Department of Military and Veterans’ Affairs

July 1, 2001 to August 31, 2003

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State Auditor
Enclosed is our report on the audit of the Department of Military and Veterans’ Affairs for the period July 1, 2001 to August 31, 2003. If you would like a personal briefing, please call me at (609) 292-3700.
Department of Military and Veterans’ Affairs

Scope
We have completed an audit of selected programs of the Department of Military and Veterans’ Affairs for the period July 1, 2001 to August 31, 2003. The programs included in our audit were Central Operations, Veterans’ Program Support, and National Guard Program Support. Our audit included financial activities accounted for in the state’s General Fund and the Korean Veterans Memorial Fund.

The prime responsibilities of the department are to provide care and services to New Jersey veterans and to support national guard programs. Annual expenditures and revenue for the selected programs in our scope were $39 million and $5.7 million, respectively. The major component of revenue is funds from the U.S. Department of Defense to support national guard facilities within the state. Annual construction and maintenance contract expenditures were $5 million.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the department’s programs, were reasonable, and were recorded properly in the state accounting system. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, 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 State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and 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. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that financial transactions included in our testing were related to the agency’s programs, were reasonable, and were recorded properly in the state accounting system. In making this determination, we noted certain internal control weaknesses relating to construction and maintenance contract costs and recoveries that merit management’s attention. We also found that the department has resolved the significant issues reported in our prior report.
Construction and Maintenance Contracts

Database

The department does not utilize a centralized contract database. The Contract Administration Unit is waiting for the establishment of a federal contract module which is in the planning stages. As a result the department’s ability to efficiently analyze contract data is diminished. Information related to the contracts is maintained in the state accounting system, on individual personal computers, in the Facilities Management Office’s (FMO) database, and in project folders established for each contract. Our review of the information available disclosed that none of the data sources have complete and accurate contract information. In addition, our review noted that the databases and the project folders do not comprise a system that allows management to efficiently monitor compliance to key control issues. A comprehensive database that provides all information per project and allows management to review the status of compliance with control issues would provide management greater control.

Change Orders

Testing of contracts disclosed that change orders are being processed for work not in the scope of the original contract. To obtain the benefits of competitive prices, substantive changes to the scope of a contract should be rebid. Seven of the 23 contracts in our sample population had change orders which authorized work that constituted a material change in the scope of work from the original contract. The increases to the contracts exceeded $760,000 and ranged from 9 percent to 954 percent.

The supporting documentation for change orders did not provide sufficient information to verify that an
adequate analysis of the justification and cost of the change orders was conducted as required by departmental procedures. Six of the 23 contracts tested had at least one change order that lacked the required evaluation.

Our review also disclosed that change orders were used that added significant cost to the original contract price. The department’s change order procedures do not address changes to a contract which result in a significant dollar increase to the project. Our testing disclosed one maintenance contract with an initial cost of $107,700 that had additional work that increased the price by $212,600 using change orders. There is no indication that consideration was given to re-bidding the contract or that the vendor provided the services at a discounted amount.

Payment Controls

The department does not have written procedures detailing responsibilities related to contract payments. Our test of construction and maintenance contracts disclosed that 13 of 17 contracts in our review did not have evidence of field inspections by the staff of the Office of Code Compliance within the Installations Division. The total value of these 13 contracts was $11.5 million. Our review also disclosed that the Office of Code Compliance does not have written procedures to control the inspection process. As a result the department has no assurance that all vendor billings are accurate or that all work has been completed in compliance with the specifications of the contract.

The department’s change order procedures do not include provisions to control the billing for work prior to authorized changes in the contract. Two of the 23 contracts tested had change orders totaling $20,600 that were processed after the work had been completed by the vendor. In one of these cases, the
vendor’s bill was the sole supporting documentation for the change. The information on the bill was not calculated properly. In addition the subcontractor’s invoice contained alterations, making it impossible to verify that the change order was fair or reasonable. Our test of contract payments also disclosed instances where payments were not in agreement with the contracted price. Two of the five contracts reviewed had payments which exceeded the contracted amount by $11,500. One contract had five payments totaling $16,500 for items that were not included in the original bid or change order process.

The lack of adequate control procedures and a system to monitor effectiveness subjects the department to the risk that contract payments are not proper and that the most effective use of funds is not being achieved. Several state organizations have a primary function of construction contract management. Our review of these organizations has noted they have in place effective management and construction internal control systems.

**Recommendation**

We recommend that the department seek guidance from the state’s organizations that deal with construction/contract management to assist in establishing written procedures that address the key control requirements and systems to monitor their effectiveness.

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Federal Reimbursement

Our review of 20 contracts disclosed that one did not contain a request for the proper federal matching funds. National Guard Regulation 5-1 allows for a 75 percent federal match in minor construction
projects. The state’s cost could have been reduced by $198,000 had the proper federal match been requested.

**Recommendation**

We recommend that management review procedures to ensure that all contracts have the proper federal match and determine if reimbursement can still be obtained for the instance cited above.