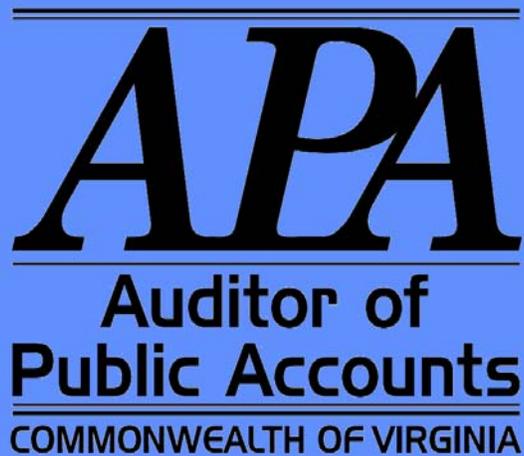


DEPARTMENT OF MILITARY AFFAIRS

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2011 AND JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Department of Military Affairs for fiscal years ending June 30, 2011, and June 30, 2012 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- resolution of issues from our prior reports.

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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 receives funding through multiple sources, but the agency's primary funding source for operations is federal funds. Delays in federal funds in recent years have resulted in cash flow issues and the need for a treasury loan to fund operations. In both fiscal years 2011 and 2012, Military Affairs received treasury loans of \$5 million and \$23 million respectively, to resolve the cash flow issues caused by the funding delays. Federal funds were delayed due to implementation of a new accounting system for the Department of Defense as well as delays in the federal budget process. Military Affairs has requested another treasury loan for fiscal year 2013 for \$15 million, and they anticipate they will have to continue to utilize treasury loans to meet the agency's cash flow needs if federal funding delays continue.

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 tables show the budget and actual operating activity for Military Affairs by program over the last two years. The variances between the budgeted and actual expenses are primarily due to the difficulty in budgeting and anticipating federal funding.

Analysis of Budget and Actual Operating Expenses by Program

Fiscal Year 2011

Program	Original Budget	Final Budget	Expenses
Higher Education Student Financial Assistance	\$ 3,099,170	\$ 3,145,821	\$ 2,061,265
At-Risk Youth Residential Program	3,174,838	5,361,690	3,960,835
Defense Preparedness	36,755,366	35,579,245	31,643,660
Administrative and Support Services	<u>5,139,702</u>	<u>5,623,574</u>	<u>4,944,105</u>
Total	<u>\$48,169,076</u>	<u>\$49,710,330</u>	<u>\$42,609,865</u>

Fiscal Year 2012

Program	Original Budget	Final Budget	Expenses
Higher Education Student Financial Assistance	\$ 3,099,170	\$ 4,098,725	\$ 2,976,923
At-Risk Youth Residential Program	2,439,625	5,067,363	5,061,729
Defense Preparedness	39,373,101	39,234,878	33,658,527
Administrative and Support Services	<u>5,028,855</u>	<u>6,687,891</u>	<u>6,033,167</u>
Total	<u>\$49,940,751</u>	<u>\$55,088,857</u>	<u>\$47,730,346</u>

Capital Outlay and Facilities Maintenance

Military Affairs maintains and operates 46 armories across the state. Armories serve as central locations for National Guard training and recruiting as well homeland defense and emergency response activities. Furthermore, armories are used for civic events and are available for use as shelters for citizens of the Commonwealth. There are various funding arrangements for the operations and maintenance of the armories. Generally, the state and federal governments share armory operating and maintenance costs. In some localities, the local government also participates in the cost of operating armories.

Many of the armories are older and in need of major maintenance and repairs. To address this, Military Affairs has made facility maintenance and repair a priority over the last few years. Military Affairs hired a new facility director and received additional funding for armory maintenance and repair. In fiscal year 2012, Military Affairs received an additional \$9.5 million in federal funds for armory improvements. The General Assembly also appropriated \$7.2 million in Virginia Public Building Authority (VPBA) bond funds for armory repair and maintenance. The following table shows the budget and actual capital outlay activity for fiscal year 2012. Most of these projects will span several years which explains why the budget is significantly more than expenses in fiscal year 2012.

Analysis of Budget and Actual Capital Expenses for Fiscal Year 2012

Funding Source	Final Budget	Expenses
General Fund	\$ 126,633	\$ 34,161
VPBA Projects Fund	7,202,270	1,072,530
Federal Trust Fund	<u>9,500,000</u>	<u>2,361,505</u>
Total	<u>\$16,828,903</u>	<u>\$3,468,196</u>



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 3, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Military Affairs** for the years ended June 30, 2011, and June 30, 2012. 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 Military Affairs' internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

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.

- Cooperative Funding Agreements (federal grant revenues)
- Fixed Assets
- Expenses, including capital outlay
- Payroll
- Small purchase charge card

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 analysis.

Conclusions

We found that the Department of 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 no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance 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.

Military Affairs has taken adequate corrective action with respect to audit findings reported in our prior years' reports that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on June 12, 2013.

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

LCW/alh

AGENCY OFFICIALS

DEPARTMENT OF MILITARY AFFAIRS

Major General Daniel E. Long, Jr.
Adjutant General

Colonel Donald R. Sutherland
United States Property and Fiscal Officer

Colonel Paul F. Griffin
Director of Joint Staff

Jamie Lewis
Director of Fiscal Operations