



DEPARTMENT OF MILITARY AFFAIRS

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

We audited the Department of Military Affairs' internal controls and processes over contract management, including contract expenses, as well as other general expenses for the fiscal year ended June 30, 2022. We found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

We did not review management's corrective action on prior year findings, which are listed in the [Findings Summary](#) in the Appendix. We will follow up on these findings in a future audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Develop Procedures for Proper Accrual of Accounts Payable

Type: Internal Control

Repeat: No

The Department of Military Affairs (Military Affairs) did not properly evaluate vouchers paid after fiscal year-end to determine the correct accounts payable accrual amount. Military Affairs did not appropriately accrue five out of 82 (6.1%) expense vouchers, resulting in the recording of \$882,595 of expenses in the incorrect fiscal year.

Per the Department of Accounts' (Accounts) Year-End Closing Procedures, agencies must identify the correct receipt date for purchased goods or services to properly determine the amounts owed at fiscal year-end. For amounts the agency considers payable transactions, the goods or services receipt date should be June 30 or earlier. Military Affairs did not use the Commonwealth's accounting and financial reporting system's goods or services receipt date for its intended purpose. Therefore, the fiscal year 2021 year-end financial information did not include all expenses incurred by Military Affairs during fiscal year 2021, causing fiscal year 2022 expenses to be overstated. By not properly recording expenses in the correct period, Military Affairs' financial information in the Commonwealth's Accounting and Reporting System is not accurate resulting in Military Affairs misrepresenting its financial position at year-end.

Military Affairs' Finance and Accounting Department should revise its accounts payable policies and procedures to include information on properly determining the goods or services receipt date, as well as its purpose, to ensure compliance with Accounts' fiscal year-end procedures.

Ensure Proper Use of Expense Vouchers

Type: Internal Control

Repeat: No

Military Affairs improperly recorded transactions associated with its Centralized Personnel Plan as expense vouchers. This error resulted in an overstatement of \$171,641 in both expenses and revenues during fiscal year 2022 in the Commonwealth's accounting and financial reporting system.

Per Commonwealth Accounting Policies and Procedures Manual Topic 20310, an agency may not use an expense voucher for any intra-agency transaction, and further instructs that an agency must record intra-agency expense transactions as a general ledger journal entry. The purpose of general ledger journal entries is to distribute, adjust, or correct transactions an agency has already processed in the Commonwealth's accounting and financial reporting system. Military Affairs' Centralized Personnel Plan allocates state-funded payroll costs, which have already been processed in the Commonwealth's accounting and financial reporting system, in order to recover a portion of those costs from federal funding. Improper use of expense vouchers may cause an overstatement or an understatement of expenses and/or revenues in the financial records, which could lead to a misrepresentation of Military Affairs' financial position.

Military Affairs' improper use of expense vouchers was primarily the result of a lack of policies and procedures addressing the proper use of general ledger journal entries when recording intra-agency transactions. Military Affairs' Finance and Accounting Department should ensure that it identifies and correctly records all intra-agency transactions. In addition, the Finance and Accounting Department should develop policies and procedures to include information on the correct identification of all intra-agency transactions and proper use of general ledger journal entries when recording intra-agency transactions.

Improve Contract Administration

Type: Internal Control

Repeat: No

Military Affairs does not comply with various contract administration requirements in the Commonwealth's Agency Procurement and Surplus Property Manual (APSPM). We reviewed 22 contracts and found the following:

- The Contract Officer (Officer) did not execute contract renewals in writing prior to expiration for one of 22 (5%) contracts.
- The Officer could not produce contract renewal documentation for 11 of 22 (50%) contracts.
- The Officer did not identify a Contract Administrator (Administrator) for seven of 22 (32%) contracts.
- The Administrator did not indicate acceptance of goods and/or deliverables prior to payment for 11 of 22 (50%) contracts.
- The Administrator did not complete a payment tracking report for five of 22 (23%) contracts.
- The Administrator did not review invoices or reconcile line items to ensure the agency received the goods or services billed for 17 of 22 (77%) contracts.
- The Administrator did not authorize the payment of invoices for five of 22 (23%).

Additionally, Military Affairs does not have a formal vendor performance review process, nor are there documented contract close-out procedures to ensure all aspects of the contract are complete. Finally, Military Affairs does not maintain a master list of contracts, nor do they maintain complete files of procurement records in a centralized location for each contract. During the audit, Military Affairs began implementation of a central contract repository. This internal control process will be reviewed during the next audit.

APSPM Chapter 10 – Contract Administration outlines all aspects of proper contract administration to include administration designation; procurement records; delivery, inspection, and acceptance of goods; invoice and payment processing; contract renewal; and contract close-out. Not

complying with the APSPM increases the risk that vendors will not execute and perform contracts in accordance with the terms and conditions of the contract. The deficiencies in Military Affairs' contract administration and management controls were primarily the result of a lack of policies and procedures addressing proper contract administration and management.

Military Affairs should review its process over contract administration and ensure it properly performs and documents contract administration and monitoring in accordance with the APSPM. In addition, Military Affairs should ensure its policies and procedures over contract administration are adequate to maintain adequate internal controls over contract administration and management.

AUDIT SCOPE OVERVIEW

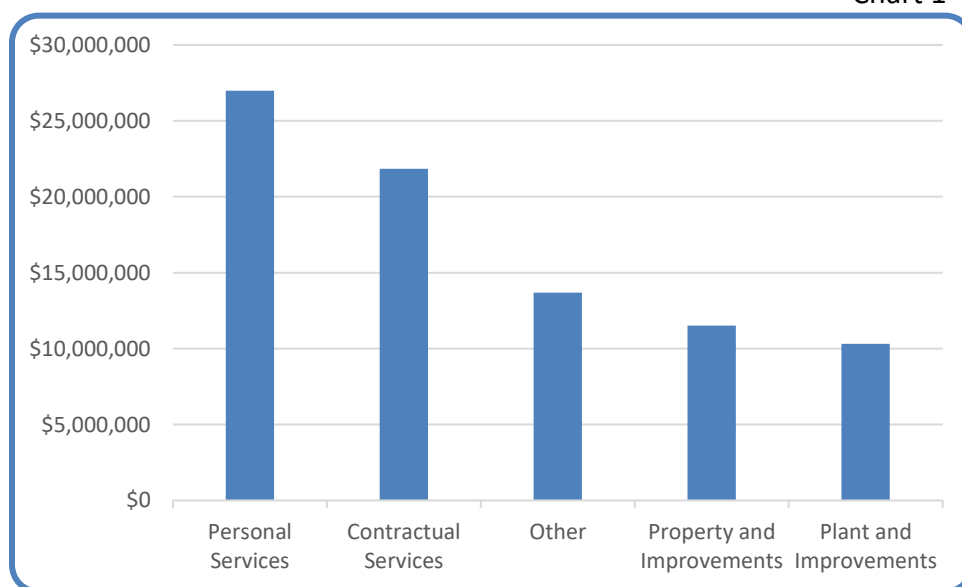
Military Affairs administers the Army and Air National Guards of Virginia as well as the Virginia Defense Force. While the Army and Air National Guards are simultaneously state military forces as well as reserve components of the Armed Forces of the United States, the Virginia Defense Force is solely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

Multiple sources provide funding for Military Affairs, 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. Expenses related to maintaining the National Guard include providing training, maintaining armories and equipment, and paying National 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.

Military Affairs' largest expenses relate to payroll and contractual services. The objective of this audit was to review contract management, including contract expenses, as well as other general expenses, not including personal services. The following chart shows Military Affairs' expenses for fiscal year 2022 by type.

Expenses by Type

Chart 1





Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 24, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

We have audited the **Department of Military Affairs'** (Military Affairs) internal controls and processes over contract management, including contract expenses, as well as other general expenses for the year ended June 30, 2022. 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 Scope and Objectives

Our audit's primary objectives with regard to the internal controls and processes over contract management and expense vouchers was to evaluate the accuracy of transactions as recorded in the Commonwealth's accounting and financial reporting system; review the adequacy of Military Affairs' internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We did not review corrective actions for audit findings from prior year reports, which are listed in the [Findings Summary](#) included in the Appendix. We will follow up on findings not reviewed in a future audit.

Audit Methodology

Military Affairs' 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, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. 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 as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Military Affairs' operations. 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, transactions recorded and reported in the Commonwealth's accounting and financial reporting system, relating to the audit objectives.

We noted certain matters involving internal control and its operation, as it pertains to contract management and expense vouchers, that require management's attention and corrective action. These matters are described in the section titled "Audit Findings and Recommendations." The results of our tests of compliance as they pertain to contract management and expense vouchers, with applicable laws, regulations, contracts, and grant agreements, disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We did not review management's corrective action on prior year findings identified as deferred in the [Findings Summary](#). We will follow up on these findings in a future audit.

Exit Conference and Report Distribution

We discussed this report with management on September 13, 2023. 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 citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

AVC/vks

Findings Summary

Finding	Follow Up Status	Year(s) Issued
Develop Procedures for Proper Accrual of Accounts Payable	New	2022
Ensure Proper Use of Expense Vouchers	New	2022
Improve Contract Administration	New	2022
Strengthen Internal Control over Federal Awards	Deferred*	2017, 2020
Improve Controls over Financial Attachment Preparation	Deferred*	2020

*Follow-up Status on prior year findings identified as "Deferred" indicates review of management's corrective action on a prior year finding will be performed in a future audit.



COMMONWEALTH of VIRGINIA

MAJOR GENERAL JAMES W. RING
THE ADJUTANT GENERAL

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

JOINT FORCE HEADQUARTERS
6090 STRATHMORE ROAD
BUILDING 430
RICHMOND, VIRGINIA 23237-1103

Staci Henshaw
Auditor of Public Accounts
James Monroe Building
101 North 14th Street 8th Floor
Richmond, VA 23219

21 September 2023

Dear Ms. Henshaw,

This letter is in response to the recently completed audit of the Department of Military Affairs by your staff. DMA agrees with the audit findings and recommendations and has begun the process of developing the corrective actions required by our agency to improve our performance in the areas that your team identified in their summary report. DMA greatly appreciates the work that your team put into this review, and we will keep your team advised as to our progress in addressing the findings, as well as the recommendations made in the report. Again, DMA thanks both you and your team for the time spent with us to assist in helping DMA improve its operations.

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Donald L. Unmussig Jr.
Chief Financial Officer
Virginia Department of Military Affairs

DEPARTMENT OF MILITARY AFFAIRS

As of June 30, 2022

Major General Timothy P. Williams
Adjutant General

Donald L. Unmussig
Chief Financial Officer