



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Military and  
Veterans' Affairs**

July 1, 2007 to July 31, 2009

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## New Jersey State Legislature

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The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
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Enclosed is our report on the audit of the Department of Military and Veterans' Affairs for the period of July 1, 2007 to July 31, 2009. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
Assistant State Auditor  
December 18, 2009

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## Department of Military and Veterans' Affairs

### *Scope*

We have completed an audit of the Department of Military and Veterans' Affairs for the period July 1, 2007 to July 31, 2009. Our audit included Central Operations, Veterans' Program Support, and National Guard Program Support activities accounted for in the state's General Fund. This audit did not include the three veterans' homes at Menlo Park, Paramus, and Vineland which we audit separately. We also did not audit the Korean War Memorial Fund. The primary responsibilities of the department are to provide care and services to New Jersey veterans and to support National Guard programs. Annual expenditures and revenues for the selected programs for fiscal year 2008 were \$58.8 million and \$39.2 million, respectively and for fiscal year 2009 were \$74.2 million and \$44.8 million, respectively. The major component of revenue is received from the United States Department of Defense to support National Guard facilities. Annual construction and maintenance contract expenditures were \$15 million and \$33.8 million for fiscal years 2008 and 2009, respectively. We identified \$4.9 million in American Recovery and Reinvestment Act (ARRA) funds that are planned to be disbursed through the department. As of September 17, 2009 the department expended \$86,000 of these ARRA funds. Additionally, we identified \$25 million in ARRA funds being administered directly by the United States Department of Defense to be expended on various federal military projects in New Jersey.

### *Objectives*

The objectives of our audit were to determine whether financial transactions were related to department operations, were reasonable, and were recorded properly in the accounting systems. Special consideration was given to transactions involving ARRA funds. Our objective was to determine whether the costs charged to ARRA projects were allowable; the funds were separately accounted for in the state's accounting system; and, as with other federal funds, there are adequate

controls to assure the effective cash management, and accurate and timely reporting of ARRA funds. We also tested for resolution of significant conditions noted in our prior report dated December 17, 2003.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Department of the Treasury, policies of the department, and federal regulations. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of transactions. We also read the budget message; reviewed financial trends and grant and lease agreements; and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing. To ascertain the status of findings in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the correction action was effective.

***Conclusions***

We found the financial transactions included in our testing were related to department operations, were reasonable, and were recorded properly in the accounting systems. We also determined that costs

charged to ARRA projects were allowable; the funds are separately accounted for in the state's accounting system; and that there are adequate controls to assure the effective cash management, and accurate and timely reporting of ARRA funds. In making these determinations, we noted certain internal control weaknesses relating to armory leases, timely deposits, and a fire suppression system for information technology equipment, and a matter of compliance with the state fire code meriting management's attention. We also found that the department has resolved the significant issues noted in our prior audit report. The department has written procedures in place for the control of payments and a new computer module is being utilized by the department for their construction and maintenance contracts.

## Property Management

**Decommissioned property should be considered surplus and transferred to the Department of the Treasury.**

The department has over 50 properties with over 250 structures totaling approximately four million square feet. It is responsible for the operation and maintenance of these facilities. Facilities which have a military presence are subject to the federal funding provisions of the Master Cooperative Agreement and the Military Construction Cooperative Agreement. Under these agreements, the department is entitled to receive federal matching funds. When there is no longer a military presence and the federal government decommissions these facilities, the department is not entitled to federal matching funds and care of these buildings become the sole responsibility of the state.

Forty-three properties are classified as armories, of which 34 have space rentable to the public. We visited 13 of the 34 sites. We noted one armory in general disrepair and three others no longer fulfilling the mission of the department as military armories.

During our visit to the Burlington Armory, we noted holes in the roof in two separate locations. As a result, the hardwood floor was warping and we noted areas of chipping and peeling paint and plaster on the ceilings and walls. According to management the Burlington Armory will be decommissioned once the new Camden Armory is completed. As a result, the federal government does not want to approve matching funds to make the necessary repairs and the building continues to deteriorate. If left unrepaired, when the United States Department of Defense (USDoD) decommissions this armory, the state will take possession of a building in much worse condition and requiring even more renovation funding.

The Bridgeton, Lodi, and Princeton armories are no longer fulfilling a military purpose and have been decommissioned by the USDoD. The Bridgeton and Lodi properties are rented to

various entities. Although the department uses part of the Princeton Armory as a lawn mower repair garage and for storage, this activity and equipment could be housed elsewhere if necessary. It also leases half of the building to another state agency. These facilities have no role in the department's operations other than being income producing rental properties. They should be classified as surplus property and transferred to the Department of the Treasury's Division of Property Management and Construction.

Although N.J.S.A. 38A:12-5 authorizes the department to rent space at armories and the annual appropriation acts authorize all rental income to be used for the maintenance and upkeep of armories, the department's mission is not to be a property manager for surplus property.

### *Recommendation*

We recommend that any facilities no longer having a military presence and which are decommissioned be transferred to the Division of Property Management and Construction to be leased or evaluated for sale. We also recommend the roof at the Burlington Armory be repaired before further deterioration occurs.

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### **Armory Leasing Operations**

The Installations Division within the department is responsible for managing and leasing armories. During fiscal year 2009 there were 242 use agreement rentals totaling \$2.1 million. In fiscal year 2008 there were 255 agreements totaling \$2.2 million. Terms of the rental contract require the lessee to make payments prior to the rental period and to obtain a liability insurance policy for the period of the use.

**I**nternal controls over armory leasing operations need to be improved.

Our review of the department's armory leasing operations disclosed internal control weaknesses that, if corrected, would reduce the risk of

uncollectible receivables and improve the accountability of receipts. The following internal control weaknesses were noted.

- There is a lack of segregation of duties in the department's armory leasing function. One individual within the Installations Division has complete authority and is responsible for entering into all facility use agreements, including the negotiation of the rental price. This same individual maintains control of the cash receipts and accounts receivable functions on these rentals.
- Departmental Directive DD 680.41 Building & Grounds, Lease of Armory Facilities to Others states that payments for armory use will be obtained in advance of use date. However, payments are not always collected in advance, which has led to an outstanding accounts receivable of \$76,791 dating back to fiscal year 2000. In addition, State Treasury Circular Letter 06-03-OMB Statewide Non-Tax Debt Collection and Write-Off states if an agency is unable to collect a debt within 90 days, the account shall be transferred to the Department of the Treasury, Division of Revenue, Accounts Receivable and Collections Bureau for further collection efforts. On August 26, 2009, \$42,411 of the accounts receivable balance was 90 days overdue. These receivables ranged from \$25 to \$13,500. The department's current practice is to actively pursue the collection of debt before seeking guidance from the Department of Law & Public Safety, Office of the Attorney General. It does not include transferring the collection responsibility to the Division of Revenue.

- Treasury Circular Letter 94-24-OMB Deposits by State Agencies states that all moneys are to be deposited on the same day as received. We found all 55 cash receipt documents from armory rentals tested during fiscal years 2008 and 2009 were not deposited timely. These deposits totaled \$223,805 and ranged from \$25 to \$87,824. The department was taking an average of 27 days from receiving to depositing a receipt. Timely deposited checks maximize interest earnings and cash flows and are less likely to be lost or misappropriated.
- Our fiscal year cut-off test found that receipts were being withheld from deposit and not recorded on the accounting system until the following fiscal year. During fiscal year 2008 seven checks received between March 31 and May 30 totaling \$96,144 were held until July 2008 and not deposited and recorded as revenue until fiscal year 2009. Additionally, three checks totaling \$5,593 received on June 2 and 3, 2009 were not deposited until July 2009 and inappropriately recorded as fiscal year 2010 revenues.

It is management's responsibility to establish and maintain an adequate system of internal controls. A strong system of internal controls is essential in achieving the proper conduct of government business with full accountability for the resources made available and includes adequate segregation of duties between functions. They also facilitate the achievement of management objectives by serving as checks and balances against unauthorized or undesired actions.

***Recommendation***

We recommend that the department improve their system of internal controls by complying with their written policies and procedures regarding the armory leasing function and implementing

procedures which adequately segregate duties. We also recommend that the department comply with the Department of the Treasury circular letters regarding the collection of accounts receivables and the processing of timely deposits.

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### **Fire Suppression System**

**A fire suppression system should be installed in the data centers.**

A data center is a facility used to house computer systems and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls (e.g., air conditioning and fire suppression) and security devices.

The department's system equipment is located across three rooms in the basement of the department's administrative building. The main computer room houses the access point for the Garden State Network and other telecommunications devices. The other two rooms house backups for the telecommunications devices and servers. None of these rooms are protected by fire suppression equipment.

The department has a computer system backup policy and did run a successful disaster recovery exercise. In the event of fire, the data itself would be recoverable. However, there would be a substantial loss of time and money if the equipment was damaged by fire.

#### ***Recommendation***

We recommend the department provide a fire suppression system for the basement data centers. Based on our analysis, the benefits outweigh the investment of installing this needed system.

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## Fire Safety Code Violations

**The department should correct deficiencies cited in the code violations.**

The New Jersey Division of Fire Safety, Bureau of Fire Code Enforcement in the Department of Community Affairs is responsible for compliance with the New Jersey Uniform Fire Safety Act in all state buildings. The department's administrative building has several code violations. Per the Notice of Violations and Order to Correct dated October 28, 2008, the department was cited for three violations of the code. Two items were previously reported in May 2005 and one was reported in August 2006.

### *Recommendation*

We recommend the department seek funding to correct these fire safety issues to ensure the safety of staff and visitors to the building and for the protection of the property.

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## State of New Jersey

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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JON S. CORZINE  
Governor  
Commander-in-Chief

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GLENN K. RIFTH  
Major General  
The Adjutant General

14 December 2009

Mr. Stephen M. Eells  
Assistant State Auditor  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
PO Box 067  
Trenton, NJ 08625-0067

RE: Office of Legislative Services Audit Report  
Period July 1, 2007 to July 31, 2009  
Department of Military and Veterans Affairs

Mr. Eells:

My Department has reviewed the findings and recommendations of the subject audit. Below are summaries of the audit findings and recommendations in addition to our comments that are to be presented in the final report.

### **Property Management**

#### **Audit Finding**

The audit found three armories (Bridgeton, Lodi, and Princeton) no longer fulfilling a military purpose. In addition, the report noted holes in the roof at the Burlington Armory.

#### **Audit Recommendation**

The audit recommended that any facilities no longer having military presence and which are decommissioned be transferred to the Division of Property Management and Construction to be leased or evaluated for sale. We also recommend the roof at the Burlington Armory be repaired before further deterioration occurs.

## **Department Comments**

The Department of Military and Veterans Affairs, in coordination with the New Jersey National Guard, will conduct a thorough analysis and evaluation of all existing National Guard facilities for a determination if any should be transferred to the Division of Property Management and Construction to be leased or evaluated for sale. Additionally, the Department of Military and Veterans Affairs will request an additional appropriation from the Legislature for repair of the roof at the Burlington Armory.

## **Armory Leasing Operations**

### **Audit Finding**

The audit found a lack of segregation of duties in the Department of Military and Veterans Affairs' Armory leasing function. Additionally, the audit found that not all of the armory lease payments were collected in advance of its use date and over \$42,000 was 90 days overdue. Furthermore, the audit found that the Department was taking an average of 27 days from receiving to depositing a lease receipt. Finally, the audit found that Department was holding lease receipts for deposits for the following fiscal year

### **Audit Recommendation**

The audit recommended that the department improve their system of internal controls by complying with their written policies and procedures regarding the armory leasing function and implementing procedures which adequately segregate duties. We also recommend that the department comply with Treasury circular letters regarding the collection of accounts receivables and timely deposits.

### **Department Comments**

The Department of Military and Veterans Affairs will review their system of internal controls for compliance with their written policies and procedures regarding the armory leasing function and will implement procedures which adequately segregate duties. Additionally, the Department of Military and Veterans Affairs will ensure compliance with applicable Treasury circular letters regarding the collection of accounts receivables and timely deposits.

## **Fire Suppression System**

### **Audit Finding**

The Audit found that the Department of Military and Veterans Affairs' computer and telecommunication systems are located in the basement in rooms without fire suppression equipment.

### **Audit Recommendation**

We recommend that the department provide a fire suppression system for the basement data systems. Based on our analysis, the benefits outweigh the investment of installing the needed system.

### **Department Comments**

The Department of Military and Veterans Affairs will request an additional appropriation from the Legislature for the installation of a fire suppression system for the basement data systems.

### **Fire Safety Code Violations**

#### **Audit Finding**

The Audit found that the Department of Military and Veterans Affairs has several fire code violations.

#### **Audit Recommendation**

We recommend that the department seek funding to correct these fire safety issues to ensure the safety of staff and visitors to the building and for the protection of the property.

#### **Department Comments**

The Department of Military and Veterans Affairs will request an additional appropriation from the Legislature to correct the fire safety issues in its headquarters in Lawrenceville in order to ensure the safety of its employees and visitors to the building and for the protection of the property.

Please contact Mr. Roger Bushyeager of my staff if you have any questions in regard to our comments at (609) 530-6941.

Sincerely,



GLENN K. RIETH

Major General, NJ Army National Guard  
The Adjutant General