



DEPARTMENT OF MILITARY AFFAIRS

NATIONAL GUARD MILITARY OPERATIONS
AND MAINTENANCE PROJECTS
FEDERAL GRANT PROGRAM

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the National Guard Military Operations and Maintenance Projects federal grant program, administered by the Department of Military Affairs (Military Affairs), for the fiscal year ended June 30, 2017, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system and in the Federal Schedules attachment submitted to the Department of Accounts;
- two matters involving internal control and its operation necessary to bring to management's attention; and
- two instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

Pages

AUDIT SUMMARY

AUDIT FINDINGS AND RECOMMENDATIONS

1-3

INDEPENDENT AUDITOR’S REPORT

4-6

AGENCY RESPONSE

7-8

AGENCY OFFICIALS

9

AUDIT FINDINGS AND RECOMMENDATIONS

Strengthen Internal Controls over Federal Awards

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The Department of Military Affairs (Military Affairs) is not maintaining effective internal control over federal awards, specifically its National Guard Military Operations and Maintenance federal grant program. Approximately 78 percent of Military Affairs' funding comes from the federal government. As a condition of accepting federal awards, 2 CFR §200.303 requires Military Affairs to establish and maintain effective internal control over federal awards that provides reasonable assurance that Military Affairs is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award. Without maintaining effective internal control over federal awards, Military Affairs places itself at risk of potentially losing this funding.

The Department of Accounts (Accounts) provides guidelines to assist State agencies and institutions in implementing internal control programs through its Agency Risk Management and Internal Control Standard (Standard). State agencies and institutions use the Standard to ensure they have adequate internal controls in place to maintain compliance with laws and regulations, whether state or federal. Accounts communicates its guidelines to State agencies and institutions through Topic 10305 of the Commonwealth's Accounting Policy and Procedures manual (Manual).

Topic 10305 of the Manual requires Military Affairs to document, evaluate, and test agency level controls. Agency-level controls permeate the agency and have a significant effect on how it achieves its objectives relating to the recording of financial transactions, compliance with financial reporting requirements, compliance with laws and regulations, and stewardship over Commonwealth assets. The Manual requires agencies to refresh and refine its agency-level controls evaluation every three years or whenever there are any changes to the organization, its management, or functions from prior implementations of the Standard. During our review, Military Affairs could not provide evidence that it had completed or updated its agency-level control evaluation. Additionally, our audit procedures identified the following deficiencies in agency-level controls:

- Military Affairs did not identify a \$14 million error in its Attachment 15, or Schedule of Expenditure of Federal Awards, submission to Accounts. While preparing its submission, Military Affairs improperly classified these expenses to the National Guard Military Operations and Maintenance federal grant program (CFDA 12.401) instead of to the National Guard Military Construction Projects federal grant program (CFDA 12.400). Military Affairs did not properly classify these expenses because it did not identify the reporting requirements in the grant award agreement received from the federal government. Military Affairs resubmitted this Attachment to Accounts three times before it fully corrected the error. During fiscal year 2017, Military Affairs reported approximately \$64 million in federal expenses.

- Military Affairs did not maintain comprehensive policies and procedures governing its payroll operations. While policies and procedures did exist, they did not address how Military Affairs is to allocate costs by program, project, or facility. During the period under review, Military Affairs charged approximately \$13.2 million in payroll costs to the National Guard Military Operations and Maintenance federal grant program. Military Affairs allocated these charges across 48 operations and maintenance projects, within the National Guard Military Operations and Maintenance federal grant program, which each have unique requirements.
- Military Affairs did not maintain a comprehensive master listing of all of its contracts. Instead, each of its respective divisions with procurement responsibilities maintained individual listings per department. Chapter 10 of the Department of General Service's Agency Procurement and Surplus Manual (Manual) requires agencies to assemble and maintain a listing of all of their term contracts to include the initial period and number of renewals. As a best practice, procurements obtained for construction related activity should also follow this practice. During the period under review, Military Affairs paid approximately \$12.8 million to 140 vendors for goods and service contracts. Without maintaining a centralized master contract listing, it is difficult for Military Affairs to maintain oversight over its procurement functions to ensure compliance with the applicable laws and regulations.

Additionally, Military Affairs did not complete or update its transaction-level assessment of internal controls. While management did complete transaction-level tests of controls, Military Affairs cannot validate the effectiveness of these tests without completing or updating the transaction-level assessment of the controls. The entire process should include a risk assessment that demonstrates management analyzed and considered the possible impact on achievement of its objectives.

Military Affairs did not complete its agency-level and transaction-level internal control assessments because it lacked the appropriate resources to perform these assessments. The National Guard Military Operations and Maintenance federal grant program at Military Affairs is highly complex and involves a significant amount of manual processes. Therefore, it is difficult for Military Affairs to monitor whether it complies with the statutes, regulations, and terms and conditions of the federal award without maintaining an effective system of internal control. Insufficient detailed written policies and procedures increases the risk of error in financial transaction processing and makes the transitioning of responsibilities more difficult when there is turnover in the positions responsible for executing control activities. As the Standard provides a basis for management to establish internal controls and assess that they are functioning effectively, failing to complete the documentation and perform assessment tests increases the risk that internal controls may not exist or function adequately.

Military Affairs should work collectively to strengthen its internal controls over federal awards and complete its evaluation of agency-level and transaction level internal control assessments, with an emphasis on agency-level internal control assessments. While performing this task, Military Affairs should ensure that it devotes the appropriate resources to this function and consult with Accounts and/or other entities when questions arise. By doing such, Military Affairs will be able to provide the oversight

necessary to monitor compliance with the statutes, regulations, and terms and conditions of the federal award.

Comply with Statewide and Agency Procurement Policies and Procedures

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Military Affairs did not comply with some of the requirements of the Construction and Professional Services Manual (Construction Manual) issued by the Department of General Services or with its internal agency Standard Operating Procedures for the Architecture and Engineering Section of Facilities Management for certain procurements. During the period under review, Military Affairs spent approximately \$12 million on construction and professional services with funding from the National Guard Military Operations and Maintenance federal grant program. During our review, we noted the following deviations from the Construction Manual and/or internal agency Standard Operating Procedures for the Architecture and Engineering Section of Facilities Management:

- Military Affairs did not properly acknowledge receipt of bids through a date stamp for all of the bids provided for each of the contracts reviewed and the dates were hand written. Three of the bids reviewed included no date on the envelope. According to Appendix F.1 (2) Procedures for Receiving Bids of the Construction Manual, the bids or proposals shall be date stamped and the time noted or stamped on the envelope showing the time of receipt when Military Affairs receives the bids or proposals.
- None of the procurements selected for review included evidence that there was a copy of the bid posted in a public area normally used by Military Affairs for such notices.

As a condition of accepting federal awards, 2 CFR §200.303 requires that non-federal entities establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Additionally, an agency must follow the same policies and procedures it uses for procurements from its non-federal funds when procuring property and services under a federal award according to 2 CFR §200.317. Without strictly complying with an established procurement policy, it is difficult for Military Affairs to monitor whether it complies with the statutes, regulations, and terms and conditions of the federal award.

Not retaining sufficient documentation introduces the risk of protest from contractors for improper awarding of contracts. Military Affairs should work collectively to ensure its procurements comply with the Department of General Services and its internal requirements.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 9, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **National Guard Military Operations and Maintenance Projects federal grant program**, administered by the Department of Military Affairs (Military Affairs) for the year ended June 30, 2017. We conducted this 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, in support of the Commonwealth's Single Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to audit the National Guard Military Operations and Maintenance Projects federal grant program in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system and in the Federal Schedules attachment submitted to the Department of Accounts; reviewed the adequacy of Military Affairs' internal controls over the federal programs; and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

Military Affairs' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the National Guard Military Operations and Maintenance Projects federal grant program.

We performed audit tests to determine whether Military Affairs' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, contracts, and observation of the Military Affairs' operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that Military Affairs properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system and in the Federal Schedules attachments submitted to the Department of Accounts for the National Guard Military Operations and Maintenance Projects federal grant program.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Since the findings noted above have been identified as significant deficiencies, they will be reported as such in the "Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance," which is included in the Commonwealth of Virginia's Single Audit Report (Single Audit) for the year ended June 30, 2017. The Single Audit will be available on APA's website at www.apa.virginia.gov in February 2018.

Exit Conference and Report Distribution

We discussed this report with management on January 23, 2018. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

MAS/alh



COMMONWEALTH of VIRGINIA

MG TIMOTHY P. WILLIAMS
THE ADJUTANT GENERAL

DEPARTMENT OF MILITARY AFFAIRS
Adjutant General's Office
Virginia National Guard
5901 Beulah Road

SANDSTON, VIRGINIA 23150

January 23, 2018

Mrs. Martha Mavredes
The Auditor of Public Accounts
PO Box 1295
Richmond, VA 23218

Re: National Guard Operations and Maintenance Audit

Dear Mrs. Mavredes:

We are providing this letter in connection with your audit of the National Guard Military Operations and Maintenance federal grant program for the state fiscal year 2017. The Department of Military Affairs (DMA) concurs with the draft report on the subject audit engagement, and the two findings included.

For Finding 1; Strengthen Internal Controls over Federal Awards, there were three areas noted. DMA has already corrected the first, proper identification of the Catalog of Federal Domestic Assistance (CFDA) number used for Military Construction Projects. We will address the second area by writing a policy on how the agency allocates personnel costs across individual agreements, projects, and facilities. The third area, not maintaining a comprehensive listing of all contracts, will be corrected by using that capability in eVA. We have already reached out to the eVA team to obtain guidance.

Finding 2, Comply with Statewide and Agency Procurement Policies and Procedures had two noted areas: not date-stamping all bids upon receipt and ensuring a copy of the bid is posted in the public area normally used by DMA for such notices. DMA will reiterate compliance with state policies and will create a checklist for the contract file that will be inspected by the Procurement Office.

DMA appreciates your auditors' diligence during this audit engagement and appreciates their insight and recommendations. If you have any questions, please do not hesitate to contact me at (434) 298-6419

Sincerely,

A handwritten signature in black ink, appearing to read "Don Sutherland", with a stylized flourish at the end.

Donald R. Sutherland
Chief Financial Officer

DEPARTMENT OF MILITARY AFFAIRS

As of June 30, 2017

Major General Timothy P. Williams
Adjutant General

Donald R. Sutherland
Chief Financial Officer