Public Assistance	14,922,312	12,114,466	3,307,303
Other	<u>4,248,702</u>	<u>13,638,334</u>	<u>12,517,438</u>
Total Federal aid	22,496,466	41,382,713	29,303,643
Non-Federal aid	<u>195,094</u>	<u>56,913</u>	<u>8,779,006</u>
Total	<u>\$22,691,560</u>	<u>\$41,439,626</u>	<u>\$38,082,649</u>

Expenditures:

A summary of expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Federal:			
Homeland Security Programs	\$ 9,382,399	\$24,272,995	\$15,647,967
FEMA Public Assistance	17,963,672	10,797,747	5,875,669
Other	<u>2,745,994</u>	<u>8,135,819</u>	<u>3,068,358</u>
Total Federal	<u>30,092,065</u>	<u>43,206,561</u>	<u>24,591,994</u>
Other than Federal:			
Nuclear Safety Emergency Preparedness	1,405,570	1,544,170	2,302,070
Other	<u>114,036</u>	<u>81,058</u>	<u>179,666</u>
Total Other than Federal	<u>1,519,606</u>	<u>1,625,228</u>	<u>2,481,736</u>
Total Expenditures	<u>\$31,611,671</u>	<u>\$44,831,789</u>	<u>\$27,073,730</u>

The largest fluctuations in expenditures occurred in the Homeland Security Programs; specifically the State Homeland Security Program and the Law Enforcement Terrorism Prevention Program; and, in the FEMA Public Assistance Program.

Other Special Revenue Funds:

The Department also received funding from two funds for equipment purchases. Expenditures from these funds totaled \$1,075,256 during the audited period.

CONDITION OF RECORDS

Our testing of the Department of Emergency Management and Homeland Security’s records identified the following areas that warrant comment.

Property Control and Reporting:

Criteria: Section 4-36 of the Connecticut General Statutes requires each State agency to keep inventory records in the form prescribed by the State Comptroller and to submit to the Office of the State Comptroller an annual report of its inventory balances (Form CO-59).

The State Property Control Manual prescribes the inventory records and procedures, including the requirement that only capitalized assets (individual assets with a value or cost over \$1,000) be reported on the Form CO-59.

Condition: Our review disclosed that during the 2006-2007 fiscal year, the Department had not affixed tags to its equipment and was unable to provide us with a complete equipment inventory listing. During the 2007-2008 fiscal year, the Department hired a storekeeper to inventory and tag equipment, and enter it into Core-CT.

The Department mistakenly reported on its CO-59 a total of \$259,603 in inventory items under \$1,000 as of June 30, 2008.

The software inventory list required by the State Property Control Manual was not maintained. The Agency merely kept a folder of the software license information, and, the software installed on each computer was not tracked.

DEMHS did not reconcile the following amounts for additions and ending balances. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

	<u>2006-2007</u>	<u>2007-2008</u>
Additions:		
Core-CT Asset Management	\$7,421	\$2,798,676
Core-CT General Ledger expenditures*	\$1,167,829	\$1,058,104
CO-59 Report	\$2,656,006	\$1,745,051
Ending Balances:		
Core-CT Asset Management	\$1,306,045	\$3,816,504
CO-59 Report	\$3,331,559	\$4,193,631

*The expenditures coded as equipment totaled \$13,491,356 and \$6,251,227. Those amounts were for items purchased for DEMHS, for other State agencies, and, items purchased by DEMHS for municipalities under grant programs. The total expenditures on equipment purchased solely for DEMHS was not readily available, but expenditure coding indicates it to be at most \$1,167,829 and \$1,058,104, respectively.

Effect:

Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. The Agency is not in compliance with the requirements of the State Property Control Manual. In addition, the Agency's report to the State Comptroller was unsupported.

The Department's CO-59 was overstated by \$259,603 because items under \$1,000 were included on the report.

Without a reconciliation of expenditures made from capital equipment accounts on the general ledger to the annual changes reported on the CO-59, the accuracy of changes reported on the CO-59 could not be determined.

Cause:

The Department did not comply with the State Property Control Manual and CO-59 reporting instructions as provided by the State Comptroller's Office.

We were informed that due to a lack of staff and the existence of other priorities, the Department had not been able to devote enough time to asset management during the 2006-2007 fiscal year. However, a Storekeeper was hired during the 2007-2008 fiscal year and the condition involving asset tagging and complete inventory listings in Core-CT appears to have been resolved.

Recommendation:

The Department should strengthen internal controls over equipment inventory to better comply with the requirements of the State Property Control Manual and the CO-59 reporting instructions, as provided for by the State Comptroller's Office. (See Recommendation 1.)

Agency Response:

“ We agree with the finding and will continue efforts to improve controls. Correcting entries will be included in the CO-59 FY 09 Report for those items under the \$1,000.00 value erroneously included in the CO-59 for FY 08. Additionally, DEMHS will be procuring a software package and dedicated server which will track software, both specialized and generalized.”

Posting of Revenue:

Criteria: Section 4-32 of the General Statutes requires an agency to account for receipts within 24 hours of receipt.

The Office of the State Treasurer’s January 6, 2006, Memorandum on Deposit Reporting Timeframes requires that agencies should complete the confirmation of bank data and journalizing steps by the end of the day that the deposit information is received by the agencies through the Core-CT accounting system.

Due to the way deposits are processed in the Core-CT system, it is not possible for receipts to be fully recorded within 24 hours of receipt. On a daily basis, the bank deposit information is entered into Core-CT through an interface between the bank and State.

The Entered Date recorded on Core-CT represents the date the deposit information was loaded into the system and was ready to be recorded by the agency. The Posted Date represents the date that the agency recorded the receipts on the General Ledger. Therefore, the posted date for the deposit should be no later than one day after the entered date.

Condition: Our review of fifteen transactions disclosed three receipts, totaling \$5,815,829, that were posted to the general ledger between two and eleven days after the information was available to be recorded in Core-CT, as indicated by the “Entered Date”.

Effect: There was noncompliance with Section 4-32 of the General Statutes with regard to late accounting for receipts.

Cause: The cause was not determined.

Recommendation: Receipts should be accounted for in a timely manner. (See Recommendation 2.)

Agency Response: “We have reviewed the subject audit finding and find it to be an accurate representation of issues this Agency agrees to correct or improve.”

Nuclear Safety Plan:

Criteria: Section 28-31, subsection (c), of the General Statutes requires that DEMHS, in consultation with the Department of Environmental Protection (DEP), annually submit to the Office of Policy and Management (OPM), a plan for carrying out the purposes of the nuclear safety emergency preparedness program during the next State

fiscal year. The plan is to include proposed itemized expenditures and measures for the program. The Secretary of OPM is to review the plan and approve it, if it conforms to the provisions of Section 28-31.

During the audited period, the plan was due to OPM by November 1st and was to be approved by OPM by December 1st annually. Public Act 09-27 changed these dates to May 1st and June 1st, respectively, effective October 1, 2009.

Section 28-31 of the General Statutes provides that upon the request of the Commissioner of DEMHS, the Department of Public Utility Control is to annually assess the two licensees of nuclear power generating facilities in the State for funding to support certain annual expenses of the Department of Environmental Protection and DEMHS for activities of a nuclear safety emergency preparedness program in accordance with the above plan.

Condition: The two Plans required to be submitted to OPM during the audited period were submitted late. The dates that the DEMHS Commissioner signed the Plans are shown below.

<u>Fiscal Year</u>	<u>Date Due</u>	<u>Date Signed by DEMHS</u>
2007-2008	November 1, 2006	May 9, 2007
2008-2009	November 1, 2007	September 23, 2008

Effect: The nuclear safety emergency preparedness program operated without the guidance and requirements of an approved plan for expenditures and program measures.

Cause: We were informed that the Plans were submitted late for various reasons including:

- DEMHS includes grant expenditures in the Plan based on the requests of grantees, and, the grantees are late in submitting budgets to DEMHS because the November 1st deadline was not structured to meet the budgeting schedules of the grantees.
- Before each plan is signed, DEMHS consults with the largest licensee of a nuclear power generating facility in the State regarding the amount of the annual funding and contents of the annual plan. The consultation process may be lengthy.

Recommendation: DEMHS should strive to comply with the nuclear safety emergency preparedness plan reporting timeframe provided for in Section 28-31, subsection (c), of the General Statutes. (See Recommendation 3.)

Agency Response: “We agree with the finding. DEMHS initiated legislation that was subsequently signed into law (P.A. 09-27) to change the plan due date to May 1st beginning with the State FY 2009 in order to allow agencies and municipalities to produce Nuclear Emergency Safety Fund budgets based on more current fiscal information and to meet statutory deadlines.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Agency should establish an inventory property control system that includes the prompt tagging of equipment items, the maintenance of asset records on the Core-CT Asset Management System, and the maintenance of detailed software inventory records.

This recommendation was partially implemented. A modification of this recommendation is shown as Recommendation 1.

- The Department should strengthen internal controls to ensure that revenue is deposited and accounted for in a timely and accurate manner.

This recommendation is being modified and shown as Recommendation 2.

- The Department should strengthen internal controls over the coding of expenditure transactions.

This recommendation was implemented.

Current Audit Recommendations:

- 1. The Department should strengthen internal controls over equipment inventory to better comply with the requirements of the State Property Control Manual and the CO-59 reporting instructions, as provided for by the State Comptroller's Office.**

Comment:

The Department mistakenly reported on its CO-59 inventory items under \$1,000.

The software inventory list required by the State Property Control Manual was not maintained. The Agency merely kept a folder of the software license information, and, the software installed on each computer was not tracked.

DEMHS did not reconcile the additions and ending balances between Core-CT and its annual CO-59 inventory report. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

2. Receipts should be accounted for in a timely manner.

Comment:

Our review of fifteen transactions disclosed three receipts, totaling \$5,815,829, that were posted to the general ledger between two and eleven days after the information was available to be recorded in Core-CT

3. DEMHS should strive to comply with the nuclear safety emergency preparedness plan reporting timeframe provided for in Section 28-31, subsection (c), of the General Statutes.

Comment:

The two Plans required to be submitted to OPM November 1, 2006 and 2007, were submitted late. They were signed by the DEMHS Commissioner more than six and ten months late, respectively.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Emergency Management and Homeland Security for the fiscal years ended June 30, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Emergency Management and Homeland Security for the fiscal years ended June 30, 2007 and 2008, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Emergency Management and Homeland Security complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

In planning and performing our audit, we considered the Department of Emergency Management and Homeland Security's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control

deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – Property Control and Reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness: Recommendation 1 – Property Control and Reporting.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Emergency Management and Homeland Security complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Department of Emergency Management and Homeland Security's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Department of Emergency Management and Homeland Security's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Emergency Management and Homeland Security, and the Department of Administrative Services during this examination.

Elaine C. O'Reilly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts