

STATE OF CONNECTICUT



*AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009*

AUDITORS OF PUBLIC ACCOUNTS

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Table of Contents

INTRODUCTION.....1

COMMENTS.....1

FOREWORD1

RÉSUMÉ OF OPERATIONS:2

 General Fund.....2

 Special Revenue Funds – Federal and Other Restricted Accounts.....3

 Special Revenue Funds – Capital Equipment Purchase Fund4

 Bond Funds5

CONDITION OF RECORDS.....6

 Cash Receipts.....6

 Overtime7

RECOMMENDATIONS.....8

INDEPENDENT AUDITORS’ CERTIFICATION10

CONCLUSION12

February 22, 2011

**AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

We have made an examination of the financial records of the Military Department for the fiscal years ended June 30, 2008 and 2009. This report of that examination consists of the Comments, Condition of Records, 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 policies and procedures established to ensure such compliance. Financial statement presentation and auditing is being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

Title 27 of the General Statutes contains the Military Department's statutory authority and responsibility. The Department's principle public responsibility is to serve as the protector of citizens in time of war, invasion, rebellion, riot or disaster. It serves as the main source for the Governor in ensuring public safety in a variety of emergencies.

The Military Department is functionally divided into four major components: Headquarters, Connecticut Army National Guard, Connecticut Air National Guard and the Organized Militia. Headquarters includes the Adjutant General and Assistant Adjutant General who are appointed by the Governor. The Adjutant General is the Commander of the National Guard and Organized Militia. The Adjutant General commands the elements of the Military Department through Joint Force Headquarters located in the William A. O'Neill Armory in Hartford. The Adjutant General also oversees civilian employees who provide administrative support to the military personnel of the Department. The Connecticut Army National Guard consists of four major commands with 45 units stationed in 19 State armories, two Army aviation facilities and

five training facilities. The Connecticut Air National Guard consists of a Headquarters element, the 103rd Airlift Wing and the 103rd Air Operations Group, both located in East Granby, and the 103rd Air Control Squadron based in Orange. The Organized Militia consists of four company-sized units, two companies of the Governor's Foot Guard and two companies of the Governor's Horse Guard. The Organized Militia may be called upon to augment the State's military force structure during emergencies with administrative and logistical support. Additionally, the Organized Militia provides ceremonial escort for the Governor and supports ceremonial and civic activities throughout the State.

Major General Thaddeus J. Martin served as Adjutant General during the audited period and currently serves in that capacity.

RÉSUMÉ OF OPERATIONS:

General Fund:

A summary of General Fund revenue during the audited period, as well as the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Armory Rentals	\$ 10,725	\$ 6,556	\$ 8,448
Refunds of Expenditures	9,319	3,893	10,380
All Other	<u>7,395</u>	<u>6,068</u>	<u>6,184</u>
Total Revenue	<u>\$ 27,439</u>	<u>\$ 16,517</u>	<u>\$ 25,012</u>

Fluctuations in refunds of expenditures were primarily due to the timing of payments received for the monthly rental and natural gas usage of the Officer's Club in the Hartford Armory, utility costs eligible for reimbursement, and refunds of overpayments.

A summary of General Fund expenditures during the audited period, as well as the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Personal Services	\$ 3,339,374	\$ 3,570,248	\$ 3,585,569
Contractual Services	2,265,218	2,952,288	3,023,921
Commodities	795,879	178,585	134,636
Sundry Expenses	261,500	796,139	149,500
Capital Outlays	<u>8,835</u>	<u>1,652</u>	<u>(285)</u>
Total Expenditures	<u>\$ 6,670,806</u>	<u>\$ 7,498,912</u>	<u>\$ 6,893,341</u>

Total expenditures increased by \$828,106 during the fiscal year ended June 30, 2008 and decreased by \$605,571 during the fiscal year ended June 30, 2009. These changes resulted primarily from the following significant fluctuations in expenditures.

The increase in personal services expenditures of \$230,874 during the fiscal year ended June 30, 2008, as compared to the previous fiscal year, was due primarily to general wage increases effective during that period.

The increase in contractual services expenditures of \$687,070 during the fiscal year ended June 30, 2008, as compared to the previous fiscal year, was due primarily to the funding of security guard services, which were previously supported with Federal funds, and for minor construction, maintenance and repair projects at various Military Department facilities. Also, nearly \$180,000 of the increase was attributable to the reclassification of various accounts in accordance with the Chartfields Section of the State Comptroller's State Account Manual (SAM).

The decrease in commodities expenditures of \$617,294 during the fiscal year ended June 30, 2008, as compared to the previous fiscal year, was due in part to a decrease in the purchase of ribbons and medals awarded, pursuant to Public Act 05-03 of the June 2005 Special Session, to wartime veterans who lived in Connecticut when they were called to active duty service or were domiciled in Connecticut on the date of the award. Also, nearly \$300,000 of the decrease was attributable to the reclassification of various accounts in accordance with the Chartfields Section of the State Comptroller's SAM.

Sundry expenditures increased by \$534,639 during the fiscal year ended June 30, 2008 and decreased by \$646,639 during the fiscal year ended June 30, 2009. Higher expenditures during the fiscal year ended June 30, 2008, as compared to the previous and subsequent fiscal years, were attributable to the number of applications received by veterans for service bonuses, which was based directly on the number of soldiers that returned from deployment during that period. Section 27-61a of the General Statutes established this bonus program for current or former National Guard members called to active service on or after September 11, 2001, where a bonus of \$50 is paid for each month of active service up to a maximum of \$1,200.

Special Revenue Funds – Federal and Other Restricted Accounts:

A summary of Federal and Other Restricted Accounts Fund revenue during the audited period, as well as the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Federal Grants	\$ 14,877,038	\$ 13,873,663	\$ 16,394,748
Non-Federal Aid	758,540	204,834	100,503
All Other	<u>3,629</u>	<u>2,701</u>	<u>1,301</u>
Total Revenue	<u>\$ 15,639,207</u>	<u>\$ 14,081,198</u>	<u>\$ 16,496,552</u>

Federal grant revenue was received primarily from the Department of Defense for the administration of programs and activities financed in part by the Defense Department. Federal grant revenue decreased by \$1,003,375 during the fiscal year ended June 30, 2008, due to the collection of a receivable during the fiscal year ended June 30, 2007, which was related to errors in the posting of revenue made to the general ledger during the fiscal year ended June 30, 2005. The subsequent increase of \$2,521,085 during the fiscal year ended June 30, 2009 was due primarily to reimbursements for increased construction activity during that period.

A summary of Federal and Other Restricted Accounts Fund expenditures during the audited period, as well as the preceding fiscal year, follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Federal:			
Personal Services	\$ 2,860,170	\$ 4,943,989	\$ 5,516,380
Contractual Services	6,002,036	6,321,530	9,599,628
Commodities	214,435	128,851	120,134
Sundry Expenses	1,668,506	(2,801)	3,695,627
Capital Outlays	<u>2,939,649</u>	<u>737,439</u>	<u>1,354,971</u>
Total Federal Accounts	13,684,796	12,129,008	20,286,740
Non-Federal:	<u>414,528</u>	<u>61,415</u>	<u>79,537</u>
Total Expenditures	<u>\$14,099,324</u>	<u>\$12,190,423</u>	<u>\$20,366,277</u>

Federal and Other Restricted Accounts expenditures decreased by \$1,908,901 during the fiscal year ended June 30, 2008, as compared to the previous fiscal year, due primarily to the completion of construction projects including the expansion and renovation of the Southington Readiness Center and the construction of the military working dog facility located at the Newtown Military Reservation. The subsequent increase of \$8,175,854 during the fiscal year ended June 30, 2009 was attributable to the commencement of construction of a Readiness Center located at Camp Rell in East Lyme to support a new Military Police Battalion and Company Headquarters, as well as, for minor construction, maintenance, and repair projects at various Military Department facilities. In addition, approximately \$1.7 million of both the increase in Personal Services and the decrease in Sundry Expenses during the fiscal year ended June 30, 2008, as compared to the previous fiscal year, was attributable to the reclassification of various accounts in accordance with the Chartfields Section of the State Comptroller's SAM.

Special Revenue Funds – Capital Equipment Purchase Fund:

Capital Equipment Purchase Fund expenditures totaled \$118,565 and \$34,685 for the fiscal years ended June 30, 2008 and 2009, respectively. This compares to \$137,355 expended in the prior fiscal year. Expenditures from the Capital Equipment Purchase Fund were made for the purchase of equipment, primarily motor vehicles.

Bond Funds:

The Department used bond funds administered by the Department of Public Works to fund capital projects administered by the Department. Capital project expenditures totaled \$300,044 and \$307,908 for the fiscal years ended June 30, 2008 and 2009, respectively. This compares to \$123,791 expended in the prior fiscal year. Expenditures were primarily for minor construction, maintenance, and repair projects at various Military Department facilities.

CONDITION OF RECORDS

Our testing of Military Department records identified the following reportable matters.

Cash Receipts:

Criteria: Section 4-32 of the General Statutes requires that any State agency receiving any money or revenue for the State amounting to more than \$500 shall deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for a period of more than seven calendar days.

Condition: Our review of the timeliness of deposits for six cash receipts during the audited period noted the following:

- A deposit included 10 separate checks totaling \$1,271, which were deposited between 1 and 5 days late.
- A deposit included a check for \$867 that was deposited one day late.

Effect: The untimely deposit of cash receipts increases the opportunity for loss or misappropriation of funds.

Cause: Cash receipts were not always processed in a timely manner.

Recommendation: The Military Department should improve controls over cash receipts to ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: “Concur – Agency has reviewed the requirements in the State Accounting Manual with all members of the accounts receivable section. Additionally, a fiscal supervisor will periodically audit the check register to insure compliance.”

Overtime:

Criteria: The Military Department's Employee Handbook includes an Overtime Policy that states that overtime must be approved in advance by an appropriate supervisor.

Condition: A review of record keeping practices related to overtime for seven employees who received such pay during the audited period disclosed that the Department does not have a procedure in place to document that overtime is approved in advance.

Effect: It is not documented that management ensured in advance that the overtime worked and to be paid is necessary and reasonable.

Cause: The Department does not have an internal control in place to document that overtime is approved in advance by an appropriate supervisor.

Recommendation: The Military Department should establish internal controls to document that overtime is approved in advance by an appropriate supervisor. (See Recommendation 2.)

Agency Response: "Concur – The Military Department will establish an internal control to document that overtime is approved in advance by an appropriate supervisor. Additionally, the timesheet will be revised to include an area for overtime authorization by the appropriate supervisor."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should improve its internal controls over time and attendance record keeping. – Payroll and personnel records reviewed for the current audited period disclosed no time and attendance exceptions; therefore, this recommendation is not repeated.
- The Department should implement internal controls that ensure that reported property inventory values are supported with detailed subsidiary records recorded in the Core-CT Asset Management Module. The Department should also implement internal controls that ensure that real property is accurately reported and that capitalized equipment is properly recorded in the general ledger. – A review of the Department’s property inventory records noted that reported property is adequately supported and that assets are properly reported and recorded in the general ledger; therefore, this recommendation has been resolved.
- The Department should implement procedures that reconcile receipts to postings made to the general ledger. – A current review of the Department’s procedures for processing receipts noted that a procedure was initiated for reconciling receipts to postings made to the general ledger; therefore, this recommendation has been implemented.
- The Department should implement procedures that ensure that statements are received from new employees acknowledging receipt of a summary of the Code of State Ethics and agreement from the new employee to comply with the requirements of state ethics laws. – A review noted that a statement acknowledging receipt of a summary of the State Code of Ethics was signed by two employees hired during the current audited period; therefore, this recommendation is not repeated.
- The Department should implement internal controls that ensure that expenditure transactions are processed prudently and in accordance with State statutes, policies and procedures. – A current review of purchasing, receiving and expenditures noted no further reportable conditions; therefore, this recommendation has been implemented.

Current Audit Recommendations:

- 1. The Military Department should improve controls over cash receipts to ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes.**

Comment:

Our review of cash receipts noted several instances of untimely deposits.

- 2. The Military Department should establish internal controls to document that overtime is approved in advance by an appropriate supervisor.**

Comment:

A review of record keeping practices related to overtime disclosed that the Department does not have a procedure in place to document that overtime is approved in advance.

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 years ended June 30, 2008 and 2009. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Military Department for the fiscal years ended June 30, 2008 and 2009, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Military Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or

noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Military Department complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Military Department's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Military Department's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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.

Vincent Filippa
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

January 3, 2011
State Capitol
Hartford, Connecticut