



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Department of Emergency and Military Affairs

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 2, 2006

Major General David P. Rataczak, Adjutant General
State of Arizona
Department of Emergency and Military Affairs
5636 East McDowell Road
Phoenix, AZ 85008-3495

Dear Major General Rataczak:

In planning and conducting our single audit of the State of Arizona for the year ended June 30, 2005, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the Department's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its major federal programs.

Specifically, we performed tests of the Homeland Security Grant Program cluster.

All audit findings that are required to be reported by GAS and OMB Circular A-133 will be included in the State of Arizona's Single Audit Reporting Package for the year ended June 30, 2005, and have been communicated to your staff. In addition, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Department and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

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The Division of Emergency Management must comply with federal earmarking requirements

The Governor designated the Arizona Division of Emergency Management (Division) as the State Administering Agency for the Homeland Security Grant Program and, as such, the Division must obligate at least 80 percent of the total program monies to local governments. The Division may retain some or all of the local governments' allocations for purchases the State makes on behalf of the local governments. However, if the Division retains monies on behalf of local governments, it must enter into memorandums of understanding with the governments specifying the amount of monies to be retained for such purchases. Auditors noted that the Division retained \$1,824,798 for purchases made on behalf of local governments. Upon review, these purchases appeared to be allowable expenses under the grant. However, the Division did not enter into the required memorandums of understanding with the governments for these purchases. Without these documents, the State only obligated 77.01 percent to local governments.

To comply with program guidelines, the Division should obtain the necessary memorandums of understanding when making purchases on behalf of local governments to ensure that it obligates at least 80 percent of program monies to local governments.

The Division of Emergency Management must follow federal suspension and debarment requirements

When the Division awards Homeland Security Grant Program monies to subrecipients, it needs to ensure that those subrecipients are not debarred, suspended, or otherwise excluded from participating in this program. The Division did not use these monies to pay contracted vendors, but rather only granted subawards to local governments, as required under the program guidelines. However, the Division did not verify that the subrecipients were not debarred, suspended, or excluded prior to awarding the monies. In addition, the Division did enter into intergovernmental agreements with the subrecipients wherein the

subrecipients certified that they would not enter into any contract with any party that is debarred or suspended from participating in the program.

To comply with 28 Code of Federal Regulations §67.300, the Division should follow Executive Order 12549 and verify that the subrecipient is not debarred or suspended by either checking the Excluded Parties List System or obtaining a certification from the subrecipient.