



DEPARTMENT OF MILITARY AFFAIRS

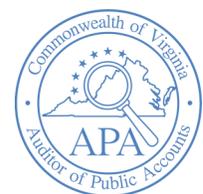
INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF

AUGUST 2020

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



- TABLE OF CONTENTS -

	<u>Pages</u>
REVIEW LETTER	1-4
AGENCY RESPONSE	5



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 11, 2020

Major General Timothy Williams, Adjutant General
Department of Military Affairs
8000 Jefferson Davis Highway, Bldg 430
Richmond, VA 23297

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Military Affairs** (Military Affairs). We completed the review on August 10, 2020. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Military Affairs is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; and debt. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Military Affairs. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings except for findings related to information system security. Information system security findings will be evaluated in the special project report over this area to be issued later this year. The agency has taken adequate corrective action with respect to all other review findings reported in the prior year that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Military Affairs' ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; and capital assets. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- **Partial Repeat** – Military Affairs follows the Commonwealth Accounting Policies and Procedures (CAPP) Manual and other statewide guidance for most administrative processes. Military Affairs has its own specific policies and procedures for many business areas; however, we noted some critical business areas where procedures needed to be improved. During our review, we noted no internal policies and procedures for two key processes, some existing policies that were lacking sufficient detail, and no written evidence of management's review and approval on many of the policies and procedures reviewed. Topic 20905 and other sections of the CAPP Manual state that each agency needs to "publish its own policies and procedures documents, approved in writing by agency management." Management should establish formal, documented procedures over all critical business processes and

ensure evidence of management's review and approval is present in order to maintain an effective control environment.

- Military Affairs does not meet the minimum requirements of Accounts' ARMICS standards. Although Military Affairs adequately performed a risk assessment over significant fiscal processes and documented the control testwork performed over these processes, the agency did not perform an agency-level risk assessment, test agency-level controls related to the general ledger or information systems, or document how the agency gathers, uses and disseminates information agency-wide. CAPP Manual Topic 10305 requires agencies to document, evaluate, and test all agency-level controls to assess each element of the control environment. Military Affairs should ensure ARMICS documentation meets the minimum requirements issued by Accounts.
- Military Affairs could not provide evidence of the completion of employee separation checklists for two selected employees who separated from the agency. Military Affairs has a checklist with sections to be filled out by the employee's immediate supervisor, human resources, payroll, and physical security, as well as a section for retirees. This form contains the required steps that Military Affairs must take for each employee who separates from the agency; however, items requiring sign off by human resources, payroll, and physical security were not completed for one employee reviewed. Additionally, there was no evidence that Military Affairs completed the separation checklist for another separated employee. Military Affairs should require documented evidence of the completion of each off-boarding task to ensure the proper processing of separating employees.
- Military Affairs' procedures for payroll certification includes a Payroll Process Checklist. The checklist includes which reports must be reviewed and includes spaces for the preparer and reviewer to sign and date when the process is complete. This checklist was not provided for the two pay periods selected for review. Management did provide other documentation for these pay periods; however, the documentation provided did not contain dates nor signatures of the preparer and reviewer. Military Affairs should ensure they are utilizing their Payroll Process Checklist to ensure that the payroll certification process is properly documented and performed timely and accurately.
- Military Affairs does not have a process in place to reconcile their internal inventory system with the Commonwealth's fixed asset system used for financial reporting purposes. The Commonwealth's fixed asset system only tracks item values over \$5,000 while the internal inventory system also tracks items with a value under \$5,000 that are at a higher risk to be misappropriated. Military Affairs does reconcile specific items from the internal inventory system to the Commonwealth's fixed asset system when specific questions arise, though there is no process in place to do this annually. Military Affairs should reconcile the two inventory systems for items with a value of \$5,000 and above to ensure the agency's inventory counts agree to the financial reporting records.

We discussed these matters with management on August 28, 2020. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

JDE\vks



COMMONWEALTH of VIRGINIA

MG TIMOTHY P. WILLIAMS
THE ADJUTANT GENERAL

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

JOINT FORCE HEADQUARTERS
8000 JEFFERSON DAVIS HWY
BUILDING 430
RICHMOND, VA 23297

29 September 2020

The Auditor of Public Accounts
Attn: Martha Mavredes
PO Box 1295
Richmond, VA 23218

Dear Ms Mavredes:

Please accept this as the Agency Response to the draft findings listed in your 11 September 2020 letter as a result of the Internal Control Questionnaire.

While the Department of Military Affairs does an excellent job of internal controls at the transaction level, we understand we have more work to do in documenting, assessing, and testing at the agency level, as well as updating and enforcing agency SOPs and policies.

We look forward to your assistance in developing and executing our Corrective Action Plan. Please contact me at donald.r.sutherland.nfg@mail.mil or 434 298-6419 for the final results. I will provide those to the Agency Head through a special briefing.

Sincerely,

SUTHERLAND.DO Digitally signed by
NALD.REEL.10323 SUTHERLAND.DONALD.REEL.1
84559 032384559
Date: 2020.09.29 16:08:24
-04'00'
Donald R. Sutherland
CFO, Va Dep't of Military Affairs