AUDIT SUMMARY

Our audit of the Department of Military Affairs for the two-year period ended June 30, 1998, found:

- no weaknesses in the internal control structure;

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

- no instances of noncompliance that are required to be reported.

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April 13, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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 two-year period ending June 30, 1998. We conducted our audit in accordance with Government Auditing Standards.

AGENCY 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 wars and other times of crisis. The Department also provides assistance during natural disasters. The Department employs 184 salaried and 109 hourly workers. Funding comes primarily from federal contracts.

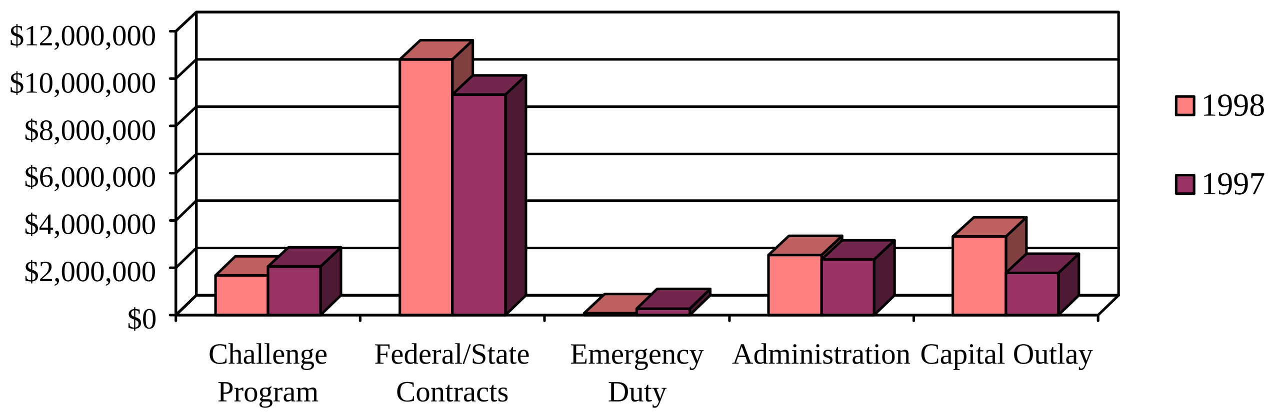
As part of the Department's responsibility, it maintains several facilities throughout the state including 48 armories, two Air Guard sites, and 16 maintenance sites. The Department has its administrative headquarters at Fort Pickett, in Blackstone. The majority of the Department's expenses are for the maintenance and operation of these facilities, and personnel costs.

The Department relocated to Fort Pickett on December 7, 1998. Under the federal Base Realignment and Closure action of 1995, Fort Pickett came under the control of the Department of Military Affairs and will serve as the training site for the Virginia National Guard. The Department moved its headquarters to the site to support these operations. Through February 1999, the cost of relocation is approximately $5.5 million. The Department expects to complete the project within the original estimated cost of $5.7 million. The majority of the expenses have gone for building renovations, employee relocation costs, and severance pay.

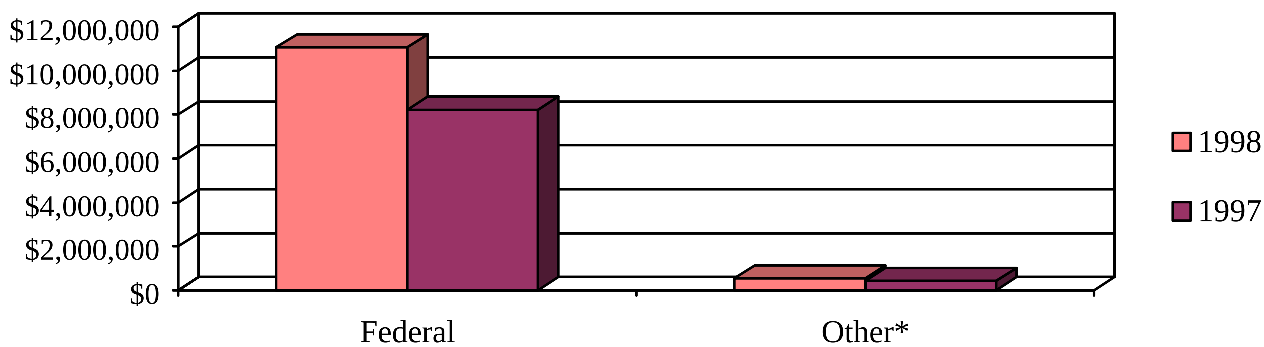
The Department has a "use agreement" with the US Department of the Army for the training and support of the Virginia National Guard and other Department of Defense activities at Fort Pickett. Transfer of ownership of the base was not part of the use agreement. For any actions or remediation of environmental laws associated with the base, the Secretary of Defense agreed to hold harmless, and the Commonwealth does not accept any liability or responsibility. While either party may terminate the agreement, the federal government agreed not to terminate the agreement for a period of fifty years with respect to the portion of the base used for the operation of the Department of Military Affairs State Headquarters.

The following charts indicate expenses and sources of revenue for fiscal years ending June 30, 1997, and 1998.

Expenditures



Revenue



*Consist of State Military Reservation Rental, Parking, Armory Rental and General fund appropriations

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit's primary objectives were to review the Department's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, adequacy of the internal control structure, and compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations for the period July 1, 1996 through June 30, 1998. 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.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered the materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the Department's financial operations, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The results of our tests of compliance found for the items tested, the Department complied, in all material respects, with applicable laws and regulations.

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.

AUDITOR OF PUBLIC ACCOUNTS

THC:whb
whb:20

DEPARTMENT OF MILITARY AFFAIRS
Richmond, Virginia

(Current)
Major General Claude A. Williams
Adjutant General

(During audit Period)
Major General Carroll Thackston

James Gargasz
Deputy Administrator