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Signs of poor financial oversight at a Virginia state agency responsible for environmental stewardship emerged late last summer when federal government monitors spotted record-keeping gaps during a review of six grants awarded to Virginia totaling nearly \$740,000.

Now, what began with those observations of bookkeeping errors is morphing into a major state audit at the Department of Conservation and Recreation as officials investigate whether problems there reflect ineptitude or something more.

Virginia's Auditor of Public Accounts this month will start a top-to-bottom inspection of the agency, which oversees state parks and dams, Chesapeake Bay-related water pollution controls and land conservation efforts. The department has 370 employees but is authorized to have up to 452. Its proposed budget for the next fiscal year is \$139 million.

Also keeping tabs is the state Inspector General's Office — charged with investigating allegations of waste, fraud and abuse in Virginia government — to see whether it needs to get involved.

Those developments are the latest in a series of steps quietly being taken to fix agency shortcomings.

Before he left office, Gov. Bob McDonnell proposed a \$75,000 amendment in the state budget to hire a grant management consultant to audit the conservation agency

and report findings by this September, a sign his administration was aware of issues

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That's probably an inadequate amount of money," the Powhatan County Republican said. "I think it's going to have to be a full-blown audit firm to come in and literally take the agency accounting apart and put it back together the way it needs to be."

Other grant-related problems at the department surfaced last year after the General Assembly passed legislation transferring the administration of several state water quality programs to Virginia's Department of Environmental Quality.

Since November, the conservation department has been focused on responding to a Federal Emergency Management Agency notification that it could be liable for about \$403,000 in grants because of what the federal agency called "significant deficiencies" in the state program.

A scathing review found that the department "lacks effective internal controls and accountability for all grants," and that program and financial staff members don't communicate and can't "determine what is being charged to the grants" or how some money was being spent.

Moreover, it said there is no interface between the department's financial management system and the state's accounting reporting system.

"There was no policy that outlined how VADCR program and financial staff would work together in managing the grants effectively," FEMA's Nov. 25 letter says.

The letter to the state's dam safety and floodplain management division was about grants provided to help finance staff salaries, training, travel and equipment purchases.

Virginia was given a Dec. 20 deadline to document how it used the money and until Jan. 15 to provide FEMA with a corrective action plan. Conservation department

spokesman Gary Waugh said the state has met those deadlines and expects to be

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Because the Department of Conservation and Recreation's \$9 million silver is "such a drop in the bucket," it doesn't get audited as heavily as a bigger grant recipient, such as the state's Medicaid program, Virginia Auditor of Public Accounts Martha Mavredes said.

In a December email obtained by The Virginian-Pilot, Mavredes warned McDonnell administration officials about the grant problems. Her note advised that FEMA's observations regarding the grants "are consistent with those of my staff in our preliminary review" of the water quality grants being transferred to Virginia's environmental division.

Legislation from 2013 mandating that transfer means responsibility for about \$8 million in annual grants to curb stormwater runoff pollution and protect the Chesapeake Bay will move to the Department of Environmental Quality, from the conservation department.

Before that's finalized, environmental quality Director David Paylor said he wants to be "sure the grants transfer is done effectively" and any accounting issues are resolved.

Hence the upcoming audit by Mavredes' unit.

The Department of Conservation and Recreation is among a group of agencies that receives periodic auditor of public accounts inspections. One conducted on some department operations from 2011-12 gave it a clean bill of health, concluding that the department was properly "recording and reporting" transactions to the state. It found no serious issues.

Since then, agency leaders learned of the grant issues and said they took steps to correct them.

“We were aware there was a problem before we left, and there was action taken

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their prerogative.”

Testifying before a legislative subcommittee last week, Natural Resources Secretary Molly Ward, a McAuliffe appointee, said conservation department practices had been “sloppy” as a result of “benign neglect.”

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