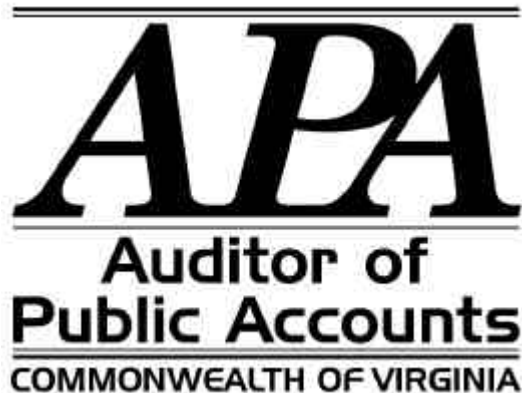


**DEPARTMENT OF MILITARY AFFAIRS
BLACKSTONE, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Military Affairs for the period ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no internal control matters that we consider material weaknesses;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate implementation of corrective action on prior audit findings.

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February 12, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Military Affairs** for the period ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Fixed Assets
Expenditures	Federal Contract Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's 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 and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 9, 2002.

AUDITOR OF PUBLIC ACCOUNTS

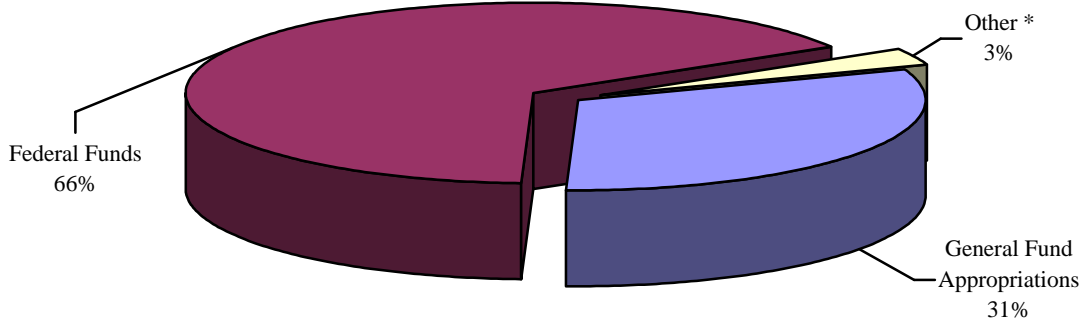
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AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Department of Military Affairs provides facility maintenance, skilled trades, and administrative functions for the Virginia National Guard. The Virginia National Guard reinforces the active military during war and crisis. It also provides assistance during times of peace, civil disturbance, and natural disasters. The Department maintains several facilities including its administrative headquarters, 45 armories, two Air Guard sites, and 13 maintenance sites.

The Virginia National Guard's primary funding comes from state appropriations and federal contracts with the U.S. Department of Defense National Guard Bureau. In total, the Department received \$30,996,776 in funding during fiscal year 2001. Specifically, the Department received \$20,451,460 in federal funding, \$9,523,884 in state general fund appropriations and the remainder from rental of military cottages and armories. The following chart illustrates the sources of revenue for fiscal year ending June 30, 2001.

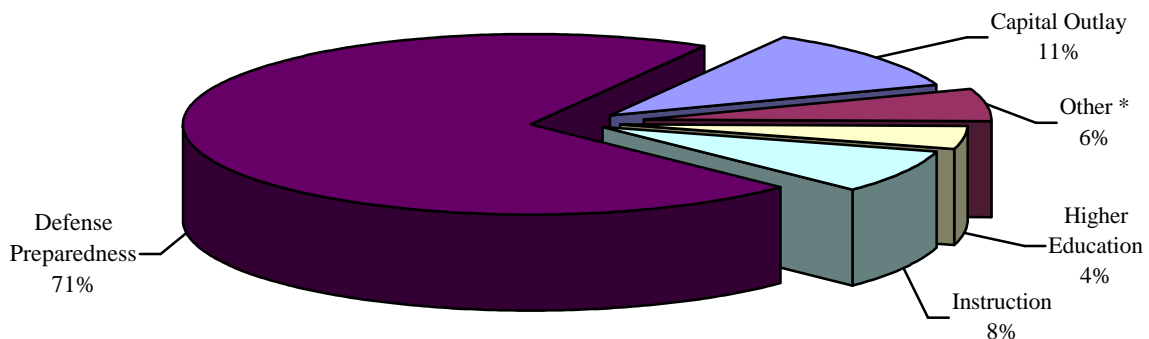
Funding Sources - Fiscal Year 2001



* "Other" consists of state military reservation and armory rentals

The majority, \$20.8 million, of the Department's \$29,194,049 in expenses supported efforts to plan for and maintain military readiness through National Guard operations. An additional \$3.1 million went for capital outlay expenses to purchase, construct, and maintain capital assets. The remaining expenses covered financial assistance to higher education students, academic secondary instruction, and other support services. The following chart illustrates expenses for fiscal year ending June 30, 2001.

Funding Uses - Fiscal Year 2001



* "Other" includes disaster planning and operations, administration and support services, and auxiliary enterprises for National Guard operations

DEPARTMENT OF MILITARY AFFAIRS
Blackstone, Virginia

Major General Claude A. Williams
Adjutant General

James Gargas
Deputy Administrator