

DEPARTMENT OF MILITARY AFFAIRS

Educational Dollars for Duty Program,
Administration of Selected Activities,
and Prior Audit Follow-Up



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Adjutant General of the Department of Military Affairs

Section 250.05, Florida Statutes, creates the Department of Military Affairs. The head of the Department of Military Affairs is the Adjutant General, who is appointed by the Governor, subject to confirmation by the Senate. The following Adjutant Generals served during the period of our audit:

Major General Michael A. Calhoun	From March 29, 2015
Major General Emmett R. Titshaw, Jr.	Through March 28, 2015

The team leader was Dennis W. Gay, CPA, and the audit was supervised by Randy R. Arend, CPA.

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DEPARTMENT OF MILITARY AFFAIRS

Educational Dollars for Duty Program, Administration of Selected Activities, and Prior Audit Follow-Up

SUMMARY

This operational audit of the Department of Military Affairs (Department) focused on the Department's administration of the Educational Dollars for Duty program and other selected activities including non-appropriated enterprise fund activities and construction project administration. Our audit also included a follow-up on the findings noted in our report No. 2013-010. Our audit disclosed the following:

Educational Dollars for Duty Program

Finding 1: Department controls for the administration of the Educational Dollars for Duty program need improvement.

Non-Appropriated Enterprise Fund Activities

Finding 2: As similarly noted in our report No. 2013-010, the Department's administration of the Camp Blanding Joint Training Center activities did not always ensure economic and efficient operations or compliance with applicable laws, rules, and other guidelines.

Finding 3: As similarly noted in our report No. 2013-010, the Department did not adequately ensure that required non-appropriated enterprise fund activity business plans were properly executed and that the plans appropriately specified provisions for employee bonuses. In addition, the Department did not ensure that periodic physical inventories for the Post Exchange store were timely completed and reconciled to perpetual inventory records and subsidiary accounting records.

Finding 4: Dining activity operations did not ensure sufficient resources were available to pay expenses.

Construction Project Administration

Finding 5: The Department's oversight of construction contracts did not always ensure that payment and performance bonds were recorded in the public records of the applicable county or that proper insurance coverages were obtained and maintained by contractors and architects.

Finding 6: Enhancements could be made in the administration of construction management projects to better ensure that expenditures for guaranteed maximum price contracts are adequately supported prior to payment.

Other Administrative Activities

Finding 7: As similarly noted in our report No. 2013-010, Department purchasing card controls need enhancement.

Finding 8: The Department's controls for the administration of the requirements of the Florida Single Audit Act as applicable to the About Face and Forward March programs need improvement.

Finding 9: The Department's motor vehicle record keeping and procedures could be improved.

BACKGROUND

The Department of Military Affairs (Department) provides management oversight and administrative support to the Florida National Guard.¹ The Florida National Guard, as a part of the organized militia of the State, is a reserve component force of the United States Department of Defense, National Guard Bureau, and is to operate within the policy guidance and fiscal framework of both Federal and State authorities. While the Adjutant General serves as Department head, the Governor is the Commander-in-Chief of the Florida National Guard.²

The Department's stated mission is to provide Florida National Guard units and personnel to support national security objectives; to protect the public safety of citizens; and to contribute to national, State, and community programs that add value to the United States of America and to the State.

In total, according to Department records, approximately 2,300 Federal civilian employees, Federally employed military technicians, Active Guard Reserve personnel, and State employees were assigned at Army and Air National Guard units throughout the State in support of more than 12,000 Florida National Guard soldiers and airmen. According to the *Adjutant General's Annual Report* for the 2014 fiscal year, State and Federal funding of the Department and Florida National Guard was approximately \$510 million for 2014³ and included approximately \$41.6 million in operating appropriations and \$44 million in capital appropriations from Federal cooperative agreements administered by the Department through its State budget and accounts. The Department was authorized 418 and 459 State employee positions for the 2013-14 and 2014-15 fiscal years, respectively, and more than half of these positions were partially or fully funded by the Federal Government.⁴

Headquartered in St. Augustine, the Department maintains 61 armories in 39 Florida counties. The Department also maintains and operates the Camp Blanding Joint Training Center (CBJTC) located in Clay County. The CBJTC is a 73,000-acre post that supports numerous large training activities for the Florida National Guard; the United States Army, Navy, Air Force, Marines, and Coast Guard; and numerous law enforcement agencies. According to the *Adjutant General's Annual Report* for the 2014 fiscal year, the CBJTC supported training on 295 days for approximately 320,000 personnel from 250 military and civilian organizations.

FINDINGS AND RECOMMENDATIONS

EDUCATIONAL DOLLARS FOR DUTY PROGRAM

State law⁵ specifies that the Adjutant General is to develop an education assistance program for members in good standing of the Florida National Guard who enroll in an authorized course of study at

¹ Section 250.05, Florida Statutes.

² Section 250.06, Florida Statutes.

³ Amount includes funding from State sources during the July 1, 2013, through June 30, 2014, State fiscal year and funding from Federal sources for the October 1, 2013, through September 30, 2014, Federal fiscal year.

⁴ Chapters 2013-40 and 2014-51, Laws of Florida.

⁵ Section 250.10(7) and (8), Florida Statutes.

an appropriately accredited or licensed public or nonpublic institution of higher learning in the State. This program, the Educational Dollars for Duty (EDD) program, received legislative appropriations of \$1,781,900 and \$3,472,525 for the 2012-13 and 2013-14 fiscal years, respectively, and the Department reported expenditures for the payment of tuition and fees of \$1,736,868 and \$2,182,409, respectively.

Finding 1: Administration of the Educational Dollars for Duty Program

To remain eligible for the EDD program, participants are required, in part, to furnish the EDD State Education Program Administrator with a copy of their grades or transcripts from the preceding term, and maintain a minimum 2.0 grade point average.⁶ The EDD program is only to pay for courses completed by the participant, whereas the costs of any courses not completed (i.e., dropped, failed, withdrawn, or incomplete) or repeated are the responsibility of the participant and must be reimbursed to the Department. Participants are also required to reimburse the program if grades from the previous term are not submitted to the EDD State Education Program Administrator within 90 days of completing the term, or if the participant does not fulfill their service obligation (e.g., leaves the Florida National Guard during their enlistment contract period while receiving EDD program funds). Department procedures specifically provided for:

- A collection letter to be sent to participants required to reimburse the program.
- The amount owed to be reported to a collection agency if the collection letter failed to result in reimbursement.
- Uncollectible amounts to be written off when collection efforts were not successful.
- Recording an allowance for uncollectible accounts based on the EDD program's bad debt ratio.

In addition, when reimbursements are collected in the same fiscal year as the EDD program disbursements are made, the reimbursements are to be returned to the program's appropriation, whereas reimbursements related to prior fiscal-year appropriations are to be returned to the State's General Revenue Fund.

To determine whether Department personnel appropriately verified the continuing eligibility of EDD program participants, we examined the files for 40 participants who were enrolled in courses during the Spring 2013 and Fall 2013 terms. Our examination and evaluation of the Department's administration of the EDD program disclosed that:

- One of the 40 participants did not submit grades within 90 days after the Fall 2013 term concluded and, therefore, the Department sent a collection letter dated April 30, 2014, advising him that he would be required to reimburse EDD program funds if grades were not submitted within 30 days. The participant did not submit the required grades within 30 days and, as of June 30, 2015, he had not reimbursed the program. However, no further collection efforts had been made by the Department. We expanded our audit testing and, in response to our audit request, Department staff provided a listing of EDD program participants who had not, as of June 30, 2015, timely submitted grades for the Summer 2012 through Fall 2014 terms. Our examination of the listing and other applicable Department records disclosed that:
 - As shown in Table 1, although numerous participants attending classes during the Fall 2012, Spring 2014, Summer 2014, and Fall 2014 terms had failed to submit grades

⁶ Department Rules, Chapter 70-2, Florida Administrative Code, and Department Pamphlet 621-5-2, issued July 2011.

within 90 days of the end of their respective terms, the Department had not sent collection letters to the participants, requiring reimbursement if grades were not submitted within 30 days, or initiated any other collection efforts.

Table 1
EDD Program Participants Who Did Not Submit Grades, by Term

Term	Number of Participants Who Did Not Submit Grades	Amount of Tuition and Fees Paid from EDD Program Funds
Fall 2012	2	\$ 2,650
Spring 2014	169	280,901
Summer 2014	107	133,684
Fall 2014	265	511,811

Source: Department EDD program participant records as of June 30, 2015.

- The Department sent collection letters to 101 EDD program participants who had attended classes during the Fall 2012, Summer 2013, or Fall 2013 terms but did not submit grades within 90 days of the end of the respective terms. However, the most-recent collection letters sent by the Department were dated April 30, 2014, and, as of June 30, 2015, the Department had not initiated any further collection efforts although the participants had made no reimbursements. Tuition and fees paid from the EDD program for these 101 EDD program participants totaled \$158,411.
- Although 61 EDD program participants who attended classes during one or more of the Fall 2012 through Summer 2014 terms submitted grades indicating that classes had been failed or not completed, Department records did not demonstrate that the Department had initiated collection efforts, including sending collection letters to the participants notifying them of the amount they were required to reimburse the EDD program. Tuition and fees paid from the EDD program for these 61 EDD program participants totaled \$51,279.
- Twenty-one EDD program participants, with tuition and fees paid from the EDD program totaling \$42,411 and included in the amounts previously disclosed, were ineligible for the program because they had not submitted grades from a previous term that was two or more terms prior to a term they were enrolled in and participating.
- The Department had not initiated efforts to collect \$15,288 due from 5 EDD program participants who left the Florida National Guard during the period July 31, 2014, through February 18, 2015.
- Contrary to program guidelines,⁷ the Department had not recorded an allowance for uncollectible accounts or calculated a bad debt ratio for use in determining an allowance for uncollectible accounts since the 2011-12 fiscal year.
- Twelve of the 40 participants did not complete one or more courses during the Spring and Fall 2013 terms. For 3 of the 12 participants, the Department incorrectly calculated the amount to be reimbursed, resulting in one participant being overbilled by \$113 and 2 participants being underbilled by \$531 and \$125, respectively. We expanded our audit procedures to include 8 additional participants who did not complete one or more courses and noted that the Department incorrectly calculated the amounts to be reimbursed by 2 other participants, resulting in 1 participant being overbilled by \$249 and the other participant not being billed \$225 that was owed.

⁷ Department Pamphlet 621-5-2, issued July 2011.

In response to our audit inquiry, the EDD State Education Program Administrator indicated that workload demands resulting from increased legislative appropriations for the EDD program contributed to the deficiencies in accounting for participant grades and program reimbursements and that the billing errors resulted from oversights and the absence of Department procedures providing for an independent verification of the reimbursement calculations. Timely initiating collection efforts increases the likelihood of collecting amounts due and the availability of resources for other eligible participants. In addition, without an independent verification of reimbursement calculations, the risk of billing errors is increased.

Recommendation: We recommend that Department management enhance procedures for timely collecting participant grades and amounts owed to the EDD program, ensure that program funds are used only for tuition and fees for eligible participants, and establish an allowance for uncollectible accounts as specified by program guidelines. We also recommend that Department management enhance procedures to provide for an independent verification of reimbursement calculations prior to billing participants.

NON-APPROPRIATED ENTERPRISE FUND ACTIVITIES

The Department established four non-appropriated enterprise funds in the State's accounting records (Florida Accounting Information Resource Subsystem [FLAIR]) related to Camp Blanding Joint Training Center (CBJTC) activities: Billeting, Camp Blanding Recreation, Post Exchange, and Dining Hall. The Department also established five local bank accounts for the deposit of revenues generated by CBJTC activities and the payment of related expenses. The five accounts included one account each for the Camp Blanding Recreation, Post Exchange, and Dining Hall funds and two accounts for the Billeting fund (the Cottage account and an account for Chargeable Transient Quarters [CTQ] and the Regional Training Institute [RTI]). According to Department records, from July 1, 2012, through June 30, 2014, deposits into the five local bank accounts totaled more than \$10 million. As of June 30, 2014, the available cash balances in the five bank accounts totaled \$1,579,848.

To provide information and serve as a guide for the daily operation of accounts and the appropriate use of State moneys, the Department developed *Florida National Guard Pamphlet 210-5, State of Florida Non-Appropriated Enterprise Fund Accounts (FLNG Pamphlet 210-5)*. *FLNG Pamphlet 210-5* establishes the CBJTC responsibilities of the State Quartermaster, Director of Non-Appropriated Fund Accounts, and Non-Appropriated Fund Managers and was last revised in September 2012. According to *FLNG Pamphlet 210-5*, the State Quartermaster has oversight responsibilities and "is ultimately responsible for all State funds and property associated with the non-appropriated enterprise fund accounts." As part of these oversight responsibilities, the State Quartermaster's Office receives monthly statements of operations and periodically conducts audits of the non-appropriated enterprise fund accounts.

Finding 2: CBJTC Activities Oversight and Administration

In our report No. 2013-010, finding No. 1, we noted that the Department's administration of CBJTC activities did not always ensure economic or efficient operations or compliance with applicable laws, rules, and other guidelines. As part of our audit, we performed follow-up procedures to evaluate the

actions taken by Department management related to CBJTC activity oversight and administration of the related funds and accounts.

We noted that, while the Department had established four enterprise funds in FLAIR, the daily CBJTC activities were maintained in five separate subsidiary accounting records. Table 2 provides a summary of the accounting records for each subsidiary account for both the 2012-13 and 2013-14 fiscal years.

Table 2
Summary of CBJTC Activities Subsidiary Accounting Records
(Before Required Adjustments Identified by Audit)

	Billing									
	CTQ and RTI		Cottage Account		Recreation		Post Exchange		Dining	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Revenue	\$741,187	\$753,204	\$273,836	\$288,625	\$573,815 ^a	\$444,976 ^a	\$2,182,492	\$1,836,716	\$1,447,297	\$1,268,526
Cost of Goods Sold	-	-	-	-	108,940	49,921	1,520,221	1,285,268	774,057	698,807
Gross Profit	741,187	753,204	273,836	288,625	464,875	395,055	662,271	551,448	673,240	569,719
Expenses	693,061	613,346	214,433	182,678	497,158	445,597	457,529	681,573 ^b	780,897	687,039
Net Income/(Loss)	<u>\$48,126</u>	<u>\$139,858</u>	<u>\$59,403</u>	<u>\$105,947</u>	<u>\$(32,283)</u>	<u>\$(50,542)</u>	<u>\$204,742</u>	<u>\$(130,125)</u>	<u>\$(107,657)</u>	<u>\$(117,320)</u>
Available Cash Balance at June 30th	\$578,974	\$824,779	Included with CTQ	Included with CTQ	\$396,501	\$321,303	\$531,771	\$426,639	\$6,243	\$7,128

^a These amounts exclude annual membership fee income of \$128,325 for the 2012-13 fiscal year and \$223,068 for the 2013-14 fiscal year and \$78,200 for the amortization of lifetime membership fees for both fiscal years.

^b Includes a \$216,746 adjustment to reduce the reported Post Exchange inventory to agree to the inventory balance per a November 26, 2013, physical count.

Source: Department subsidiary accounting records.

In accordance with *FLNG Pamphlet 210-5*, the State Quartermaster's Office periodically conducted audits of the non-appropriated enterprise fund accounts. During the period October 2012 through June 2014, the State Quartermaster's Office conducted two operational and procedural audits and two operational and compliance audits with scopes that included various audit periods from November 2011 through December 2013. Each of these four audits included tests of employee records, verification of income, and a review of voucher file documentation. In one or more of the audits, the following areas were also reviewed: petty cash, property and equipment, and ledger and checkbook documentation. For these four audits, the State Quartermaster did not report any findings related to the non-appropriated enterprise fund accounts.

Our follow-up audit procedures disclosed that, although the Department had implemented various CBJTC monitoring and oversight activities, including audits by the State Quartermaster's Office, further improvements in CBJTC operations were still necessary to better ensure economic and efficient operations and compliance with applicable laws, rules, and other guidelines. Specifically, we found that:

- At the end of each fiscal year, the Department entered summary information from the subsidiary accounting records into the FLAIR enterprise fund records. However, the subsidiary accounting records were not always properly maintained and the FLAIR entries did not provide the data necessary to properly account for the CBJTC activities. For example:

- According to generally accepted accounting principles, enterprise funds should be presented using the economic resources measurement focus and accrual basis of accounting. The Department generally maintained the CBJTC subsidiary accounting records on the accrual basis. However, the Department did not record in the FLAIR enterprise funds the capital assets, inventories, accounts receivable, or accounts payable amounts reflected in the CBJTC subsidiary accounting records. As a result, the amounts in FLAIR were not correctly stated. As of June 30, 2014, the assets recorded in the four CBJTC FLAIR enterprise funds totaled \$1,704,348, an amount which reflected only the available cash balance in the subsidiary accounts and capital assets in Billeting, and excluded \$2,807,798 in other reported assets and \$1,593,442 in liabilities.
- For the Recreation activity, the Department overstated liabilities and understated revenues by \$585,993. The Department did not report revenues for associate (annual) memberships of \$128,325 for the 2012-13 fiscal year and \$223,068 for the 2013-14 fiscal year and, consequently, overstated liabilities by \$351,393. Similarly, the Department did not amortize and report revenues for lifetime memberships of \$78,200 for each of the 2011-12, 2012-13, and 2013-14 fiscal years, thus overstating liabilities by \$234,600 for lifetime memberships sold during the 2010-11 fiscal year. In response to our audit inquiry, Department management indicated that they had discontinued recognizing associate membership revenues after the 2011-12 fiscal year due to an oversight and, consequently, did not report any membership revenues in the subsequent fiscal years.
- The Recreation, Post Exchange, and Dining activities reported capital assets of \$1,625,903 and \$1,837,641 as of June 30, 2013, and June 30, 2014, respectively; however, the Department did not calculate and expense depreciation on these assets, thus overstating net income in each activity.
- The Department allowed certain persons to purchase 2012-13 and 2013-14 fiscal year associate memberships from the CBJTC Recreation Department for an annual fee of \$150. Persons eligible to purchase an associate membership included individuals who were sponsored by an active or retired member of the Florida Army or Air National Guard or a Department employee; Kingsley Lake homeowners; honorably discharged veterans from any branch of the United States Armed Forces; adult children, parents, and siblings of Guard members; and local law enforcement officers. The associate membership privileges included access to the Camp Blanding Post Exchange store, museum, conference center, dining facility, picnic area, primitive and recreational vehicle campgrounds, and Kingsley Lake boat ramp. According to records obtained from the Recreation Department, 1,244 and 1,373 associate memberships were sold for the 2012-13 and 2013-14 fiscal years, which should have generated total fees of \$392,550, or \$186,600 and \$205,950 for those years, respectively. However, we noted that Department personnel had not implemented procedures to periodically reconcile the number of associate memberships sold to the moneys collected. Subsequent to our audit inquiries, Department personnel reconciled the number of associate memberships sold for the 2012-13, 2013-14, and 2014-15 fiscal years to the amounts collected and noted minor differences.
- State law⁸ authorizes the Department to establish a post exchange store for members of the Florida National Guard, their families, guests, and other authorized users. The Post Exchange store is located at the CBJTC. The law requires that any Post Exchange store profits be deposited in the Camp Blanding Management Trust Fund (CBMTF) and be used to enhance the facilities and services provided by the CBJTC. State law⁹ also requires that the funds generated by the revenue-producing (i.e., non-appropriated enterprise fund) activities on the Camp Blanding Military reservation be deposited into the CBMTF and used to support required training

⁸ Section 250.10(2)(e)3., Florida Statutes.

⁹ Section 250.175(3)(a), Florida Statutes.

of the Florida National Guard. As shown in Table 2, for the 2012-13 fiscal year, the Billeting and Post Exchange activities each generated a net income and, collectively, the CBJTC activities produced net income of \$172,331.

However, the Department did not transfer any of these profits, or any profits from earlier years, to the CBMTF. For the 2013-14 fiscal year, the CBJTC activities resulted in a collective net loss totaling \$52,182 and the Post Exchange activity reported a net loss of \$130,125. In May 2014, the Department transferred \$50,000 from the Post Exchange activity to the CBMTF; however, because the Post Exchange and CBJTC activities had a net loss for the 2013-14 fiscal year, it was not evident from what net income the transfer to the CBMTF was made.

While the business plans for the Billeting and Post Exchange activities both addressed the handling of profits, the Post Exchange business plan required that 50 percent of the profits be transferred to the CBMTF and the Billeting activity business plan provided that profits be distributed to inventory, quality of life improvements, capital improvements, and new construction. Department records did not evidence the authority relied upon to provide for the transfer of only 50 percent of the Post Exchange activity profits or for retaining the Billeting activity profits in local accounts rather than transferring the moneys to the CBMTF to support the required training of the Florida National Guard. In response to our audit inquiry, Department management indicated the CBJTC activities are completely self-sustaining and thus require a reserve of operating capital to cover equipment, building repair and maintenance, inventory replenishment, and unforeseen events. Although maintaining a target reserve amount is a best practice for enterprise activities, the Department had not established guidelines indicating how such a reserve should be calculated or what constituted a reasonable reserve amount for each activity.

In addition, the National Guard Bureau, Office of the United States Property and Fiscal Officer, conducted an audit of the CTQ within the Billeting activity and released findings in November 2013. The audit reviewed and contained findings in the areas of: position descriptions, separation of duties in the handling of funds, cash receipts, property accountability, and overall internal control. The Department was in the process of drafting its official response as of April 30, 2015.

Recommendation: To better ensure economic and efficient CBJTC operations; compliance with applicable laws, rules, and other guidelines; and that the activities are administered in accordance with legislative intent, we recommend that Department management continue to enhance the procedures for and oversight of CBJTC activities. Such enhancements should include the proper accounting of CBJTC activities in the subsidiary accounting records and FLAIR; reconciling the membership records and related proceeds for the Recreation activity; and developing guidelines to establish appropriate operating reserves for CBJTC activities and to require that profits generated by CBJTC activities above the operating reserve amounts be timely deposited in the CBMTF.

Finding 3: CBJTC Activity Business Plans

FLNG Pamphlet 210-5 requires the CBJTC activities funds to operate under the guidelines and provisions of a business plan. In our report No. 2013-010, finding No. 1, we noted that the Billeting and Dining Hall activities did not have a business plan and that business plans for the Post Exchange and Recreation activities were not in effect for all applicable fiscal years. Additionally, we found that the Department paid Post Exchange employees bonuses totaling \$21,400 for the 2009-10 fiscal year, absent any approved plan. As part of our current audit, we requested and reviewed the available

business plans, and other applicable Department records, for each of the CBJTC activities (Billeting, Recreation, Post Exchange, and Dining) and noted that:

- A business plan had not been prepared for the Recreation activity, and the business plan provided for the Dining activity was a draft dated September 2012 that had not been approved. The absence of established business plans increases the risk that CBJTC activities will not operate in accordance with Department management's expectations.
- Employee bonuses were paid absent appropriate guidelines in approved business plans. Specifically:
 - The business plan for the Post Exchange activity addressed the 5-year period that ended June 30, 2015, and was approved by a former State Quartermaster on July 30, 2012. The business plan provided, in part, for employee incentives (bonuses) ranging from 3 to 6 percent of the Post Exchange's net income based on the percentage of net income to sales. However, although the business plan provided guidelines for calculating the total amounts of bonus funds available, it did not address how the bonuses should be distributed among the employees. Bonuses ranging in amount from \$200 to \$3,600 and totaling \$7,200 were paid to five Post Exchange contract employees for the 2011-12 fiscal year and bonuses ranging in amount from \$100 to \$3,600 and totaling \$9,000 were paid to nine Post Exchange contract employees for the 2012-13 fiscal year.
 - The Department paid two Recreation employees bonuses of \$250 each for the 2012-13 fiscal year although a Recreation activity business plan had not been approved.
 - The CBJTC Director was paid bonuses of \$10,000 and \$6,850 for the 2011-12 and 2012-13 fiscal years, respectively, based on the combined net income of the Post Exchange, Recreation, and Dining activities. In response to our audit inquiry regarding the authority for the bonuses paid to the CBJTC Director, we were provided e-mails between the Director and a former State Quartermaster indicating there was a verbal understanding that the Director was eligible for a bonus of 6 percent of net income, not to exceed \$10,000; however, none of the approved CBJTC business plans addressed a bonus for the CBJTC Director.
- The Post Exchange business plan required that a physical inventory of goods purchased for resale be completed annually at the end of the fiscal year and that inventories of liquor, wine, beer, and tobacco products be conducted quarterly. The physical inventory results were to be compared to the perpetual inventory records maintained in the Point of Sale (POS) system to identify any discrepancies and necessary adjustments. Department personnel advised us that complete physical inventories were not performed for the 2011-12 or 2012-13 fiscal years. Although the quantities of selected inventory items were periodically compared to the POS system, the POS inventory, subsidiary accounting records inventory, and physical inventory results had not been reconciled and the corresponding records had not been adjusted. During the 2013-14 fiscal year, the Department contracted with a vendor for a complete physical inventory. The physical inventory was conducted in November 2013 and the resulting valuation was \$25,874 less than the POS inventory value and \$216,746 less than the amount reported in the subsidiary accounting records. Subsequent to the November 2013 inventory, the Department adjusted (reduced) the subsidiary accounting records balance by \$216,746 and corrected the balances in the POS system, contributing to the reported net loss of \$130,125 shown in Table 2 for the 2013-14 fiscal year. Because the Department did not timely perform physical inventories and adjust the subsidiary accounting records and inventories reported in the POS system, the net income reported for the Post Exchange was overstated by \$128,373 and \$27,055 for the 2011-12 and 2012-13 fiscal years, respectively, and was understated by \$186,192 for the 2013-14 fiscal year. In addition, the errors in reported net income would also have affected the amounts available for the employee incentive bonuses previously discussed.

For example, for the 2011-12 fiscal year, the Department paid bonuses of \$7,200 to Post Exchange contract employees from an eligible bonus pool of 6 percent based on net income of \$234,470; however, had the POS system inventory accurately represented the physical inventory and the subsidiary accounting records been properly adjusted, a revised net income of \$106,097 would have resulted, which equates to a three percent bonus pool of \$3,183 for the Post Exchange contract employees.

Recommendation: We recommend that Department management ensure that required business plans are properly executed and that the plans specify provisions for the payment of all employee bonuses. Additionally, we recommend that Department management ensure that periodic physical inventories for the Post Exchange store be timely completed and reconciled to perpetual inventory records and the subsidiary accounting records.

Finding 4: Dining Activity

According to the Department of Financial Services' FLAIR Procedures Manual, enterprise funds are used to account for operations and activities that are primarily financed through sales and service charges to parties external to the government. Our review of the Department's non-appropriated enterprise fund activities disclosed that all are self-supporting with the exception of the Dining activity. The Dining activity received most of its revenue (61 percent for the 2013-14 fiscal year) from a Federal Cooperative Agreement which reimburses the Dining activity for meals served during National Guard training at the CBJTC. The Dining activity also receives revenue from individuals who pay for their meals at the time of sale.

The Dining activity reported operating losses for the 2009-10, 2010-11, 2012-13, and 2013-14 fiscal years, primarily because when revenues decreased, expenses did not decrease at the same rate. For example, the Dining activity reported revenues of \$1,815,414 and expenses of \$1,820,504 for the 2009-10 fiscal year, and revenues of \$1,268,526 and expenses of \$1,385,846 for the 2013-14 fiscal year. As a result of the operating losses, the net position of the Dining activity decreased from \$917,879 as of June 30, 2010, to \$93,577 as of June 30, 2014, and the available net position of the Dining activity decreased from \$661,837 as of June 30, 2010, to a deficit of \$207,921 as of June 30, 2014, or a total decrease of \$869,758. Table 3 shows the net position and available net position at June 30 for the 2010 through 2014 fiscal years.

**Table 3
Dining Activity Net Position**

For the 2009-10 Through 2013-14 Fiscal Years

Fiscal Year Ended	Net Position	Capital Assets	Inventory	Available Net Position ^a
6/30/2010	\$917,879	\$174,284	\$81,758	\$ 661,837
6/30/2011	305,819	283,573	70,686	(48,440)
6/30/2012	318,555	284,070	11,712	22,773
6/30/2013	210,897	287,059	16,212	(92,374)
6/30/2014	93,577	289,104	12,394	(207,921)

^a Available net position is net position less capital assets and inventory.

Source: Department accounting records.

The Dining activity losses resulted in cash shortfalls that were offset by loans from the Post Exchange activity, including a long-term loan of \$164,000 made in November 2011 and a short-term loan of \$242,000 made in July 2013. At June 30, 2014, the Dining activity reported loans payable to the Post Exchange activity of \$243,190. Although the Post Exchange activity was generating sufficient cash and net profits to support Dining activity operations, continued Dining activity operating losses increase the risk that the activity may not have sufficient resources to operate as a separate enterprise activity. In response to our audit inquiry regarding the Dining activity losses, Department management provided several explanations for the losses, including Federal menu and meal service requirements and related reimbursement amounts.

Recommendation: We recommend that Department management revise the Dining activity operations as necessary to ensure sufficient resources are generated to pay expenses.

CONSTRUCTION PROJECT ADMINISTRATION

During the period July 1, 2012, through February 28, 2014, the Department operated 61 readiness centers, or armories, Statewide. Approximately half of the 61 readiness centers were built more than 50 years ago and, as of July 2014, 43 readiness centers had been, or were in the process of being, modernized and renovated. The Legislature appropriated the Department \$15 million in general revenue funds for both the 2012-13 and 2013-14 fiscal years for readiness center renovations projects and to design and build an explosive ordnance disposal facility. The Department also received Federal grant funds for the 2012-13 and 2013-14 fiscal years totaling approximately \$11.6 million and \$44 million, respectively, for minor maintenance and renovation projects and for specified major construction projects. The Department's Construction and Facility Management Office (CFMO) was responsible for administering construction and maintenance activities in accordance with applicable provisions of State law¹⁰ and Department of Management Services (DMS) rules.¹¹ Department personnel provided a schedule of construction and architectural services contracts on May 2, 2014, that included projects started, finished, or in progress during the period July 1, 2012, through February 28, 2014, with construction contracts totaling approximately \$100.1 million.

Finding 5: Payment and Performance Bonds and Construction Insurance Requirements

When a governmental entity engages a contractor to construct, remodel, or renovate a facility where the project costs exceed \$100,000, State law¹² requires the contractor to execute, deliver to the governmental entity, and record in the public records of the county where the improvement is located, a payment and performance bond. The Department's construction contracts also required that contractors and architects provide certificates of insurance prior to commencing work on Department projects and, when appropriate, that the Department be named as an additional insured. The types of required insurance coverage generally included comprehensive general liability, comprehensive automobile liability, workers' compensation, and builder's risk. In addition, the Department required that certificates of professional liability insurance be provided for architectural services contracts.

¹⁰ Chapters 255 and 287, Florida Statutes.

¹¹ DMS Rule 60D-5, Florida Administrative Code.

¹² Section 255.05(1) and (1)(d), Florida Statutes.

We examined Department records to determine whether contract management procedures were adequate to ensure that required payment and performance bonds were filed for two construction project contracts and that certificates of insurance were appropriately obtained from the two construction contractors. In addition, we examined Department records to determine whether certificates of insurance were appropriately obtained for five architectural firm contracts, including three contracts associated with the two construction projects. Our audit tests disclosed that Department procedures for ensuring the filing of payment and performance bonds and obtaining contractor and architect certificates of insurance could be improved. Specifically, we found that:

- Department records did not evidence for one construction project, a United States Property and Fiscal Office (USPFO) Warehouse at the CBJTC with a construction contract price totaling \$744,363, that the required payment and performance bond was filed in the applicable county public records. We expanded our testing to include five additional projects and noted that, although copies of the payment and performance bonds were available for all six projects, Department records did not evidence that any of the bonds were filed in the applicable county public records. In response to our audit inquiry, Department staff indicated that the Department had not always adequately ensured that the bonds were appropriately filed and that Department staff had contacted the contractors and were advised that there was no record of filing the bonds.
- For one construction contract totaling \$19,950,000 (Miramar Readiness Center), although Department records included the required contractor certificate of insurance evidencing comprehensive general liability, comprehensive automobile liability, and workers' compensation liability insurance coverages with the Department named as an additional insured, Department records did not include a certificate of insurance evidencing that the required builder's risk coverage had been obtained.
- For three architectural firm contracts totaling \$2,820,811 (Naval Training Center Orlando, Miramar Readiness Center, and Multipurpose Machine Gun Range), the certificates of insurance for professional liability, comprehensive general liability, comprehensive automobile liability, and workers' compensation liability were not available in the project files. Subsequent to our audit inquiry, professional liability and comprehensive general liability certificates of insurance dated June 25, 2014, were provided for one project (Multipurpose Machine Gun Range). However, the certificates of insurance were dated 275 days after the September 23, 2013, contract date, the general liability certificate of insurance did not evidence automobile or workers' compensation liability coverage, and the Department was not listed as an additional insured on either certificate of insurance. Although the certificates of insurance listed the Department as the certificate holder, to have an interest in the policy, the Department must be listed as an additional insured.
- For another architectural firm contract totaling \$103,880 (Miramar Readiness Center), the Department contracted with the firm both to act as a commissioning agent (i.e., owner's independent representative) and to provide professional services as a member of the project team. Although the firm was required to maintain the same insurance coverages as other architectural firms, Department records did not evidence that certificates of insurance were provided for professional liability, comprehensive general liability, comprehensive automobile liability, and workers' compensation liability.

Documentation of the execution, delivery, and filing of a payment and performance bond would better demonstrate that the Department is adequately protected in the event of contractor nonperformance or the contractor's failure to pay subcontractors and materials suppliers. In addition, without documentation evidencing that architects and contractors maintain appropriate and adequate

insurance, the Department cannot demonstrate that the Department's risk of loss in the event of an occurrence causing injury to persons or damage to property has been appropriately mitigated.

Recommendation: We recommend that Department management enhance procedures to ensure that contractor payment and performance bonds are properly recorded in the public records of the applicable county and that construction contractors and architects provide certificates of insurance demonstrating that appropriate types and amounts of insurance are obtained and maintained.

Finding 6: Construction Management Services

State law¹³ defines a construction management entity (CME) as a licensed general contractor or a licensed building contractor who coordinates and supervises a construction project from the conceptual development stage through final construction, including the scheduling, selection, contracting with, and directing of specialty trade contractors, and the value engineering of a project. Pursuant to State law,¹⁴ the Department entered into a continuing contract with a CME. The continuing contract required that the CME provide a guaranteed maximum price (GMP) and a guaranteed completion date for each project authorized by the Department. The GMP allowed for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the Department. To appropriately monitor CME activities and ensure net cost savings are achieved for construction projects, it is important for the Department to review documentation submitted by the CME to support payment requests.

The May 2, 2014, Department schedule of construction projects included 39 projects administered by CMEs, with continuing construction contracts totaling approximately \$14.3 million. As part of our audit, we reviewed one construction project, the USPFO Warehouse at the CBJTC, with a GMP of \$744,363. Our evaluation of the Department's records and controls over the administration of the CME continuing contract for the USPFO Warehouse disclosed that:

- Department records did not include supporting documentation, such as from subcontractors and documentation for direct charges, for CME payment requests. The CME continuing contract required that invoices be submitted in detail sufficient for a proper pre audit and post audit thereof, and that the CME's design phase fee, construction phase fee, and overhead and profit be reported as separate line items on the schedule of contract values. The Department received CME payment requests that included a schedule of contract values for the work completed to date; however, although the total of the schedule of contract value line items equaled the GMP amount, the schedules of values submitted with the invoices did not show the construction phase fee and overhead and profit as separate line items, and the invoices were not presented in a format that would allow for direct comparisons to subcontractor bid awards or line item costs from the schedules of values or the GMP.
- The CME continuing contract required the CME to receive and review proposals from subcontractors and award subcontracts to the qualified lowest bidder. For subcontracts not exceeding \$200,000, the CME continuing contract also required the CME to provide the Department with a copy of each subcontract and a tabulation of subcontractor bids. The CME provided the Department with a list of subcontractors as part of their project proposal and GMP; however, contrary to the contract requirements, Department records did not evidence that the

¹³ Section 255.32, Florida Statutes.

¹⁴ Section 287.055, Florida Statutes.

subcontractor provided the bid tabulations or subcontracts necessary to monitor CME payment requests for subcontractor costs.

- The GMP included a contingency of \$34,258. Prior to the release of funds by the Department, the CME continuing contract required the CME to provide documentation evidencing the expenditures charged to the contingency. The payment requests submitted by the CME separately identified the contingency amount on the schedule of contract values; however, the final payment request submitted by the CME included the entire GMP amount, including the contingency, and contrary to the contract requirement, did not include documentation evidencing the expenditures charged to the contingency. Subsequent to our audit inquiry, the Department obtained and provided us documentation of the expenditures charged to the contingency. Our examination of the documentation disclosed certain expenditures charged to the contingency that were similar to costs included in the initial GMP, including \$6,773 charged for lockers, although the GMP included a scheduled value of \$3,605 for lockers. Similarly, the contingency expenditures included a \$2,070 charge for installing 12 doors, although the GMP included a scheduled value of \$230 per door for installation.

In response to our audit inquiry, Department management indicated that subcontractor bid tabulations should have been provided because Department procedures required bid tabulations prior to authorizing the contractor to proceed with the project; however, for the USPFO Warehouse project, the tabulations had been maintained in a former employee's e-mail records and were not available. Department management also indicated they did not request detailed support for subcontracts and that invoices were generally not maintained for CME projects because the contracts required the CME to maintain the project records in accordance with the State's records management program.¹⁵ In addition, contractors were advised that documentation should be made available to the Department as needed. However, without adequate procedures to ensure subcontracts and detailed payment requests are provided and to reconcile CME payment requests to detailed supporting documentation, such as subcontractor invoices and bid tabulations, the risk is increased that overpayments to CMEs may occur and not be timely detected and corrected. In response to our audit inquiry, we were advised that to better address ongoing issues, the CFMO was in the process of updating Department operating procedures for project managers to use in monitoring construction contracts and expenditures.

Recommendation: We recommend that Department management continue its efforts to enhance CME contract monitoring procedures. Such procedures should ensure that prior to payment, subcontracts and detailed payment requests are provided, subcontractor invoices and bid tabulations are obtained, and documentation for expenditures from project contingency funds are reviewed and approved. We also recommend that the Department obtain and review the detailed invoices and subcontract documents related to each payment request for the USPFO Warehouse project, and for a representative sample of other projects, to determine whether any overpayments were made and, if so, take appropriate actions to recover the overpayments from the CMEs.

OTHER ADMINISTRATIVE ACTIVITIES

In addition to the Department's EDD program, non-appropriated enterprise fund activities, and construction projects, as part of our audit we also evaluated Department policies and procedures and tested Department compliance with governing laws and rules related to various other administrative activities including the administration of purchasing cards and the Florida Single Audit Act, as well as

¹⁵ Section 257.36, Florida Statutes.

motor vehicle records and procedures. As described in Findings 7 through 9, our audit tests disclosed that improvements are needed in the Department's administration of these activities.

Finding 7: Purchasing Card Controls

The Department participates in the State's purchasing card program (PCard Program), which allows authorized personnel to charge Department expenses on purchasing cards. The Department had 146 active purchasing cards as of February 28, 2014, and purchasing card charges totaled approximately \$3.5 million during the period July 2012 through February 2014.

As a participant in the State's PCard Program, the Department is responsible for the implementation of key controls, including procedures for approving the issuance of purchasing cards; establishing single, daily, and monthly transaction limits for cardholders; and timely canceling purchasing cards upon a cardholder's separation from Department employment or when an employee no longer requires a purchasing card to perform their job duties. According to the Department's *Purchasing Card Guidelines (Guidelines)*, the PCard Program Administrator (PCPA) was responsible for issuing and canceling purchasing cards, assisting in the determination of cardholder transaction limits, and monitoring the progress of the Department's goals for purchasing card usage. Effective January 2012, the Department's Purchasing Director served as the PCPA.

In our report No. 2013-010, finding No. 7, we disclosed that for some purchasing cardholders, the Department had established purchasing card transaction limits that were, based on the cardholder's usage, significantly higher than necessary. In addition, we noted that the Department did not always timely cancel purchasing cards upon a cardholder's separation from Department employment.

As part of our audit, we performed follow-up procedures to evaluate the actions taken by Department management related to the administration of purchasing cards, including reviewing the Department's *Guidelines* and evaluating the adequacy of Department controls for purchasing card transactions during the period July 2012 through February 2014. Our audit procedures disclosed that improvements were still needed in the Department's purchasing card controls. Specifically, we noted that:

- According to Department records, no charges were made on 27 of the 146 active purchasing cards during the period July 2012 through February 2014 and, therefore, these cardholders may not have required a purchasing card for the performance of their job duties.
- Based on usage during the period July 2012 through February 2014, the transaction limits for 25 of the 146 cardholders were set too high. The limits for these 25 cardholders ranged from \$10,000 to \$99,999 for single transactions and from \$10,000 to \$250,000 for monthly transactions. However, none of the 25 cardholders had a single charge that exceeded 25 percent of their respective single transaction limit. Also, the maximum monthly purchases made by 12 of the 25 cardholders were less than 25 percent of their respective monthly transaction limits and the maximum monthly purchases made by another 8 cardholders did not exceed 75 percent of their respective monthly transaction limits. As purchasing card limits can be promptly increased as needed, it was not evident that the higher limits were necessary for the cardholders' daily duties. In response to our audit inquiry, the PCPA advised us that in June 2014 the transaction limits for most of the 25 cardholders had been decreased, with the revised single transaction limits for 23 cardholders ranging from \$2,500 to \$10,000, and the revised monthly transaction limits for 19 cardholders ranging from \$1,000 to \$50,000.

- Contrary to PCard Program requirements,¹⁶ the Department's *Guidelines* did not mandate that single transaction limits above \$1,000 be approved by the Adjutant General or his designee. The Adjutant General had previously delegated this authority to the Department's Purchasing Director and the *Guidelines* were revised accordingly; however, the revised *Guidelines* were not submitted to the Department of Financial Services (DFS) for review and approval. Subsequent to our audit inquiry, the Department submitted the revised *Guidelines* to the DFS and they were approved in December 2014.
- The Department did not timely cancel the purchasing cards for 17 of the 28 cardholders who separated from Department employment during the period July 2012 through February 2014. The purchasing cards for the 17 cardholders were canceled from 3 to 448 business days (an average of 84 business days) after the employees' separation dates, including 4 cards canceled by the PCPA on May 7, 2014, subsequent to our audit inquiry. In response to our audit inquiry, the PCPA indicated that a procedure was developed for the Human Resources Department to promptly notify the PCPA of all employee separations via e-mail.
- Although State law¹⁷ specifies that purchasing agents having the power to make any purchase in excess of \$20,000 are to file a statement of financial interests with the Commission on Ethics no later than July 1 of each year, the Department did not require two Department purchasing cardholders with single transaction limits exceeding \$20,000 during the 2012-13 and 2013-14 fiscal years to file such statements. Subsequent to our audit inquiry, Department management reported that the single transaction purchasing limits for these two employees had been decreased to \$2,500.

Absent effective controls to timely identify cardholders who separate from Department employment, promptly cancel cards upon employee separation, and periodically monitor the reasonableness of card assignments and transaction limits, the risk of unauthorized purchasing card use is increased. In addition, the timely filing of annual statements of financial interests, as specified in State law, would better demonstrate that the applicable Department employees have no financial interests that conflict with the proper discharge of their duties in the public interest.

Recommendation: We recommend that Department management continue its efforts to address the delegation of authority for approving single transaction limits, monitor the reasonableness of card assignments and transaction limits, and promptly cancel purchasing cards upon a cardholder's separation from Department employment. We also recommend that Department management ensure that purchasing cardholders with single transaction limits exceeding \$20,000 are advised of the statement of financial interests filing requirements specified in State law and ensure that such statements are timely filed with the Commission on Ethics.

Finding 8: Florida Single Audit Act

State Financial Assistance (SFA) is financial assistance provided from State resources to non-State entities to carry out a State project and is to be administered in accordance with the requirements of the Florida Single Audit Act (FSAA),¹⁸ DFS rules,¹⁹ and Rules of the Auditor General.²⁰ The purpose of the FSAA, among other things, is to establish uniform State audit requirements for non-State entities

¹⁶ Chief Financial Officer Memoranda No. 04 (1998-99).

¹⁷ Section 112.3145, Florida Statutes.

¹⁸ Section 215.97, Florida Statutes.

¹⁹ DFS Rules, Chapter 69I-5, Florida Administrative Code.

²⁰ Chapters 10.550 and 10.650, Rules of the Auditor General.

receiving SFA; promote sound management of SFA; and ensure State agency monitoring, use, and follow-up on audits of SFA.

The Catalog of State Financial Assistance (CSFA) lists State projects by assigned CSFA numbers and assists users (e.g., SFA recipients and auditors) in obtaining general information on State projects (e.g., State project title and legal authorization). DFS rules²¹ require State agencies to annually certify the accuracy and completeness of the State projects included in the CSFA by completing and submitting the *Catalog of State Financial Assistance Agency Certification*. The State Projects Compliance Supplement contains information for auditors such as the project's objectives, procedures, and compliance requirements relevant to the project, as well as audit objectives and suggested audit procedures for assessing recipient compliance with SFA requirements.

DFS rules²² require that, when a State agency provides SFA, the State agency complete a *Florida Single Audit Act Checklist for Non-State Organizations – Recipient/Subrecipient vs. Vendor Determination (Checklist)* to determine the applicability of the FSAA to non-State entities. The *Checklist* assists State agencies in determining if the non-State entity is a vendor, recipient or subrecipient, or an exempt organization, and the completed *Checklist* is to be retained in each State agency's records.

DFS rules also require that, whenever a non-State entity is determined to be a recipient or subrecipient of SFA, standard audit language be included in the document that establishes the State's, recipient's or subrecipient's relationship with the non-State entity. The FSAA also requires that a State awarding agency provide SFA recipients the information necessary to comply with the FSAA. This is to be accomplished through an award agreement that includes language requiring each recipient that expends \$500,000 or more of SFA in any fiscal year to obtain a State single audit or a project-specific audit conducted by an independent auditor. In addition, the FSAA requires an SFA recipient to provide a copy of a financial reporting package (FRP) to the State awarding agency. Among other things, the FRP is to include the recipient's financial statements, Schedule of Expenditures of State Financial Assistance, and auditor's report, which addresses the recipient's compliance with State project requirements and any deficiencies in internal controls. The State awarding agency is to review the recipient's FRP, including the management letters and corrective action plans, to the extent necessary to determine whether timely and appropriate corrective action has been taken with respect to audit findings and recommendations pertaining to SFA that are specific to the State awarding agency.

State law²³ specifies that subject to annual appropriations, the Adjutant General is to administer youth About Face programs and adult Forward March programs. Both programs were assigned CSFA numbers effective for the 2009-10 fiscal year and were included in the State Projects Compliance Supplement. During the period July 2012 through June 2014, the Department received legislative appropriations totaling \$4.5 million for the two programs and reported approximately \$2.6 million in expenditures made to the non-State entity that operated both programs. During the period July 2012 through February 2014, the Department administered contracts with the entity operating the programs

²¹ DFS Rule 69I-5.005, Florida Administrative Code.

²² DFS Rule 69I-5.006, Florida Administrative Code.

²³ Section 250.10(2)(l), Florida Statutes.

for the period July 2012 through June 2013 and the period July 2013 through December 2013. The entity provided audit reports to the Department for the 2012 and 2013 calendar years that indicated the required compliance testing was performed for the About Face and Forward March programs.

As part of our audit, we evaluated the Department's administration of the FSAA as applicable to the About Face and Forward March programs. Our audit tests disclosed that:

- Department personnel were unable to provide documentation that a *Checklist* had been completed and retained in Department records for the entity operating the programs. Additionally, our review of the contracts and contract amendments indicated that the required contract language was not included for either program's contract.
- Although for the 2012 and 2013 calendar years the entity provided audit reports that serve as an integral part of the required FRPs, no documentation was available demonstrating that the Department reviewed the audit reports as required by the FSAA.
- For the 2012-13 fiscal year, the Department utilized \$60,000 from the About Face program appropriations and \$100,000 from the Forward March program appropriations to pay rent to Department armories. Although requested, Department personnel were unable to provide documentation of the Department's determination that the rent amounts were reasonable and necessary for the administration of the programs. In addition, the Department excluded the rent amounts from its contracts with the entity operating the programs and instead paid the rent directly to the armories, thereby excluding the payments from audit by the entity's auditors. As the rent payments were not made pursuant to an arm's length transaction, and absent documentation that the rent amounts were reasonable and necessary for the administration of these programs, the appropriateness of these expenditures, totaling \$160,000, is uncertain.

The Department entered into contracts, dated December 15, 2014, with two non-State entities to provide registration, training, and job placement services for the About Face and Forward March programs for the period January 2015 through December 2017. The contracts divided the State into separate geographical service areas for each entity and changed the compensation arrangement from a cost-reimbursement basis to a per-student rate with flat-rate billing amounts for student registration, completion of training, job placement, and job placement continuity. However, the Department did not use *Checklists* to determine the applicability of the FSAA to the contracted entities, and the contracts did not include required contract language addressing monitoring procedures, FSAA requirements, any other audit requirements imposed by the Department, or audit report submission requirements. Subsequent to our audit inquiry, Department personnel completed *Checklists* for the two entities and determined they were recipients of SFA. As of June 19, 2015, the Department was in the process of revising the contracts to include the language required by the FSAA.

Recommendation: We recommend that Department management continue efforts to revise the About Face and Forward March program contracts to include the language required by the FSAA, including language related to monitoring requirements. We also recommend that Department management take steps to ensure that all required FRP audit reports are timely reviewed and that the basis for all amounts expended for the About Face and Forward March programs are appropriately documented, constitute arm's length transactions, and comply with the FSAA requirements.

Finding 9: Motor Vehicle Records and Procedures

State law²⁴ and DMS rules²⁵ provide that State-owned motor vehicles are to be used effectively, efficiently, and for official purposes. As part of its State-owned motor vehicle oversight responsibilities, the DMS implemented the Florida Equipment Electronic Tracking System (FLEET) to maintain information about the condition, utilization, cost, fuel consumption, maintenance, and assignment of motor vehicles and watercraft owned, leased, or operated by State agencies.

During the period July 1, 2012, through February 28, 2014, the Department maintained approximately 100 State-owned motor vehicles that were available for assignment and use by Department personnel. To ensure the proper management and control of the Department's motor vehicles in accordance with State law and DMS rules, the Department established procedures²⁶ for the assignment, use, and control of these vehicles. Department procedures required drivers to record on a *Vehicle Log Sheet* (FLNG Form 766) the date, driver's last name, departure site, destination, ending mileage, fuel gallons, and fuel cost. Department procedures also specified that vehicles were only to be used for official State purposes and as authorized by the State Quartermaster; that all vehicles were to be assigned to, and operated in conformance with, one of three class codes established by the DMS; and that drivers were to have a current and active driver's license in their possession. Internal Revenue Service, Department of the Treasury (Treasury) regulations²⁷ also provide that the personal use of employer-provided vehicles is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded.

As part of our audit, we examined selected *Vehicle Log Sheets*, FLEET records, and Department procedures and noted that the Department's motor vehicle record keeping and procedures could be improved. Specifically:

- Our examination of Department records for 18 motor vehicles disclosed that *Vehicle Log Sheets* were not prepared for 2 motor vehicles for the 2013-14 fiscal year and, for another 8 motor vehicles, the Department did not utilize the correct form.
- All Department motor vehicles were assigned to Class A - Pool assignment; however, based on DMS rules, 2 motor vehicles should have been assigned to Class C – Special assignment. The 2 motor vehicles that should have been assigned to Class C were driven to and from home by Department employees; however, the Department did not report the personal use as fringe benefits in the employees' gross income.
- The Department had not established written procedures to monitor the current status of employee driver's licenses. Our audit procedures found that Department personnel verified whether employee driver's licenses were current and active at the time of hire. Additionally, in response to our audit inquiry, Department management indicated that the Department received notice when employee driver's licenses expired and that supervisors were to check the license. However, in the interim, the Department relied on employees to self-report if the status of their driver's licenses changed.

²⁴ Section 287.16, Florida Statutes.

²⁵ DMS Rules, Chapter 60B-1, Florida Administrative Code.

²⁶ Department Standard Operating Procedure, *State Vehicles*.

²⁷ Title 26, Section 1.61-21, Code of Federal Regulations.

- Vehicle maintenance records were not always accurate. We examined FLEET and Department maintenance records for 6 vehicles and noted that for 4 vehicles the maintenance costs reported in FLEET totaled \$675 less than the costs reported for the 4 vehicles in Department maintenance records.

The maintenance of accurate and complete documentation enhances the Department's ability to demonstrate that State-owned motor vehicles were used for authorized purposes, vehicles were assigned to the correct class, drivers were licensed, taxable fringe benefits were correctly reported, and that the costs recorded in FLEET are accurate and properly supported. In addition, accurate and complete motor vehicle information increases Department management's assurance that State-owned motor vehicle usage and operations will be effectively monitored and managed.

Recommendation: We recommend that Department management enhance policies and procedures to ensure that appropriate *Vehicle Log Sheets* are completed, correct class codes are assigned to motor vehicles, employee driver's licenses are current and active, and vehicle maintenance records are accurate. Also, we recommend that Department management ensure compliance with Treasury regulation reporting requirements for personal use of State-owned motor vehicles.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2013-010.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2014 through October 2014, and performed selected audit procedures through June 2015, 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.

This operational audit focused on the Department's administration of the Educational Dollars for Duty (EDD) program and selected activities including non-appropriated enterprise fund activities, construction project administration, and other administrative activities. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.

- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2013-010.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, and other State and Federal guidelines to obtain an understanding of the legal framework governing the Department's operations.
- Obtained an understanding of selected internal controls and observed, documented, and evaluated the effectiveness of key processes and procedures.
- Observed, documented, and evaluated the effectiveness of selected Department processes and procedures for:
 - Budgetary and cash management processes.

- The assignment and use of motor vehicles. Department motor vehicle acquisition costs totaled \$295,742 during the period July 2012 through February 2014.
- The administration of Department travel. Department travel costs totaled \$586,512 during the period July 2012 through February 2014.
- The administration of the requirements of the Florida Single Audit Act as applicable to the About Face and Forward March programs.
- The administration of fixed capital outlay projects and conduct of financial reconciliations.
- Reviewed documentation related to accounts held and maintained by the Department in local banks to determine whether the bank accounts were properly authorized and administered.
- Interviewed Department personnel, reviewed supporting documentation, and compared financial information reported in subsidiary records maintained for the Department's four enterprise funds (Billeting, Camp Blanding Recreation, Post Exchange, and Dining Hall) with that recorded in the State's accounting records (FLAIR) to evaluate the completeness of the amounts recorded in FLAIR.
- For the Department's four enterprise funds, reviewed Department policies, interviewed applicable personnel, and examined various records and reports to evaluate Department oversight and determine whether the funds were being administered economically, efficiently, and in compliance with applicable laws, rules, and other guidelines.
- Reviewed the general application and data input, processing, and output controls for the Time Accounting System module of the Integrated Emergency Operations Management System to evaluate the reasonableness of the Department's reliance on the system to ensure that salary payments were supported by accurate and complete records of time worked and that leave liabilities were supported by accurate and complete leave records.
- Examined attendance and payroll records for ten overtime payments totaling \$5,153 to determine whether the overtime was authorized, approved, reasonable, and adequately supported, and that overtime payments or leave accruals were properly calculated. During the period July 2012 through February 2014, the Department made payments for overtime to 82 employees totaling \$81,080.
- Examined the attendance and leave records for 10 of the 479 employees who received a State salary payment during the period July 2012 through February 2014 to determine whether leave accruals were accurately calculated and properly recorded.
- Examined attendance and leave records for ten employees who worked in a month containing one or more holidays to determine whether employees were properly credited with holiday and applicable special compensatory leave.
- Examined the military orders and corresponding attendance, leave, and payroll records for six Department employees for the period July 2012 through February 2014 to determine whether military leave granted to the employees was correctly classified, recorded, and accrued in accordance with applicable laws and rules. These six employees had been granted military leave pursuant to 12 separate sets of military orders during this 20-month period.
- Evaluated Department controls established to ensure that goods and services were procured and contracts were managed in accordance with applicable laws and rules. In performing this evaluation, we examined documentation for 11 contracts for which the Department made payments during the period July 2012 through February 2014, and for which selected events occurred through June 2014, to evaluate Department compliance with laws, rules, and other applicable guidelines. The 11 contracts subject to testing included:
 - Four contracted services contracts with payments totaling \$8,441,769.

- Five architectural services contracts with payments totaling \$1,436,146.
- Two construction manager contracts with payments totaling \$2,009,210.
- Examined records for 48 Florida National Guard members who were granted educational assistance totaling \$94,849 from the EDD program during the Spring 2013 and Fall 2013 terms to verify the accuracy of the tuition assistance payments, whether the payments were for authorized courses and did not exceed the average tuition and fees paid at a public postsecondary educational institution, and whether program participants maintained their eligibility by meeting all program conditions. If these participants became ineligible or the conditions of the program were not met, we assessed whether the Department took appropriate actions to seek reimbursement for tuition paid. Subsequently, we expanded our audit procedures to include an examination of the Department's listing of EDD program participants who had not timely submitted grades for the Summer 2012 through Fall 2014 terms to evaluate the Department's administration of EDD program requirements.
- Reviewed evidence of accreditation for the 26 institutions which received tuition payments from the EDD program during the Spring 2013 and Fall 2013 terms to verify that the Department had properly determined that the institutions were accredited by the Department of Education (Commission for Independent Education) or the United States Department of Education.
- Reviewed the Department's *Purchasing Card Agency Plan and Purchasing Card Guidelines* and evaluated Department controls related to the issuance of purchasing cards, establishment of cardholder transaction limits, and cancellation of cards upon a cardholder's separation from Department employment. As of February 28, 2014, the Department had 146 active purchasing cards.
- Examined Department purchasing card records as of February 28, 2014, for 25 of the 27 cardholders with transaction limits set at or above \$10,000 to determine whether the established card limits were reasonable based upon the cardholders' job responsibilities and for the 22 cardholders with transaction limits set at or above \$20,000, to determine whether the cardholders had properly filed financial disclosure forms.
- Analyzed the purchasing card cancellation dates for the 28 cardholders who separated from Department employment during the period July 2012 through February 2014 to determine whether the cards were timely canceled.
- Reviewed Department organizational charts and existing structure to evaluate whether the charts accurately reflected the Department's existing operating structure; the structure was designed in compliance with Florida Statutes; and the charts included any new programs, activities, or significant changes dictated by the General Appropriations Acts. We also evaluated whether the Department's organizational structure promoted effective internal controls by providing for adequate separation of duties and appropriate management oversight.
- Interviewed Department personnel and evaluated Department compliance with applicable statutory requirements for collecting and utilizing individuals' social security numbers.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



STATE OF FLORIDA
Department of Military Affairs
Office of the Adjutant General

St. Francis Barracks, P.O. Box 1008
St. Augustine, Florida 32085-1008

August 21, 2015

Ms. Sherrill F. Norman, CPA
Auditor General of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, below is the explanation of actual or proposed corrective actions relating to those preliminary and tentative audit findings and recommendations which may be included in the report on your operational audit entitled: The Department of Military Affairs (DMA), Educational Dollars for Duty Program (EDD), Administration of Selected Activities, and Prior Audit Follow-Up.

Recommendation No. 1: We recommend that Department management enhance procedures for timely collecting participant grades and amounts owed to the EDD program, ensure that program funds are used only for tuition and fees for eligible participants, and establish an allowance for uncollectible accounts as specified by program guidelines. We also recommend that Department management enhance procedures to provide for an independent verification of reimbursement calculations prior to billing participants.

The Actual or Proposed Corrective Action: DMA concurs. Corrective Measures are as follows: Because of recent generous increases to the EDD Budget from the State Legislature and the lack of additional staff, the need to automate the EDD Program was recognized in FY 14. The EDD Virtual Education Center (VEC) was purchased in FY 15 and is in the process of being implemented. Due to the hosting application process timeline, the Florida Education Services Officer projects the EDD VEC to be fully operational for the 2016 Spring Term. This software will include business rules that mirror the State Statute and the EDD Pamphlet. It will automate the entire EDD process from Application Review to Collections. It will allow a multitude of custom reports to be generated by the EDD Program Office. This automation system will improve the efficiency of the entire EDD Application Process, and also automate the billing and collections processes as well as assist in establishing an allowance for doubtful accounts.

Recommendation No. 2: To better ensure economic and efficient CBJTC operations; compliance with applicable laws, rules, and other guidelines; and that the activities are administered in accordance with legislative intent, we recommend that Department management continue to enhance the procedures for and oversight of CBJTC activities. Such enhancements should include the proper accounting of CBJTC activities in the subsidiary accounting records and FLAIR; reconciling the membership records and related proceeds for the Recreation activity; and developing guidelines to establish appropriate operating reserves for CBJTC activities and to

require that profits generated by CBJTC activities above the operating reserve amounts be timely deposited in the CBMTF.

The Actual or Proposed Corrective Action: DMA concurs. In order to enhance the procedures for and oversight of CBJTC activities, the State Quartermaster and the CBJTC Commander have re-established the Camp Blanding Resource Advisory Committee (CBRAC) whose purpose is to provide management oversight on financial and personnel resources including Non-appropriated accounts. This includes the establishment of procedures for depositing excess reserves into the CBMTF. Additionally, a Deputy State Quartermaster is now in place onsite at CBJTC. Under this new structure, corrective actions are beginning to take place to include; 1) Depreciation expense for prior years will appear in an amended 30 June 2015 financial statement for each enterprise. 2) The establishment of the process for realizing depreciation expenses in subsequent years. 3) FLAIR account codes have been provided to enhance the FNG 93 for input to FLAIR. 4) Instituting an annual procedure for the Associate Membership reconciliation of receipts and the subsidiary of accounting records. 5) Guidelines for operating reserves are being established. Funds for facility and infrastructure improvements will be reviewed quarterly by the Deputy State Quartermaster for prioritization across Enterprise funds. These funds will be used to enhance the facilities and services provided at CBJTC.

Recommendation No. 3: We recommend that Department management ensure that required business plans are properly executed and that the plans specify provisions for the payment of all employee bonuses. Additionally, we recommend that Department management ensure that periodic physical inventories for the Post Exchange store be timely completed and reconciled to perpetual inventory records and the subsidiary accounting records.

The Actual or Proposed Corrective Action: DMA concurs it is in the best interest of all parties that strong detailed business plans and standard operating procedures (SOP's) be established. Currently, the Post Exchange business plan is being updated and revised to reflect the audit recommendations. Using the Post Exchange business plan as a format, a new Recreation business plan is in the process of being drafted. There are no plans to draft a CDF business plan due to the transfer of the facility and service to the Federal government. The projected timeframe for initial review of the drafts is late calendar year 2015. These business plans will include guidelines for inventory execution, employee bonuses, depreciation of capital assets procedures, and the disposition of funds.

Recommendation No. 4: We recommend that Department management revise the Dining activity operations as necessary to ensure sufficient resources are generated to pay expenses.

The Actual or Proposed Corrective Action: The DMA concurs. Significant measures were put into place over the past year to curtail the perpetual monetary losses. As a result of implementing those changes, the CDF operated at a profit in the current Federal Fiscal Year (October to present). Changes implemented include; 1) Appointing a State Employee as the Non Appropriated Funds (NAF) Enterprises Director with oversight over the Dining Facility Manager (Contract Employee). 2) Empowering the Dining Facility Manager to make operational and timely decisions at his level without having to get additional approvals. 3) Providing strict oversight over employee hours and payroll costs. 4) Implementing a mechanism to hold unit Commanders accountable and recoup losses from unit/customers that order a set amount of meals, then not have the personnel that eat the meals, previously causing the CDF to discard the

meal without reimbursement. 5) Increasing the cost of meals to allowable limits set by the Department of the Army. Simultaneously to implementing the above changes, the DMA leadership believed it was in the organizations best interest to transition the responsibility of running the CDF from a State contract back to Federal contract. Through a long contracting process, a Federal contract was established with an outside vendor on 1 August and is expecting to be in place on or about 1 September 2015. This will end the State's responsibility to operate the CDF.

Recommendation No. 5: We recommend that Department management enhance procedures to ensure that contractor payment and performance bonds are properly recorded in the public records of the applicable county and that construction contractors and architects provide certificates of insurance demonstrating that appropriate types and amounts of insurance are obtained and maintained.

The Actual or Proposed Corrective Action: DMA concurs with this Recommendation. CFMO immediately implemented internal tracking to ensure all required documentation is recorded in the applicable counties in which construction is conducted. Procedures were implemented to ensure all certificates insurance are obtained at the onset of construction projects and are maintained in the official contract folder.

Recommendation No. 6: We recommend that Department management continue its efforts to enhance CME contract monitoring procedures. Such procedures should ensure that prior to payment, subcontracts and detailed payment requests are provided, subcontractor invoices and bid tabulations are obtained, and documentation for expenditures from project contingency funds are reviewed and approved. We also recommend that the Department obtain and review the detailed invoices and subcontract documents related to each payment request for the USPFO Warehouse project, and for a representative sample of other projects, to determine whether any overpayments were made and, if so, take appropriate actions to recover the overpayments from the CMEs.

The Actual or Proposed Corrective Action: DMA concurs with this Recommendation. Procedures were implemented by CFMO to ensure all required backup documentation is submitted with pay applications for review throughout the entire DMA payment approval process. CFMO will aggressively leverage the CME for all detailed invoices and subcontract documents related to each payment request for the USPFO Warehouse project and will do the same for a sample of other projects. This will be completed by the end of the calendar year 2015.

Recommendation No. 7: We recommend that Department management continue its efforts to address the delegation of authority for approving single transaction limits, monitor the reasonableness of card assignments and transaction limits, and promptly cancel purchasing cards upon a cardholder's separation from Department employment. We also recommend that Department management ensure that purchasing cardholders with single transaction limits exceeding \$20,000 are advised of the statement of financial interests filing requirements specified in State law and ensure that such statements are timely filed with the Commission on Ethics.

The Actual or Proposed Corrective Action: DMA concurs. DMA will continue to monitor the distribution and use of purchasing cards as well as the assignment of cards. DMA

Human Resources will send electronic notification to the P-card Administrator if an employee is leaving the agency. When notification is received the P-card Administrator will go into the SAMAS/FLAIR P-card module and cancel the card immediately. The P-card Administrator through the Human resources, will ensure that purchasing cardholders with single transaction limits exceeding \$20,000 are advised of the statement of financial interests filing requirements specified in State law and ensure that such statements are filed with the Commission on Ethics before July 1st of each year. DMA has lowered the number of cards issued and lowered limits on the cards.

Recommendation No. 8: We recommend that Department management continue efforts to revise the About Face and Forward March program contracts to include the language required by the FSAA, including language related to monitoring requirements. We also recommend that Department management take steps to ensure that all required FRP audit reports are timely reviewed, and that the basis for all amounts expended for the About Face and Forward March programs are appropriately documented, constitute arm's length transactions, and comply with the FSAA requirements.

The Actual or Proposed Corrective Action: DMA concurs. DMA management has revised the About Face and Forward March program contracts to include the language required by the FSAA, including language related to monitoring requirements. DMA management will take steps to ensure that all required FRP audit reports are reviewed, and that the basis for all amounts expended for the About Face and Forward March programs are appropriately documented and comply with the FSAA requirements. Contracts are awarded to Paxen, LLC and Career Training Concepts (CTC) for both About Face and Forward March. A copy of the recipient vs. vendor checklist is in each file. DMA has amended the contracts adding the following language: *Agreements with recipients of state financial assistance, even if awarded on a fixed price basis, require compliance with Sections 215.97 FS, 215.971 FS, and expenditures of state financial assistance be in compliance with laws, rules and regulations applicable to expenditures of State funds, including, but not limited to, the Reference Guide for State Expenditures.*

Recommendation No. 9: We recommend that Department management enhance policies and procedures to ensure that appropriate *Vehicle Log Sheets* are completed, correct class codes are assigned to motor vehicles, employee driver's licenses are current and active, and vehicle maintenance records are accurate. Also, we recommend that Department management ensure compliance with Treasury regulation reporting requirements for personal use of State-owned motor vehicles.

The Actual or Proposed Corrective Action: DMA concurs. DMA will rewrite the State Vehicle Standard Operating Procedures (SOP). The SOP will provide guidance standardizing the Vehicle Log Sheet usage, process for ensuring driver's licenses are valid, and instructions for filling log sheets. The vehicle records inaccuracy was an employee related mistake and training will be provided to correct the finding. The two vehicles assigned as a perquisite have been cancelled correcting the auditors findings related to fringe benefits and improper class code assignment. The DMA SOP is projected to be rewritten and complete no later than the end of the Calendar Year 2015. The SOP will provide guidance correcting auditor's findings. The St Augustine FLEET Manager is new to the position and has the appropriate training which will correct any inaccurate maintenance cost reporting.

DMA appreciates the courtesies and professionalism of your staff throughout the audit process. If you have any questions, or if you require any additional information, please do not hesitate to contact COL Valeria Gonzalez-Kerr, State Quartermaster at (904) 823-0200.

Sincerely,



MICHAEL A. CALHOUN
Major General
Florida National Guard
The Adjutant General

CF:

Mr. Matthew Tracy, CPA
Mr. Randy Arend, CPA
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COL Valeria Gonzalez Kerr
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