



DEPARTMENT OF MILITARY AFFAIRS

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts

Staci A. Henshaw, CPA

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AUDIT SUMMARY

Our audit of the National Guard Military Operations and Maintenance Projects and National Guard Military Construction federal grant programs, administered by the Department of Military Affairs (Department), for the fiscal year ended June 30, 2020, 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 submitted to the Department of Accounts;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-3
INDEPENDENT AUDITOR'S REPORT	4-6
DEPARTMENT OF MILITARY AFFAIRS RESPONSE	7
DEPARTMENT OF MILITARY AFFAIRS OFFICIALS	8

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Strengthen Internal Control over Federal Awards

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2017)

The Department does not maintain effective internal control over federal awards, specifically its National Guard Military Operations and Maintenance and National Guard Military Construction Projects federal grant programs. Of its state fiscal year 2020 original appropriation, approximately 73 percent of the Department's funding comes from the federal government. With respect to these awards, the following errors or deficiencies were found:

- The Department did not identify an error of \$575,076 in its Attachment 15 – Federal Schedules submission to the Department of Accounts (Accounts). While preparing the submission, the Department improperly classified expenses to the National Guard Military Construction Projects federal program instead of to the National Guard Military Operations and Maintenance federal program. The inability to identify and correct misclassifications and misstatements results in erroneous reporting of program expenses and puts the Department at risk of providing inaccurate information to Accounts which could result in misstatement of the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA) and related disclosures.
- The Department did not update its chart of accounts. Four instances were identified regarding either outdated information or improper classification within the chart of accounts used to track specific projects. Not updating the chart of accounts can lead to material misclassification and misstatement of expenses.
- The Department was unable to provide documentation of the issuance or implementation of an interim policy regarding additional review of contracts, retention of vendor quotes, requests for quotes, and negotiations to ensure attempts to obtain competition. As a corrective action in response to an audit finding and recommendation issued for fiscal 2017, the Department noted this interim policy would be implemented; however, no documentation was maintained as evidence that this occurred. Lack of clear policies and procedures over contract reviews and proper procurement practices, increases the risk of protest from the contractors for improper awarding of contracts.
- The Department does not employ proper procedures to ensure vendors receiving federal funds are not suspended or debarred. For one of 11 (9%) vendors reviewed, the Department could not provide documentation that the vendor was registered as a federal contractor. Not ensuring that vendors are not suspended or debarred puts the Department at risk of vendor payments being assessed as unallowable.

As a condition of accepting federal awards, 2 C.F.R. § 200.303 requires the Department to establish and maintain effective internal control over federal awards. This provides reasonable assurance that the Department is managing awards in compliance with federal statutes, regulations, and the terms and conditions of the awards. In addition, National Guard Regulation 5-1, Section 5-6, Grantee Responsibilities, states that the grantee shall take particular care to ensure that it does not charge costs incurred in performance of one cooperative agreement to another, or to both. Section 11-3. e, Standards of Financial Administration, states the grantee must maintain effective internal controls and accountability over all cooperative agreement funding. With respect to procurement, 2 C.F.R. § 180.220 requires the Department to verify that all vendors who receive federal funds are not suspended or debarred. Finally, 48 C.F.R. § 31, the Federal Acquisition Regulation, governing all federal contracts, includes the contract clause at FAR 52.209-6 which states that the contractor shall not enter into any subcontract with a contractor that is debarred, suspended, or proposed for debarment. Not maintaining effective internal control over federal awards places the Department at risk of losing federal funding crucial to ongoing Department operations.

These federal programs are highly complex and involve a significantly manual process. The Department does not have adequate resources to provide effective oversight and training making it difficult to monitor compliance with the statutes, regulations, and terms and conditions of the federal awards. In addition, there are insufficient detailed written policies and procedures which increases the risk of error in financial transaction processing and makes the transitioning of responsibilities more difficult if turnover occurs. Finally, the Department did not allocate the appropriate resources needed to update the internal controls allowing effective monitoring and reporting for their federal programs.

The Department should work collectively to strengthen its internal controls over federal awards and take steps to ensure accurate recording and reporting. In addition, the Department should ensure that it devotes the appropriate resources to this function and consult with Accounts and/or other entities when questions arise. For procurement functions it should ensure there are policies in place requiring compliance with federal regulations by performing one of the following:

- Checking the federal System for Award Management exclusions to ascertain vendor status;
- Collecting a certification from the vendor certifying it is not suspended or debarred; or,
- Including within their standard contract terms and conditions a requirement for vendor certification that it is not suspended or debarred from both State and Federal contracts.

These steps will ensure the Department provides the oversight necessary to monitor compliance with the statutes, regulations, and terms and conditions of the federal award.

Improve Controls over Financial Attachment Preparation

Type: Internal Control

Severity: Deficiency

Repeat: No

The Department does not have adequate internal controls with respect to the review and completion of Attachment 15 – Federal Schedules as required by the Comptroller’s Directive No. 1-20. Specifically, the Department did not properly record the Catalog of Federal Domestic Assistance number and amounts for the Coronavirus Relief Fund on the Received from State tab. The Department also did not properly record \$430,562 of pass-through funding received from other state agencies on the Received from State tab; however, this amount was properly reported on the SEFA tab. The Department resubmitted Attachment 15 to Accounts twice before these issues were fully corrected. Additionally, the Department did not update the Certification tab with new signatures and dates for each resubmission as required by the Comptroller’s Directive No. 1-20 Instructions for Attachment 15.

To ensure completeness and accuracy, Accounts provides guidelines to assist agencies in completing the required attachments. The Certification tab requires all preparers and reviewers to include their name on this tab to indicate that they have read and understand the instructions for the required submissions. This requirement provides assurance to Accounts that all questions are completed and accurate and the submission is properly reviewed. Per the instructions for the attachment, the Certification tab should be updated with new signatures and dates for each revision.

Attachment 15 is used to provide Accounts with the federal schedules needed to prepare the statewide SEFA for the Single Audit Report. The Single Audit Report is required for compliance with the Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Without adequate review of this attachment at the agency level, errors could potentially be included in the statewide SEFA and negatively affect the Single Audit Report.

The Department should work collectively to strengthen the internal controls over the completion and review process of its federal schedule. While performing this task, the Department should ensure that it devotes the appropriate resources to its federal schedule preparation and review process and consult with Accounts and/or other entities when questions arise.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 26, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the National Guard Military Operations and Maintenance Projects and National Guard Military Construction federal grant programs, administered by the **Department of Military Affairs** (Department), for the year ended June 30, 2020. 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 and National Guard Military Construction federal grant programs 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 Federal Schedules attachment submitted to the Department of Accounts. We reviewed the adequacy of the Department's internal controls over compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to audit findings included in the 2017 Commonwealth of Virginia Single Audit Report.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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 and National Guard Military Construction federal grant programs.

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of the Department’s operations. We performed analytical procedures, including budgetary and trend analyses, and 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.

Our consideration of internal control over compliance was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be a significant deficiency, which is described in the section titled “Internal Control and Compliance Findings and Recommendations.”

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In addition to the significant deficiency, we detected a deficiency in internal control that is not significant to the Single Audit but is of sufficient importance to warrant the attention of those charged with governance. We have explicitly identified the second finding in the section titled “Internal Control and Compliance Findings and Recommendations” as a deficiency.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system and the Federal Schedules attachment submitted to the Department of Accounts.

The results for the Commonwealth's Single Audit for the year ended June 30, 2020, are contained in a separate report, which will be available on our website at www.apa.virginia.gov in February 2021.

We noted certain matters involving internal control and its operation and compliance with regulations and grant agreements that require management's attention and corrective action. These matters are described in the section titled "Internal Control and Compliance Findings and Recommendations."

The Department has taken adequate corrective action with respect to audit findings and recommendations reported in a prior year that are not repeated in this letter.

Since the findings noted above include one that has been identified as a significant deficiency, it 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 for the year ended June 30, 2020. The Single Audit Report will be available at www.apa.virginia.gov in February 2021.

Exit Conference and Report Distribution

We discussed this report with management on February 1, 2021. Management's response to the findings and recommendations 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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DGS/clj



COMMONWEALTH of VIRGINIA

MG TIMOTHY P. WILLIAMS
THE ADJUTANT GENERAL

DEPARTMENT OF MILITARY AFFAIRS
OFFICE OF THE ADJUTANT GENERAL
VIRGINIA NATIONAL GUARD

JOINT FORCE HEADQUARTERS
8000 JEFFERSON DAVIS HWY
BUILDING 430
RICHMOND, VA 23297

February 1, 2021

The Auditor of Public Accounts
Attn: Staci Henshaw
PO Box 1295
Richmond, VA 23218

Dear Ms Henshaw:

Please accept this as the Agency Response to the draft findings listed in your 29 January 2021 letter as a result of the audit of federal programs conducted from October 2020 to January 2021.

The Department of Military Affairs appreciates the level of detail in this year's audit and concurs with the draft report. We are proud of the work we do supporting the Virginia National Guard through these programs, but we recognize there are areas that need more attention. We will diligently work to correct these weaknesses in the coming months.

We look forward to your assistance in developing and executing our Corrective Action Plan. Please contact me at donald.r.sutherland.nfg@mail.mil or 434 298-6419 for the final results. I will provide those to the Agency Head through a special briefing.

Sincerely,

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LD.REEL.1032384559

Digitally signed by
SUTHERLAND.DONALD.REEL.103
2384559
Date: 2021.02.01 15:03:38 -05'00'

Donald R. Sutherland
CFO, Va Dep't of Military Affairs

DEPARTMENT OF MILITARY AFFAIRS OFFICIALS

As of June 30, 2020

Major General Timothy P. Williams
Adjutant General

Donald R. Sutherland
Chief Financial Officer