

**DEPARTMENT OF MILITARY AFFAIRS**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2007**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the Department of Military Affairs for the year ending June 30, 2007 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 operations necessary to bring to management's attention; and
- two 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 Information Security Program

The Department of Military Affairs (Military Affairs) does not have a complete or current information security program; therefore they do not meet Virginia's information technology security standard (COV ITRM SEC 501-00). A security program should include policies and procedures to provide reasonable assurance that appropriate levels of confidentiality, integrity, and availability exist over data in the Department's possession.

Military Affairs has a unique situation in that some of their computers are on the Commonwealth's networks while some are part of federal networks. It is our understanding that Military Affairs has tentative approval from the Virginia Information Technology Agency to move all of their computers onto the federal network, thus requiring them to follow federal information security standards. It is not clear when this transition will be complete. In the meantime, we recommend that Military Affairs develop a comprehensive information security program that will meet industry best practice.

### Properly Complete Employment Eligibility Verification Forms

Military Affairs is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the U.S. Department of Homeland Security. A sample of fifteen I-9 forms completed in fiscal year 2007, found two I-9 forms incorrectly completed.

U.S. Department of Homeland Security regulates the process for completing the I-9 forms and failure to complete the forms properly can result in significant penalties to both the employee and employer. Because of the potential sanctions, we recommend that the Human Resources Division train human resource employees on the requirements of completing I-9s and then develop a process for continuously reviewing Military Affairs's I-9 process.

The federal government has increased its enforcement efforts related to hiring illegal immigrants, which makes having a good I-9 process in place more important than ever before. Although we did not find this particular issue at Military Affairs, we recommend that Military Affairs be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the Department of Homeland Security considers it a form of harassment.

Additionally, the Departments of Accounts and Human Resource Management, which help regulate and coordinate the Commonwealth's efforts in obtaining I-9 form information, provide training, and we recommend Military Affairs take advantage of this effort.

AGENCY HIGHLIGHTS

The Department of Military Affairs manages, trains, and supervises the Virginia National Guard, the Virginia State Defense Force, the naval Militia, and the unorganized militia. The Virginia National Guard reinforces the active military during war and crisis. It also provides civil authorities assistance during times of peace, civil disturbance, and natural disasters. Military Affairs maintains several facilities including administrative headquarters, armories, Air Guard sites, and maintenance sites.

During fiscal year 2007, Military Affairs made some organizational changes in the finance area. The Director of Fiscal Operations left Military Affairs in December 2006, and Military Affairs employed a new Director of Fiscal Operations in April 2007. During this vacancy, the Controller for the Department of Corrections occasionally filled in as a temporary director.

Military Affairs receives funding through multiple sources, including General Fund appropriations, federal grants, and rental income. Federal funds are the agency's primary funding source. Military Affairs uses its funding for tuition assistance for members of the National Guard, armory maintenance and repair, and administrative staff support. As shown below in the Analysis of Budget and Actual Expenses by Program, Military Affairs received an additional \$10 million during the fiscal year, of which \$9 million was an increase in federal funding.

Analysis of Budget and Actual Expenditures by Program  
Fiscal Year 2007

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>Funding Sources</u>			
				<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Dedicated Fund</u>	<u>Federal Fund</u>
Higher education student financial assistance	\$ 2,695,421	\$ 2,694,524	\$ 2,359,697	\$2,359,697	\$ -	\$ -	\$ -
Defense preparedness	26,495,389	34,032,358	32,059,585	3,519,822	825,368	324,867	27,389,528
At risk youth residential program	3,653,732	4,376,722	4,009,174	1,197,227	-	232,855	2,579,092
Administrative and support services	<u>5,621,357</u>	<u>7,024,952</u>	<u>5,149,079</u>	<u>2,460,333</u>	<u>-</u>	<u>17,460</u>	<u>2,671,285</u>
Total	<u>\$38,465,899</u>	<u>\$48,128,556</u>	<u>\$43,577,535</u>	<u>\$9,537,080</u>	<u>\$825,368</u>	<u>\$575,182</u>	<u>\$32,639,905</u>



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

June 12, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of Military Affairs** for the year ended June 30, 2007. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

The Department's 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 and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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.

Expenses, including payroll  
Small purchase charge card  
Cash receipting  
Network security

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

### Conclusions

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 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 compliance with applicable laws and regulations 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 20, 2008. Management's response has been included at the end of this report.

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/clj



# COMMONWEALTH of VIRGINIA

ROBERT B. NEWMAN, JR  
THE ADJUTANT GENERAL

*Department of Military Affairs  
Adjutant General's Office  
Building 316, Fort Pickett*

BLACKSTONE, VIRGINIA 23824-6316

June 23, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P O Box 1295  
Richmond, Virginia 23218

Dear Mr. Kucharski:

Attached is our detailed response to the audit of the Department of Military Affairs for fiscal year ended June 30, 2007. We concur with the findings and recommendations made in the audit report and have already implemented some corrective actions.

An exit conference is not necessary. If you have additional questions, please feel free to give me a call at 434-298-6419.

Respectfully,

A handwritten signature in cursive script that reads "Linda L. Coleman".

Linda L. Coleman  
Director of Fiscal Operations

cc: Major General Robert B. Newman, Jr.  
Stephen L. Huxtable  
COL Daryl Francis

Department of Military Affairs  
Audit Response to FY 2007 Audit Performed by the Auditor of Public Accounts

Management Point 1: Improve Information Security Program

Most of the Department of Military Affairs' (DMA) computers operate on the federal National Guard Bureau network and are subject to information security requirements established by the Department of Defense. These requirements are more stringent than those of the Commonwealth of Virginia. The agency has only a few computers on the state's network, and these are located at Fort Pickett, Blackstone, and the Challenge Program in Virginia Beach. During fiscal year 2008, the agency received approval from VITA to migrate all of the computers at Fort Pickett and 12 of the computers at the Commonwealth Challenge program onto the federal network. The migration is in process and should be completed by July 31, 2008. The only computers remaining on the state's network are located with the Challenge program.

DMA is currently working with VITA/NG partnership staff to meet the COV ITRM SEC 501-00 standards for the remaining computers. This process should be completed by July 31, 2008.

Management Point 2: Properly Complete Employment Eligibility Verification Forms

The agency became aware of the proper steps to take to complete the I-9 forms when the Human Resource staff attended the annual HR Conference. Since that time, we have sent sample I-9 forms to the various locations that process these forms and have discussed the I-9 requirements with employees who assist new employees in completing the forms.

AGENCY OFFICIALS

Department of Military Affairs

Major General Robert B. Newman, Jr.  
Adjutant General

Linda L. Coleman  
Director of Fiscal Operations

Colonel Donald Sutherland  
United States Property and Fiscal Officer

Colonel Daryl Francis  
Chief of Joint Staff

Stephen Huxtable  
Director of Personnel and Administration

