

STATE OF CONNECTICUT

**AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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September 10, 2004

**AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

We have examined the financial records of the Military Department for the fiscal year ended June 30, 2003. This report of that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Military Department has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

Titles 27 and 28 of the General Statutes contain the Military Department's statutory authority and responsibility. The Department's principal public responsibilities are (1) to coordinate, resource and train State emergency response methods and operations and (2) to plan for and protect citizens and their property in times of war, terrorism, invasion, rebellion, riot or disaster. The Military Department serves as the Governor's primary agency for ensuring public safety in a variety of emergencies.

The Military Department is functionally divided into four major components: Army National Guard, Air National Guard, Organized Militia and the Office of Emergency Management. The Army National Guard maintains several facilities throughout the State including armories, maintenance shops, aviation support facilities and training site facilities. The Air National Guard consists of a headquarters and the 103rd Fighter Wing in East Granby and 103rd Air Squadron in Orange. The Organized Militia, commonly known as the Governor's Horse and Foot Guards, maintains four units. The Organized Militia, when required, escorts the Governor, supports emergency operations and

conducts ceremonial and civic activities. The Office of Emergency Management is responsible for developing and executing the Governor's emergency response program which includes mitigation, planning, response and recovery plans for a wide range of natural, technological and national security hazards. Section 27-19a of the General Statutes provides that the Military Department shall be within the Department of Public Safety for administrative purposes only.

The Adjutant General of the Military Department is appointed by the Governor, to a four-year term, under the provisions of Section 27-19 of the General Statutes. Lieutenant General William A. Cugno served as Adjutant General during the audited period and continues to serve in that capacity.

SIGNIFICANT LEGISLATION:

Subsequent to our audit period the following significant legislation was passed by the General Assembly affecting the Military Department.

Public Act 04-219 eliminated the Office of Emergency Management. It instead created the Department of Emergency Management and Homeland Security within the Office of Policy and Management for administrative purposes only. The provision of the Act that eliminated the Office of Emergency Management and created the Department of Emergency Management and Homeland Security is effective January 1, 2005.

RÉSUMÉ OF OPERATIONS:

General Fund:

Receipts:

General Fund receipts of the Military Department consisted primarily of the collection of receivables from the Federal government and other receivables from non-Federal sources. Receipts for the fiscal year examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Refunds of Expenditures:		
Applied	\$ 79,575	\$ 25,718
Prior year	15,415	94,964
Federal aid receivables collected	12,408,107	12,429,327
Receivables other than Federal	851,396	1,139,858
Federal grants from another agency	101,180	0
Grants other than Federal	650	(2,716)
Armory rentals	8,975	5,410
Miscellaneous receipts	9,131	3,225
Total General Fund Receipts	<u>\$ 13,474,429</u>	<u>\$ 13,695,786</u>

Federal receivable collections resulted from agreements or grants between the Federal government and the Military Department for the administration of programs and activities financed in part by the Federal government. Federal contributions are further discussed under the caption "Restricted Appropriations – Federal."

Total Federal receivables collected during the audited period remained relatively level when compared to the prior fiscal year. However, the source of the receipts did reflect significant increases and decreases in reimbursements from the Department's various Federal funding sources. Federal collections for emergency planning and preparedness grants increased from \$2,419,184 in the 2001-2002 fiscal year to \$3,861,962 received in the fiscal year ended June 30, 2003. This compared with decreases in Federal reimbursements from National Guard Bureau grants of \$8,567,365 collected in the audited period compared to \$9,988,922 collected in the prior fiscal year.

The increase in non-Federal receivables was attributable solely to the Nuclear Safety Emergency Preparedness program administered by the Office of Emergency Management. The Nuclear Safety Preparedness program is further discussed under the caption "Restricted Appropriations – Other."

Expenditures:

A summary of General Fund expenditures during the audited period, along with those of the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Budgeted Accounts:		
Personal services	\$ 4,718,409	\$ 3,874,071
Contractual services	1,914,071	1,762,529
Commodities	346,373	417,086
Sundry	17,194	7
Capital Outlay	<u>1,000</u>	<u>950</u>
Total Budgeted Accounts	6,997,047	6,054,643
Federal contributions	11,414,278	13,986,286
Restricted-other than Federal	<u>1,319,814</u>	<u>1,604,867</u>
Total Expenditures	<u>\$ 19,731,139</u>	<u>\$ 21,645,796</u>

Expenditures from General Fund budgeted accounts decreased \$942,404 from the previous year. The decrease in expenditures was mainly attributable to decreases in personal services expenditures of \$844,338 which was the result of employee retirements and layoffs that occurred during the year.

Restricted Appropriations – Federal:

A summary of Federal expenditures during the audited period, along with those of the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Federal Restricted Accounts:		
Personal services	\$ 2,956,101	\$ 2,960,295
Contractual services	4,528,533	4,640,044
Commodities	794,188	825,824
Sundry	2,975,069	3,284,638
Capital Outlay	<u>160,387</u>	<u>2,275,485</u>
Total	<u>\$ 11,414,278</u>	<u>\$ 13,986,286</u>

Expenditures from Federal restricted accounts increased \$2,572,008 from the previous year. The increase was mainly attributable to increases in capital outlay expenditures of \$2,115,098. The Office of Emergency Management used Federal grant funds to purchase emergency response equipment on behalf of local jurisdictions throughout the State.

Restricted Appropriations – Other:

Section 28-31 of the General Statutes established the Nuclear Safety Emergency Preparedness program. The Department of Public Utility Control (DPUC), Military Department and the Department of Environmental Protection administer the program. The program is financed through assessments made on all Nuclear Regulatory Commission licensees operating nuclear power generating facilities in the State. The assessments are collected by the DPUC and redistributed to the Military Department and the Department of Environmental Protection to support the activities of the program in accordance with a plan approved by the Secretary of the Office of Policy and Management. Expenditures charged to the program by the Military Department totaled \$1,601,896 for the fiscal year ended June 30, 2003, compared with \$1,313,665 charged to the program in the fiscal year ended June 30, 2002.

Special Revenue Funds:

The Department received funding from three special revenue funds during the audited period. A summary of expenditures from these funds during the period, along with those of the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Fund:		
Soldiers, Sailors and Marines	\$ 0	\$ 375,000
Capital Equipment Purchase	55,735	274,249

Inter Agency/Intra Agency Grants – Tax Exempt Proceeds	<u>62,944</u>	<u>333,105</u>
Total	<u>\$ 118,679</u>	<u>\$ 982,354</u>

Expenditures from the Soldiers, Sailors and Marines Fund were used to fund honor guard details for funerals of veterans of the armed forces or National Guard. Section 27-76 of the General Statutes authorizes funding for this purpose. Expenditures for this activity were previously funded from General Fund special appropriations. Amounts expended for this program in the prior fiscal year totaled \$310,050. Expenditures from the Capital Equipment Purchase Fund and the Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund were made for the purchase of equipment and Department-administered capital projects.

Capital Projects:

Capital project expenditures were primarily expended for a new warehouse at Camp Rowland and alterations, renovations and improvements at various State armories for projects administered by the Military Department. Capital project funds expenditures totaled \$1,445,334 during the audited period. This compares to \$296,605 expended in the prior fiscal year. Capital project funds expenditures included grant transfers of \$446,477 from the Department of Public Works to the Military Department for Department-administered capital projects. Expenditures for Department-administered capital projects are included in expenditures reported for the Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund noted above.

CONDITION OF RECORDS

Our testing of Military Department records identified the following areas that warrant comment.

Property Control:

Background: Section 4-36 of the General Statutes provides that each State agency establish and keep an inventory account in the form prescribed by the State Comptroller. The State Property Control Manual establishes guidelines for providing guidance to State agencies relative to property accountability and reporting.

Criteria: The State Property Control Manual requires that for each reportable category on the Fixed Assets/Property Inventory Report and a detailed subsidiary record for each individual item in the category. The subsidiary records must be reconciled with the control account. Fixed assets/property inventory items should be properly carried and reported under the appropriate reportable category.

Condition: We noted the following conditions regarding the Department's property control records.

- Property control reported balances on the Fixed Assets/Property Inventory Report for site improvements were not supported by detailed subsidiary records.
- We identified two real property transactions that were incorrectly classified and/or carried on the Department's property control records. One transaction was recorded as a site improvement rather than a building improvement (\$177,454). One site improvement was recorded as \$6,237 but should have been recorded as \$49,110.

Effect: The Department has lessened assurance that fixed asset/property inventory values are properly classified and reported.

Cause: Property internal controls were inadequate relative to certain reportable categories.

Recommendation: The Department should reconcile its site improvement property control account balance to underlying subsidiary records supporting that balance. Unsupported variances identified as the result of the reconciliation should be removed from the inventory in the form of adjustments. The Department should also make the

necessary adjustments to its records for identified transactions that were incorrectly classified or carried on the Department's property control records. (See Recommendation 1.)

Agency Response: "Agency concurs with finding and recommendation. The agency's detailed subsidiary records prior to Fiscal Year 1991 were properly approved by the State Library for destruction on 11 February 1997. This was based on record retention and disposition schedules proscribed by the State Library. The criteria stated on the CO-59 was retention for 3 years or until audited which ever comes later. Personnel associated with the destruction of the records are no longer with the agency. The agency will attempt to reconcile its records from 1991 forward and make appropriate adjustments if required."

"Corrections will be made to the agency property records to correctly reflect the \$177,454.00 transaction as a building improvement rather than a site improvement and the proper recording of the \$49,110.00 transaction."

Purchasing, Receiving and Expenditures:

Criteria: State agencies are responsible for ensuring that State purchasing and accounting policies and procedures are followed and properly administered.

Condition: Our review of expenditure transactions disclosed the following:

- The Department recorded the incorrect receipt date of goods or services on two state invoices. A total of 25 state invoices were tested.
- Direct purchase orders were prepared after services were provided in 4 instances. A total of 17 transactions were tested requiring purchase orders.

Effect: There were two different effects based on the conditions.

Both incorrect receiving dates recorded involved a payment for goods or services received in a prior fiscal year. By recording the incorrect receipt date, vendor accounts payable of \$1,070 were not established and reported to the State Comptroller.

Management has lessened assurance that funds available for payment will be sufficient to meet the cost of the goods or services purchased.

Cause: Inadequate internal controls existed over certain aspects of the Department's purchasing and accounts payable functions.

Recommendation: The Department should review its internal controls over its purchasing and accounts payable functions to ensure that its controls incorporate State purchasing and accounting policies. (See Recommendation 2.)

Agency Response: "Agency concurs on the findings relative to improper recognition of receipt dates and will reaffirm criteria within the State Accounting Manual guidelines. Agency will also reinforce the monitoring of contract expiration dates and timely notification to program managers to submit renewal requests."

Agency Administered Capital Projects:

Background: The Department of Public Works (DPW) is responsible for overseeing agency administered construction projects under Section 4b-52 of the Connecticut General Statutes. DPW has prepared a "*Guidelines and Procedures Manual for Agency Administered Projects*" in order to aid State agencies in the bidding and construction phases of a project.

Criteria: State agencies completing projects costing in excess of \$50,000 shall submit to DPW and the State Building Inspector's Office a certificate of compliance form signed by the Agency's authorized representative.

Condition: Our review of three projects administered by the Department disclosed that certificates of compliance forms were not submitted to DPW and the State Building Inspector's Office for two completed projects. While the Department did obtain signatures from contractors on the certification of compliance form for both projects, they neglected to submit the certificates to DPW and the State Building Inspector's Office. The third project reviewed was still in progress and thus did not require a certificate.

Effect: State oversight agencies have lessened assurance that the design and/or construction portion of the projects have been performed in substantial compliance with all applicable building codes.

Cause: The Department did not realize that it was required to submit certificates of compliance to DPW and the State Building Inspector's Office for agency administered capital projects.

Recommendation: The Department should implement internal controls to ensure that certificates of compliance are prepared and submitted to the Department of Public Works and the State Building Inspector's Office. (See Recommendation 3.)

Agency Response: "Agency concurs with finding and recommendation. Agency will amend an internal checklist for agency administered projects to have specific language added to submit certificate of completions to DPW and the State Building Inspector's Office accordingly."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior auditor's report of the Department contained four recommendations. The recommendations were:

- The Department should review its property control policies and procedures to determine whether its procedures incorporate Property Control Manual guidelines to properly classify and report upon real and personal property. Questions arising as a result of this review should be directed to the State Comptroller's Office for clarification and guidance. We noted similar conditions in our current review that were noted in our last review. Thus, the recommendation is repeated as amended. (See Recommendation 1.)
- The Department should institute controls which will ensure that compensatory time recorded by employees is in accordance with the Military Department's Compensatory Time Policy. Also, employees should be informed of the compensatory time policy, so that compensatory time will be recorded accurately on the timesheets. Testing performed during our current review disclosed that compensatory time was properly accrued and recorded by employees. Thus, the recommendation was implemented.
- The Department should review its internal controls over accounting, receiving and accounts payable functions to ensure that its controls incorporate State accounting policies and procedures and related laws and regulations. We noted similar conditions in our current review that were noted in our last review. Thus, the recommendation is repeated as amended. (See Recommendation 2.)
- The Department should review its internal controls over capital projects to ensure that required information and documentation is obtained from contractors and, if applicable, that appropriate oversight agencies are provided the information/documentation. We noted similar conditions in our current review that were noted in our last review. Thus, the recommendation is repeated as amended. (See Recommendation 3.)

Current Audit Recommendations:

- 1. The Department should reconcile its site improvement property control account balance to underlying subsidiary records supporting that balance. Unsupported variances identified as the result of the reconciliation should be removed from the inventory in the form of adjustments. The Department should also make the necessary adjustments to its records for identified transactions that were incorrectly classified or carried on the Department's property control records.**

Comment:

We noted that the site improvement property control account was not supported by detailed subsidiary records. We identified certain real property that was incorrectly classified and/or carried on the Department's property control records.

- 2. The Department should review its internal controls over its purchasing and accounts payable functions to ensure that its controls incorporate State purchasing and accounting policies.**

Comment:

We noted that the Department recorded the incorrect receipt date of goods or services on two State invoices. We also noted that direct purchase orders were prepared after services were provided in four instances.

- 3. The Department should implement internal controls to ensure that certificates of compliance are prepared and submitted to the Department of Public Works and the State Building Inspector's Office.**

Comment:

We noted that the Department did not submit certificates of compliance to the Department of Public Works and the State Building Inspector's Office for two completed construction projects.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Military Department for the fiscal year ended June 30, 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audit of the Military Department for the fiscal year ended June 30, 2003 is included as a part of our Statewide Single Audit of the State of Connecticut for the fiscal year ended June 30, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Military Department complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Military Department is the responsibility of the Military Department's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal year ended June 30, 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Military Department is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Military Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following finding represents a reportable condition: the site improvement real property control account is not supported by detailed subsidiary records.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weakness. However, we believe that the reportable condition described above is not a material or significant weakness.

We also noted other matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Military Department during this examination.

Joseph Faenza
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts