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OFFICE OF THE STATE COMPTROLLER

June 22, 2022

Major General Raymond F. Shields, Jr.
Adjutant General
Division of Military and Naval Affairs
330 Old Niskayuna Road
Latham, NY 12110-3514

Re: Internal Controls Over Selected
Financial Operations
Report 2022-F-4

Dear Major General Shields:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Division of Military and Naval Affairs (DMNA) to implement the recommendations contained in our audit report, *Internal Controls Over Selected Financial Operations* (Report [2018-S-66](#)).

Background, Scope, and Objective

DMNA manages New York State's military forces, which are composed of the New York Army National Guard, the New York Air National Guard, the New York Naval Militia, and the New York Guard. Its mission is to provide fully capable land, air, and naval military forces and facilities executing global missions across unified air and land operations in support of our communities, State, and nation.

For more than 30 years, the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act) has required State agencies and public authorities to maintain a system of internal control and to promote accountability in government. Internal controls help protect assets, information, and employees, and enable an organization to make the best decisions. The Act empowers the Division of the Budget (DOB) to issue a schedule of State agencies that are required to have an internal audit function and requires that the function be headed by an internal audit director. DOB's Bulletin B-0350, Governmental Internal Control and Internal Audit Requirements (B-350), includes DMNA among the agencies required to establish and maintain an internal audit function.

DMNA employs about 450 State and 3,880 federal employees and maintains and secures more than 50 armories, Armed Forces Readiness Centers, and other logistical and training sites throughout the State. The DMNA headquarters property manager is responsible for maintaining a real-time database of State weapons inventory and ensuring that it accurately reflects physical inventories at the bases.

DMNA receives both State and federal funding. Under the terms of a Master Cooperative

Agreement (MCA), the federal National Guard Bureau (NGB) reimburses DMNA for costs it incurs for the operation and training of the State Army and Air National Guard. Reimbursable costs include facilities, equipment and supplies, training, personnel, and travel expenses. Under the MCA, NGB will reimburse DMNA for up to 5 years (with approved extensions from NGB) after the close of the federal fiscal year (FFY) in which DMNA paid for covered costs. For example, under these terms, DMNA would need to submit requests for reimbursement by September 30, 2022 for covered costs incurred in the FFY ended September 30, 2017. A provision in the MCA requires that DMNA retain financial and other records that relate to its performance under the MCA.

DMNA policies require that all agency purchases be related to official State business and conducted in the most cost-effective manner possible. Employees who use a DMNA credit card must submit a Monthly Account Summary Transmittal (MAST) report, generally no later than the 20th of the month following the close of the billing cycle. The MAST report must include the cardholder's credit card statement, along with supporting documentation for the related purchases.

Under the State Military Law, a service member who becomes disabled while performing State service within 3 years prior to applying for a pension receives a State pension that is the same as what would be received from the U.S. government under similar circumstances. Accordingly, DMNA makes payments to certain former service members. Monthly pension payments depend on factors such as salary and years of service and must reflect cost-of-living adjustments (COLAs) and other required adjustments.

The objective of our initial audit, which was issued April 27, 2020 and covered the period April 1, 2016 to September 16, 2019, was to determine whether DMNA had adequate controls over selected financial operations to provide reasonable assurance that State assets were appropriately managed and safeguarded. During that audit, we identified numerous weaknesses in DMNA's internal controls over the areas we tested, perhaps most notably in its handling of reimbursement requests to NGB, which resulted in nearly \$1.27 million in lost reimbursements. In addition, DMNA did not maintain an internal audit function despite the requirement that it do so. We also identified significant weaknesses in DMNA's controls over accounting for employee credit card purchases, including lack of follow-up on unsubmitted support for credit card purchases that were made up to 2 years prior. There were also weaknesses in the areas of purchasing policies, weapons records, and pension payments.

The objective of our follow-up was to assess the extent of implementation, as of May 2022, of the nine recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

DMNA has made significant progress in addressing the problems we identified in the initial audit report, having implemented all nine audit recommendations from that report.

Follow-Up Observations

Recommendation 1

Establish an internal audit function in compliance with B-350 requirements.

Status – Implemented

Agency Action – Since our initial audit, DMNA established an internal audit function, with its purpose and responsibilities described in an Internal Audit Charter. DMNA also hired an Internal Audit Director (Director), whose position was approved by the DOB Director, as required, in April 2020. The Director reports directly to the Adjutant General, in compliance with the B-350 requirement that persons in this position report directly to the head of the State agency. The Director has worked with the Military and Naval Budget and Finance (MNBF) Director to address the findings that resulted from our initial audit.

Recommendation 2

Ensure that requests to NGB for reimbursement for costs covered under the MCA are adequately documented and submitted timely, and retain the related records as required.

Status – Implemented

Agency Action – During our initial audit, DMNA officials cited the transition to the Statewide Financial System (SFS) and the Business Services Center (which provides shared services to standardize State human resources and finance transactions) as contributing to the problem with missing and inadequate documentation, and stated that it was unclear who was responsible for maintaining supporting documentation. DMNA now monitors the NGB reimbursements for accuracy through a new reconciliation process that guides staff in ensuring that costs are adequately documented. The new process better matches expenses with reimbursements and includes aligning them with the appropriate part of the MCA they relate to. Records of costs are retained in SFS.

DMNA has made significant efforts to obtain reimbursement for costs incurred in the FFY ended September 30, 2017 prior to the 5-year window for reimbursement expiration on September 30, 2022. As of May 2022, DMNA had been reimbursed nearly \$32 million for that year's expenses, leaving about \$139,000 (less than 1%) to be reconciled and reimbursed. According to DMNA officials, they expect to reconcile and collect the remaining amount by the September 2022 deadline.

Recommendation 3

Provide additional guidance and/or training that addresses requirements for both credit card purchases and time records.

Status – Implemented

Agency Action – DMNA provided procurement training in late 2019 that covered purchasing methods and procedures, preferred sources, contract and purchase order management, and so on. Although the training was not specific to using credit cards for procurement, it cited credit cards as one of the methods used. During 2020, as a result of the COVID-19 pandemic, training was suspended. Annual in-person training resumed in 2021 with the option of attending virtually. Additional guidance related to cardholders substantiating their purchases is addressed under Recommendation 4.

DMNA began using the electronic Leave and Accrual Tracking System (LATS) for its time records in August 2020 (its previous system was paper-based). While DMNA didn't develop formal time record training, its Human Resource Director provided directions via email about how to use LATS, along with guidance for supervisors regarding the overtime and leave request approval process to all those affected by the change.

Recommendation 4

Implement methods to better monitor employee credit card purchases and time records that include appropriate and timely follow-up on unsubmitted MAST reports, questionable purchases, and time record discrepancies.

Status – Implemented

Agency Action – In May 2019, under the direction of the new Deputy Director of MNBF, DMNA implemented a standard operating procedure (SOP) to monitor employee credit card purchases. The SOP includes a multi-layered approval process for purchases and an enhanced process for communicating with cardholders, which includes an advance reminder from MNBF personnel to cardholders about when their MAST reports and required documentation are due, followed by more timely follow-up on unsubmitted reports.

Between April 2019 and March 2022, DMNA records indicated that there were 1,091 MAST reports associated with credit card purchases. Of the 1,091 reports, seven – totaling \$25,513 – were outstanding as of May 2022. The seven outstanding reports include five reports, totaling \$13,292, for four employees who left DMNA between March 2021 and September 2021. DMNA has assigned a supervisor to work to reconcile the outstanding reports.

DMNA revised its time and attendance policy in August 2020. The policy now includes guidance regarding record-keeping adjustments and use of LATS for time record maintenance.

Recommendation 5

Correct the pension error identified so that future payments are accurate and, as considered necessary and feasible, adjust future payments for previous errors.

Status – Implemented

Agency Action – In September 2019, during the course of our audit work, DMNA corrected the pension payment error we identified in the original audit report. DMNA officials also sent a letter to the affected pension recipient disclosing the corrected future payment amount. According to officials, future payments will include applicable annual COLAs.

Recommendation 6

Determine whether pension payments to other individuals require adjustment, and adjust them as appropriate.

Status – Implemented

Agency Action – Of its eight pension recipients, DMNA determined that it was necessary to adjust the pension payments for five additional recipients to account for the COLA-related error we identified during our initial audit. According to DMNA officials, they notified the recipients of these changes through mailed letters. In addition, DMNA's MNBF analysts developed a spreadsheet to assist in reconciling all pension payments issued by DMNA. We verified that DMNA calculated the correct amount of the COLA and that correct pension payments were issued to all eight pension recipients for the period September 2019 through March 2022.

Recommendation 7

Develop and implement a process that ensures pension benefit calculations are accurate.

Status – Implemented

Agency Action – DMNA developed and implemented an SOP that took effect in October 2020 and that includes instructions on obtaining COLA changes from the Social Security Administration website and calculating resulting revised payments. The process also includes an additional employee's review of the calculation to enhance accuracy.

Recommendation 8

Revise purchasing and receiving policies as needed to clarify which, if any, purchases are exempt from their provisions.

Status – Implemented

Agency Action – DMNA revised its Procurement Procedure in January 2021. The revised Procedure includes detailed guidelines for the purchasing process and a list of purchases that are exempt from its provisions (such as travel-related tolls and real estate leases). According to DMNA officials, they shared the Procedure with relevant personnel via email.

Recommendation 9

Develop and implement guidance that addresses appropriate methods to record, maintain, and reconcile weapons records.

Status – Implemented

Agency Action – In response to our initial audit, in which we found that DMNA's existing policies did not address weapons inventory, in August 2020, DMNA developed a policy to record, maintain, and reconcile weapons records. We reviewed information on site at DMNA that documented the process personnel are now using to conduct monthly reconciliations between the information in the centralized database and the base records, in accordance with the new policy. We also saw evidence that use of the new process identified a necessary adjustment.

Major contributors to this report were Ray Barnes, Kathleen Garceau, and Joseph Southworth.

We thank the management and staff of DMNA for the courtesies and cooperation extended to our auditors during this engagement.

Very truly yours,

Sharon L. Salembier, CPA, CFE
Audit Manager

cc: Amy McLaughlin, Director, Internal Audit