STATE OF CONNECTICUT

AUDITORS’ REPORT
DEPARTMENT OF EMERGENCY MANAGEMENT
AND HOMELAND SECURITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON • ROBERT G. JAEKLE
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We have examined the financial records of the Department of Emergency Management and Homeland Security (DEMHS) for the fiscal years ended June 30, 2005 and 2006. 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 public 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 Department is comprised of the following divisions:

- Office of the Commissioner
- Division of Finance and Administration
- Division of Strategic Planning and Grants
- Division of Information and Technology
- Division of Training
- Division of Special Projects, Legislation and Legal Affairs
- Division of Emergency Preparedness
- Division of Urban Search and Rescue
- Division of Domestic Terrorism

The Department’s human resources functions are handled by the Department of Administrative Services’ Small Agency Resource Team. The Department was under the Office of Policy and Management for administrative purposes only from January 1, 2005 until the passage of Public Act 05-287, effective July 13, 2005.

The Commissioner of the Department of Emergency Management and Homeland Security is appointed by the Governor, to a four-year term, under the provisions of Section 28-1a of the General Statutes. James M. Thomas was appointed Commissioner, effective January 7, 2005, and continues to serve in that capacity. Wayne E. Sandford was appointed to serve as Deputy Commissioner, effective February 4, 2005, and continues to serve in that capacity.

In accordance with Section 28-1b(1) of the General Statutes, the Department has a twenty-four 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:

There were no General Fund receipts collected during the audited period.
Expenditures:

A summary of General Fund expenditures during the audited period follows:

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Personal services and fringe benefits</td>
<td>$ 0</td>
</tr>
<tr>
<td>Contractual services</td>
<td>0</td>
</tr>
<tr>
<td>Commodities</td>
<td>0</td>
</tr>
<tr>
<td>All other</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total General Fund Expenditures</strong></td>
<td>$ 0</td>
</tr>
</tbody>
</table>

During the 2004-2005 fiscal year, General Fund expenditures for the Department were processed and funded by the Department of Public Safety and the Military Department.

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:

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Federal Grants:</td>
<td>$ 0</td>
</tr>
<tr>
<td>Grant Transfers – Federal</td>
<td>0</td>
</tr>
<tr>
<td>Grant Transfers – Non-Federal</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total General Fund Receipts:</strong></td>
<td>$ 0</td>
</tr>
</tbody>
</table>

During the 2004-2005 fiscal year, receipts were processed by the Department of Public Safety and the Military Department. For the 2005-2006 fiscal year, among the Federal grants received was $14,922,312 for the Public Assistance Grants program and $3,325,452 for the State Homeland Security Program.

Expenditures:

A summary of expenditures during the audited period follows:
During part of the 2004-2005 fiscal year, expenditures for the Department were processed and funded by the Department of Public Safety and the Military Department. For the 2005-2006 fiscal year, sundry expenses were primarily for the disbursement of Federal funds to local agencies. Equipment purchases were primarily for computer and telecommunications equipment.

Of the non-Federal expenditures reported, $1,405,570 was for the Nuclear Safety Emergency Preparedness program. Section 28-31 of the General Statutes established the Nuclear Safety Emergency Preparedness program. This program is financed through assessments made on all Nuclear Regulatory Commission licensees operating nuclear power generating facilities in the State. The assessments are collected by the Department of Public Utility Control and redistributed to support the activities of the program in accordance with a plan approved by the Secretary of the Office of Policy and Management.

**Other Special Revenue Funds:**

The Department also received funding from the Capital Equipment Purchases Fund. Total expenditures for the 2005-2006 fiscal year were $304,791.
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:

Criteria: Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in a form prescribed by the State Comptroller. The State Property Control Manual requires that all State agencies have policies and procedures in place to ensure that the State’s property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies’ property control systems must comply with including, promptly tagging inventory items, performing annual physical inventories, the maintenance of inventory records within the Core-CT Asset Management Module, and the maintenance of detailed software inventory records.

Condition: Our review disclosed that at the time of our examination, the Department had not affixed tags to its equipment and property and was unable to provide us with a complete equipment and property inventory listing, as recorded within the Core-CT Asset Management Module. In addition, the Department has not created a detailed software inventory listing.

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.

Cause: We were informed that due to a lack of staff and the existence of other priorities, the Department has not been able to devote enough time to asset management. In addition, the Department is awaiting the assistance of the State Comptroller to perform a mass transfer of items that remain on the books of the Department of Public Safety and the Military Department, but are now in the custody of DEMHS.

Recommendation: 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. (See Recommendation 1.)
Agency Response: “The Agency is in agreement with the finding. The Agency has identified the need to have property-related functions performed outside of what was originally planned within Fiscal Administration due to the volume of work and has submitted a request to DAS and OPM to establish a Property Coordinator position.”

Revenue:

Criteria: Section 4-32 of the Connecticut General Statutes requires that receipts be accounted for within 24 hours and promptly deposited if totaling at least five-hundred dollars. Total daily receipts of less than five-hundred dollars may be held until the receipts total five-hundred dollars, but for a period of not more than seven calendar days. With the implementation of the Core-CT system, deposit information obtained by State depository banks is passed back to agencies on the day after the deposits are recorded at the bank, which is represented by the “Entered Date” in Core-CT. The Core-CT “Posted Date” reflects the day that the deposit transaction is posted to the Core-CT general ledger.

The Core-CT month-end closing instructions state that agencies are responsible for reviewing their deposits to ensure that all valid transactions have been posted correctly by the 15th calendar day of the following month. Agencies are also responsible for correcting any posting errors that result from transactions that are not processed by the month-end closing date.

Condition: Our review of twenty transactions revealed one receipt of $300 that was deposited four days late and five deposits totaling $817,590 that were posted to the general ledger between three and fifteen days after the information was available to be recorded in Core-CT, as indicated by the “Entered Date”.

In a separate review, we identified an outstanding Federal receivable of $2,455,785 that was incorrectly recorded on Core-CT as revenue received.

Effect: The Department did not comply with Section 4-32 of the Connecticut General Statutes and the State’s financial statements could be misstated.

Cause: It appears that the Department did not have adequate staffing in place to process receipts in a timely manner. The overstated revenue appears to be due to errors in the processing of journal entries.
**Recommendation:**
The Department should strengthen internal controls to ensure that revenue is deposited and accounted for in a timely and accurate manner. (See Recommendation 2.)

**Agency Response:**
“The Agency is in agreement with the finding. The Agency will undertake actions to reaffirm responsible staff on timelier processing of deposit-related transactions and will initiate notification and related corrective action with the Comptroller’s Office regarding the Federal receivable.”

**Expenditure Coding:**

**Criteria:**
The State Comptroller’s State Accounting Manual includes policies and procedures that State agencies should follow for processing expenditure transactions. The State Accounting Manual requires that key data fields, known as chartfields, be used to record financial data. The “account” is a required chartfield on all expenditure transactions and is used to specify the balance sheet account or operating account on financial transactions.

**Condition:**
Our review of expenditures disclosed that the Department coded Public Assistance expenditures paid to subgrantees, totaling $16,299,400, to the account code for reimbursements. It appears these expenditures should be more appropriately coded as grants since they were made to local governments, private non-profits and other State agencies for Public Assistance projects awarded by the Federal Government for snow removal and flood damage.

**Effect:**
The Agency is not in compliance with the State Accounting Manual and the financial statements could be misstated.

**Cause:**
It appears there was confusion on the part of Agency personnel regarding proper account coding.

**Recommendation:**
The Department should strengthen internal controls over the coding of expenditure transactions. (See Recommendation 3.)

**Agency Response:**
“The Agency is in agreement with the finding. The Agency has contacted the Comptroller’s Office for guidance and has implemented utilization of proper account values representative of grants.”
RECOMMENDATIONS

Status of Prior Audit Recommendations:

This is the first audit report issued since the establishment of the Department.

Current Audit Recommendations:

1. 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.

   Comment:

   Our review disclosed that the Department has not affixed tags to its equipment and property and was unable to provide us with a complete equipment and property inventory listing, as recorded within the Core-CT Asset Management Module. In addition, the Department has not created a detailed software inventory listing.

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

   Comment:

   Our review of twenty transactions revealed one receipt of $300 that was deposited four days late and five deposits totaling $817,590 that were posted to the general ledger between three and fifteen days after the information was available to be recorded in Core-CT, as indicated by the “Entered Date”. In a separate review, we identified an outstanding Federal receivable of $2,455,785 that was incorrectly recorded on Core-CT as revenue received.

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

   Comment:

   Our review of expenditures disclosed that the Department coded Public Assistance expenditures paid to subgrantees, totaling $16,299,400, to the account code for reimbursements. It appears these expenditures should be more appropriately coded as grants since they were made to local
governments, private non-profits and other State agencies for Public Assistance projects awarded by the Federal Government.
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, 2005 and 2006. This audit was primarily limited to performing tests of the Agency’s compliance with certain provisions of laws, regulations, contracts and grants, 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 grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management’s authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audit of the Department of Emergency Management and Homeland Security for the fiscal year ended June 30, 2005 and 2006 is included as a part of our Statewide Single Audit of the State of Connecticut for the fiscal years ended June 30, 2005 and 2006.

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 grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Emergency Management and Homeland Security is the responsibility of the Department of Emergency Management and Homeland Security’s management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, 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 for the fiscal years ended June 30, 2005 and 2006, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these 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 that are required to be reported under Government Auditing Standards. However, we noted certain
immaterial or less than significant instances of noncompliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

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

The management of the Department of Emergency Management and Homeland Security is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency’s internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Emergency Management and Homeland Security’s financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management’s authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following finding represents a reportable condition: the lack of a complete property inventory listing and the failure to tag equipment.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, grants or the requirements to safeguard assets that would be material in relation to the Agency’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weakness. However, we believe that the reportable condition described above is not a material or significant weakness.

We also noted other matters involving the internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.
This report is intended for the information of 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 during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts