



DEPARTMENT OF MILITARY AFFAIRS

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts

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AUDIT SUMMARY

Our audit of the Department of Military Affairs for the period July 1, 2012, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- 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.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Controls around the Agency Small Purchase Charge Card Program

The Department of Military Affairs (Military Affairs) needs to ensure the internal controls surrounding their small purchase charge card (SPCC) program are operating effectively. We identified transaction or credit limit adjustments as well as purchases from restricted vendor categories that were not supported by authorization from the Department of Accounts and purchasing logs that were not approved by the cardholder's supervisor.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20355 outlines the state's requirements for agency SPCC programs. Internal controls required by the CAPP Manual include retaining all supporting documentation for purchases, monitoring and canceling inactive cards, monthly supervisor review of the purchasing log and reconciliation, and maintaining supporting documentation for limit changes and changes in merchant category code restrictions. By not following the CAPP Manual's guidelines, Military Affairs is exposed to a higher risk of unidentified charge card abuse and non-compliance with state purchasing requirements.

Because the agency is partially decentralized and participates in emergency response, the SPCC program is a heavily relied upon method of procurement. While Military Affairs does have documented procedures that are in compliance with the CAPP Manual, the procedures have not been updated since 2009. Turnover in the role of SPCC Program Administrator has also contributed to the internal control weaknesses identified above.

Military Affairs should review, update, and enforce its SPCC policy. Additionally, Military Affairs should ensure it maintains appropriate supporting documentation for SPCC transactions and all other SPCC exceptions or profile changes.

Maintain Compliance with Statement of Economic Interest Requirements

Military Affairs did not ensure employees designated to be holding a "position of trust" are submitting the Statement of Economic Interest (SEOI) forms timely, nor completing the required Statement of Economic Interest training every two years. The SEOI forms and training are important to the agency, because they inform the agency of any potential conflicts of interest and instruct the employees on how to remedy these situations.

Pursuant to §2.2-3114 and §2.2-3128 through §2.2-3131 of the Code of Virginia, employees designated to be in a "position of trust" must file an SEOI form semiannually. Additionally, these filers must complete orientation training about the Conflict of Interest Act to help them recognize potential conflicts of interest. This orientation must be completed within two months of hire/appointment and at least once during each consecutive period of two calendar years. Military Affairs must keep a record of attendance for five years including the specific attendees, each attendee's job title, and dates of their attendance.

By not ensuring that potential conflicts of interest are identified and that staff are properly trained in recognizing and addressing conflicts of interest, Military Affairs could be susceptible to conflicts of interest that could impair or appear to impair the objectivity of certain programmatic or fiscal decisions made by employees in positions designated as a “position of trust.” In addition, without requiring employees to complete the training and keep record of the attendance for the training, Military Affairs cannot hold its employees accountable for knowing how to recognize a conflict of interest and how to resolve it.

Military Affairs should ensure all employees in a position of trust complete the required SOEI form timely, ensure filers complete training once within each consecutive period of two calendar years, and maintain proper documentation of the training.

AGENCY HIGHLIGHTS

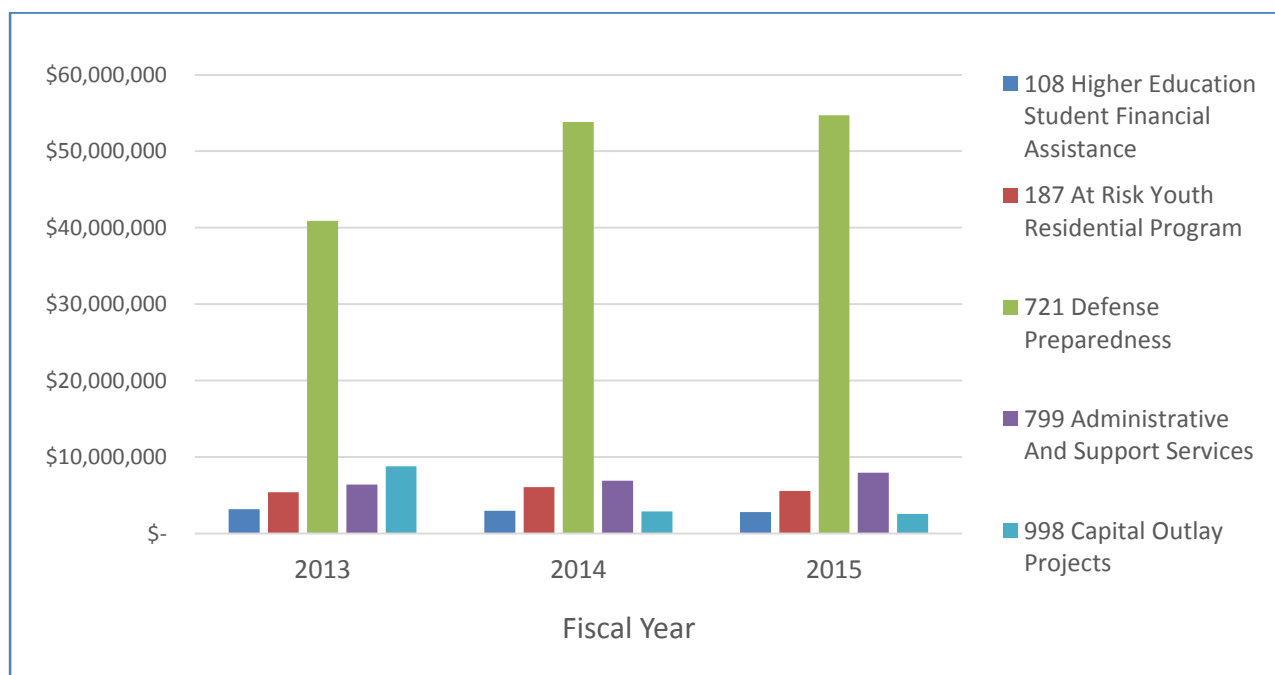
The Department of Military Affairs (Military Affairs) administers the Army and Air National Guards of Virginia as well as the Virginia Defense Force. While the Army and Air National Guards are simultaneously state military forces as well as reserve components of the Armed Forces of the United States, the Virginia Defense Force is solely a state reserve militia, composed of community volunteers, trained to augment civil agencies and military forces with trained specialists and specialized teams during emergencies.

Military Affairs has a dual state and federal mission. Military Affairs' number one state priority is preparedness to answer the Governor's call in times of emergency. The agency's number one federal priority is to answer the President's call in times of war or during national emergency. To achieve the state requirement, as well as to meet the increasing demands of their federal mission, Military Affairs must maintain a fully manned and highly trained, responsive, and motivated force.

Military Affairs is funded through multiple sources, but the agency's primary funding source for operations is federal funds. Military Affairs uses the majority of its funding for activities related to maintaining the National Guard. This involves providing training, maintaining armories and equipment, and paying Guard members when activated. Military Affairs also provides tuition assistance for members of the National Guard and runs the Challenge program, an at-risk youth program. The following chart shows actual operating activity for Military Affairs by program over the last three fiscal years.

Expenses by Program

Chart 1



Source: Commonwealth Accounting and Reporting System

State Active Duty

When the National Guard is activated to respond to a declared state of emergency or other emergency situation, it is referred to as State Active Duty (SAD). During the period from July 1, 2012, through June 30, 2015, there were nine SADs. Expenses related to these SADs are shown in the table below.

Table 1

State Active Duty Event	Amount
Operation Derecho	\$175,901
Hurricane Sandy	661,251
Snow Storm Saturn	120,674
Winter Storm Pax	183,586
Winter Storm Titan	32,523
Augusta Search	3,042
Snow Storm Octavia	212,493
Winter Storm Thor/Flooding	44,439
Maryland Riot	3,303

Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 26, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

We have audited the financial records and operations of the **Department of Military Affairs** for the period July 1, 2012, through June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Military Affairs' internal controls, and test 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 significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant revenues and expenses
Systems Access
Contractual services expenses
Payroll expenses
Small purchase charge card
Fixed assets

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, and contracts, and observation of Military Affairs' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

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

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."

Exit Conference and Report Distribution

We discussed this report with management on June 2, 2016. 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

AVC/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

MEMORANDUM

TO: Auditor of Public Accounts, Attn: Martha Mavredes

FROM: Mr. Sutherland, Fiscal Director

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.DONALD.REE
L.1032384559

Digitally signed by
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ou=DoD, ou=PPS, ou=USAG,
cn=SUTHERLAND.DONALD.REE.L1032
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Date: 2016.06.07 14:19:29 -0400

DATE: 7 June 2016

SUBJECT: Audit Report

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1. DMA concurs with the audit report, as discussed in the exit conference 2 June 2016.
 2. We recognize we have improvements to make on certain internal controls, especially concerning the SPCC program. We also have improvements to make in the selection of personnel to fill out the annual Statement of Economic Interest and training of said personnel. We have already started the process of identifying needed improvements and developing corrective actions.
 3. I wish to thank your team for the professional audit and recommendations, and look forward to our next opportunity.

AGENCY OFFICIALS

Department of Military Affairs

Major General Timothy P. Williams
Adjutant General

Colonel Marie M. Mahoney
United States Property & Fiscal Officer

Brigadier General Paul F. Griffin
Director of the Joint Staff

Donald R. Sutherland
Director of Fiscal Operations