

STATE OF CONNECTICUT



*AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

Table of Contents

INTRODUCTION.....	1
COMMENTS.....	1
FOREWORD:.....	1
RÉSUMÉ OF OPERATIONS:.....	2
General Fund:.....	2
Special Revenue Funds:.....	3
Federal and Other Restricted Accounts:.....	3
Military Family Relief Fund:.....	5
Capital Equipment Purchase Fund:.....	6
Bond Funds:.....	6
CONNECTICUT NATIONAL GUARD FOUNDATION INC:.....	7
CONDITION OF RECORDS.....	8
Payroll Personnel – Medical Certificate:.....	8
Approval of Overtime:.....	8
Notification of Post-Employment Rules:.....	9
Leave Accrual Balances and Payout:.....	10
Military Family Relief Fund:.....	12
Cash Receipts:.....	12
Asset Management – Inventory:.....	13
Connecticut National Guard Foundation:.....	15
RECOMMENDATIONS.....	18
INDEPENDENT AUDITORS' CERTIFICATION.....	21
CONCLUSION.....	24

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

July 2, 2013

AUDITORS' REPORT MILITARY DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have examined the financial records of the Military Department for the fiscal years ended June 30, 2010 and 2011. Financial statement presentation and auditing is being done on a Statewide Single Audit basis to include all state agencies.

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. This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Title 27 of the General Statutes contains the Military Department's statutory authority and responsibility. The department's principle public responsibilities are to plan for and protect citizens and their property in times of war, terrorism, invasion, rebellion, riot or disaster. The Military Department facilitates public safety during 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 the 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 and the 103rd Airlift Wing. The Airlift Wing is comprised of the 103rd Air Control

Squadron based in Orange; and the 103rd Air and Space Operations Group, Maintenance Group, Operations Group, Mission Support Group and Medical Group all located in East Granby. 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 revenues during the audited period and the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Armory Rentals	\$ 8,448	\$11,919	\$8,674
Refunds of Expenditures	10,380	24,367	2,717
All Other	<u>6,184</u>	<u>1,290</u>	<u>1,780</u>
Total Revenue	<u>\$ 25,012</u>	<u>\$37,576</u>	<u>\$13,171</u>

General Fund revenues fluctuation is primarily due to the unpredictable nature of the various revenue sources, which includes requests for space in the case of armory rentals and refunds of expenditures arising from the timing of payments and recovery of rebates associated with prior year costs.

A summary of General Fund expenditures during the audited period and the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personal Services	\$ 3,585,569	\$3,265,219	\$3,369,372
Contractual Services	3,023,921	2,085,492	1,929,232
Commodities	134,636	103,179	119,446
Sundry Expenses	149,500	126,050	496,800
Capital Outlays	<u>(285)</u>	<u>13,353</u>	<u>21,246</u>
Total Expenditures	<u>\$ 6, 893,341</u>	<u>\$ 5,593,293</u>	<u>\$ 5,936,096</u>

Total expenditures decreased by \$1,300,048 during the fiscal year ended June 30, 2010 and increased by \$342,803 during the fiscal year ended June 30, 2011. These changes resulted primarily from the following significant fluctuations in expenditures.

Personal services expenditures decreased by \$320,350 and increased by \$107,827 during the fiscal years ended June 30, 2010, and 2011, respectively, as compared to the previous fiscal year. The decrease is due in part by the departure of four employees who held full-time positions in fiscal year 2009. In addition, there was a greater use of state active duty personnel to address various weather related state emergencies during fiscal year 2009. The subsequent increase in fiscal year 2011 was due to the clean-up of higher-than-normal snowfall and an increase in state active duty personnel during the implementation phase of the New England Disaster Training Center, as well as the inauguration of Governor Malloy.

Contractual services expenditures decreased by \$938,430 during the fiscal year ended June 30, 2010, and again in 2011 by \$156,260, as compared to the previous fiscal year. Thirty-five percent (almost \$328,300) of the decrease in fiscal year 2010 was due to the availability of federal funding for security guard services, which was reduced in fiscal year 2009 but resumed in 2010. The other 65 percent of the decrease stemmed from the closing of the state armories in Bristol, Manchester, Putnam and New Haven, which in turn eliminated the need for certain operating expenses and the repair and maintenance of facilities and grounds. In addition, the department initiated fewer large maintenance projects and postponed certain projects during the audited years.

The decrease of \$31,456 in commodities expenditures during the fiscal year ended June 30, 2010, as compared to the previous fiscal year, was primarily due to a decrease in expenditures for livestock supplies. Due to the lack of staffing, the department reduced the number of horses by approximately 50 percent, compared to the amount held in fiscal year 2009.

Sundry expenditures consist solely of veteran service bonuses, which are awarded to qualified military personnel returning from deployment. The decrease of \$23,450 during the fiscal year ended June 30, 2010, as compared to the previous fiscal year, and the subsequent increase of \$370,750 during the fiscal year ended June 30, 2011, is consistent with the number of qualified military personnel to whom bonuses were paid during fiscal year 2011.

Special Revenue Funds:

Federal and Other Restricted Accounts:

A summary of Federal and Other Restricted Accounts Fund revenues during the audited period and the preceding fiscal year follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Federal Grants	\$ 16,394,748	\$ 24,728,637	\$ 37,607,387
Non-Federal Aid	100,503	94,223	79,393
All Other	<u>1,301</u>	<u>160</u>	<u>145,078</u>
Total Revenue	<u>\$ 16,496,552</u>	<u>\$ 24,823,020</u>	<u>\$ 37,831,858</u>

Federal grant revenues were received primarily from the Department of Defense for the administration of programs and activities financed in part by the Department of Defense. Federal grant revenue increased by \$8,333,889 and \$12,878,750 during the fiscal years ended June 30, 2010 and 2011, respectively, as compared to the previous fiscal years. These increases resulted from federal reimbursements for increased construction and restoration activities during the respective fiscal years. Specifically, the construction and equipping of the Regional Training Institute is the primary source of the increase in fiscal year 2011, and it is also associated with a significant portion of the increase in fiscal year 2010. In addition, the construction of Camp Niantic (formerly Camp Rell) and various renovation and modernization projects funded by the America Recovery and Reinvestment Act also contributed to the increase in fiscal year 2010.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Federal:			
Personal Services	\$ 5,516,380	\$ 6,143,990	\$ 6,838,488
Contractual Services	9,599,628	11,665,213	26,622,675
Commodities	120,134	471,071	140,641
Sundry Expenses	3,695,627	10,457,880	1,553,061
Capital Outlays	<u>1,354,971</u>	<u>1,391,141</u>	<u>973,078</u>
Total Federal Accounts	20,286,740	30,129,295	36,127,943
Non-Federal:	<u>79,537</u>	<u>69,760</u>	<u>42,213</u>
Total Expenditures	<u>\$20,366,277</u>	<u>\$30,199,055</u>	<u>\$36,170,156</u>

Federal and Other Restricted Accounts expenditures increased by nearly \$10 million during the fiscal year ended June 30, 2010, as compared to the previous fiscal year, and increased again in the fiscal year ended June 30, 2011 by almost \$6 million. These increases were primarily due to the commencement and completion of several construction, modernization and renovation projects. Specifically, contractual services are associated with the construction of the East Haven Rifle Range, the Armed Forces Reserve Center located in Middletown, and the Regional Training Readiness Center located at Camp Niantic in East Lyme completed during fiscal year 2011. Other expansion and renovation projects that contributed to the increase include building repair and clean water lines at Camp Niantic, electrical upgrades at the Army aviation site in Groton, and parking lot resurfacing of the Army Aviation Support Facility in Winsor Locks.

Increase in commodities expenditures in fiscal year 2010 of approximately \$351,000, compared to fiscal year 2009, was due to the cost of furnishing the newly completed Camp Niantic and the New England Disaster Training Center. The increase in personal services expenditures resulted from an increase in the number of approved and filled

firefighter positions from 12 in fiscal year 2009 to 17 during the fiscal year ended June 30, 2011.

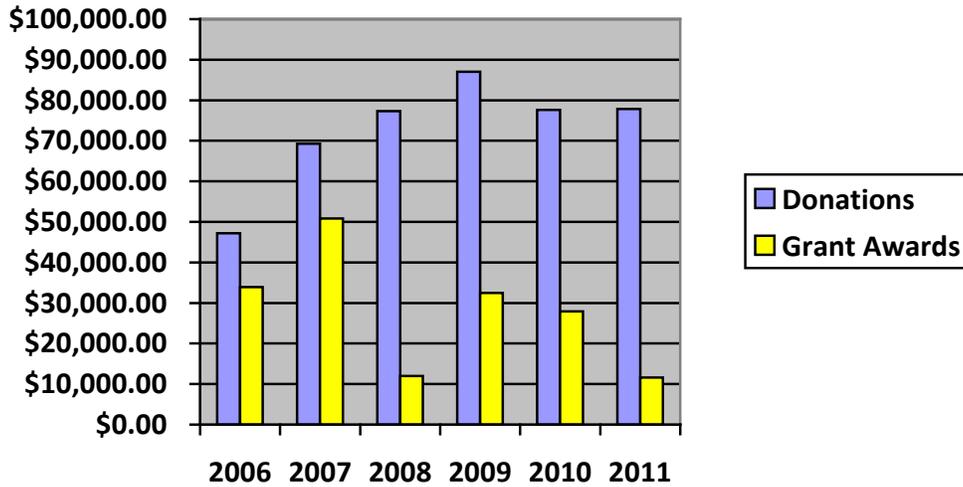
Sundry expenditures consist mainly of grant transfers primarily to the Department of Public Works for various construction, modernization and renovation projects. Chief among these projects is Camp Niantic Readiness Center that accounted for over nine of the almost \$10.5 million expended. Additional projects include roof repairs, energy management system installations and electrical upgrades at the facilities in Hartford, Stratford, Enfield, Norwalk, Rockville, Waterbury and East Lyme.

Military Family Relief Fund:

The Military Family Relief Fund (MFRF) was established by the Connecticut General Assembly (CGS §27-100a) for the purpose of providing financial assistance in time of hardship to immediate family members of military service personnel residing in the State of Connecticut. The fund is available to active duty service members as well as National Guard and Reserves who are on active duty. The Military Department established a grant application and approval process that includes a six (6) person board responsible for awarding benefits to eligible applicants.

The MFRF is a separate, non-lapsing general fund account administered by the Office of the State Treasurer. The account was established with an initial \$500,000 state appropriation. Ongoing funding is provided by public donations from the state income tax refund, which began July 1, 2005 for tax years commencing January 1st of the year. The Department of Revenue Services deducts administrative costs capped at four percent of annual receipts from amounts collected. All charges to the fund were for grant awards. Donations collected and grants awarded as of June 30, 2011 were \$436,358 and \$168,685, respectively. As of June 30, 2011, the MFRF program account had a balance of \$767,673. Net donations collected and grants awarded in each calendar year since the program's inception is presented graphically below:

Military Family Relief Fund Donations & Grant Awards Calendar Years 2006 – 2011



Capital Equipment Purchase Fund:

A summary of Capital Equipment Purchase Fund expenditures during the audited period and the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Expenditures	\$ <u>34,685</u>	\$ <u>37,031</u>	\$ <u>33,235</u>

Expenditures from the Capital Equipment Purchase Fund were made for the purchase of motor vehicles and office equipment.

Bond Funds:

The Military Department used bond funds to fund capital projects administered by the Department of Public Works. Capital project expenditures for the fiscal year ended June 30, 2010 decreased to \$31,145 from the \$307,908 amount incurred in the prior year; however, expenditures increased in fiscal year 2011 by just under \$300,000 to \$327,471. Year-to-year fluctuation of expenditures reflects the department’s practice of utilizing bond funds for construction/repair cycle that allows for alternating years for the design and construction phases. In addition, the availability of funds also impacts bond fund expenditures in any given year.

CONNECTICUT NATIONAL GUARD FOUNDATION INC:

The Connecticut National Guard Foundation, Inc. is a private nonprofit corporation with an independent governing body that is separate from the Military Department. The foundation is registered with the Department of Consumer Protection as a public charity, and states that its mission is to provide familial assistance and support for members of the Organized Militia and National Guard.

Foundation funds are expended to provide temporary financial assistance and scholarships, as well as administer special projects and establish endowments for the aforementioned needs. Benefits, in the form of clothing, food, medical/surgical aid, and general care and relief are provided to eligible candidates via an application process. The foundation is supported by donations received from corporations, corporate and governmental employees and the general public. The Military Department provides space to the foundation at no cost. The foundation's audited financial statements for the years ended December 31, 2010 and 2011 reported total revenues/support of \$125,300 and \$102,232, respectively. Total expenses reported for the same two-year audited periods were \$182,546 and \$160,574, respectively.

Additional comments on the foundation can be found in the Condition of Records section of this report.

CONDITION OF RECORDS

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

Payroll Personnel – Medical Certificate:

- Criteria:* Section 5-247-11 of the state personnel regulations requires an acceptable medical certificate signed by a licensed physician or other state recognized practitioner for any period of absence consisting of more than five consecutive working days.
- Condition:* A medical certificate was not submitted for one of five employees in accordance with the department's policy.
- Effect:* The Military Department is not in compliance with the policy outlined in the state personnel regulations regarding medical certificates.
- Cause:* We were unable to determine a cause for this incident of noncompliance with established regulations.
- Recommendation:* The Military Department should ensure that medical certificates are submitted when applicable and maintained on file in accordance with the department's policy. (See Recommendation 1.)
- Agency Response:* "The department concurs and will continue its due diligence in obtaining and maintaining medical certificates."

Approval of Overtime:

- Criteria:* Section 5-245 of the Connecticut General Statutes states that any state employee who performs work authorized by his appointing authority for a period in addition to the hours of the employee's regular, established workweek shall receive overtime pay.
- The Military Department's Overtime Policy states, "employees must be authorized to work the overtime by their supervisor," and "overtime must be approved *in advance* by the appropriate supervisor."
- Condition:* The department's practice of documenting supervisory approval of overtime on the employee's timesheet is done after-the-fact;

therefore, advance approval for overtime is not adequately supported.

Effect: Advance approval of overtime by employees' supervisors is not documented.

Cause: The department's policy requiring supervisors to sign, certify and approve overtime on the employee's timesheet does not constitute adequate documentation of advance approval of overtime by the employee's supervisors.

Recommendation: The Military Department should assess the current method of documenting approval of overtime to ensure that advance approval by the appropriate supervisor is adequately supported. (See Recommendation 2.)

Agency Response: "The department does not concur and maintains that by virtue of the supervisor's signature in the overtime block on the timesheet, the employee has received prior approval."

Auditor's Concluding

Comment: Supervisors sign employees' timesheets after the work has been performed. In the absence of documented evidence created prior to the performance of any overtime, we have no assurance that employees were authorized in advance by their supervisors to work overtime.

Notification of Post-Employment Rules:

Criteria: The State's Ethical Compliance Policy dictates that "before any state person leaves state service, an exit interview should be conducted by the agency's Ethics Liaison Officer to once again remind the individual of potential issues relating to future employment opportunities. A written summary of the post-state employment rules should be provided at that time."

The Military Department completes a checklist to document that an exit interview and other out-processing procedures, including an ethics brief, have been performance for each employee separating from state service. The checklist is signed by the employee.

Condition: The department was unable to provide a signed Exit Interview Checklist & Ethics Compliance policy form for two former employees acknowledging that they were informed of the state's post-employment restrictions prior to them separating from state service.

Effect: State employees may not be aware of the state’s restriction related to their going to work for vendors that do business with their department after leaving state service.

Cause: The department did not obtain the proper written acknowledgements from employees as part of the exit interview process prior to them leaving state service.

Recommendation: The Military Department should ensure that employees who are leaving state service are informed of the state’s post-employment restrictions. (See Recommendation 3.)

Agency Response: “The department concurs and will ensure this is part of the exit process. If still not signed, the department will mail a certified letter with required materials enclosed (the Exit Interview Checklist & Ethic’s Compliance policy) to the employee.”

Leave Accrual Balances and Payout:

Criteria: Section 5-252 of the Connecticut General Statutes states that “any state employee leaving state service shall receive a lump sum payment for accrued vacation time as prescribed under rules and regulations to be promulgated by the Commissioner of Administrative Services.” Furthermore, Section 5-253 (b) states, “upon the death of any state employee, a lump sum payment shall be made ... for all of the employee's accumulated vacation allowance which shall be an amount equal to the salary which he would have received had he remained in the service until the expiration of such vacation period.”

The Military Department’s Employee Handbook states that, “upon separation or retirement from state service, permanent employees are paid their remaining vacation balance in a lump sum”. The handbook also states that, “upon retirement, one-quarter (1/4) of the remaining sick leave balance up to a maximum of sixty (60) days shall be paid in a lump sum to the retiring employee.”

The Administrative Clerical Bargaining Unit contract dictates that, “upon death of an employee who has completed ten (10) years of state service, the employer shall pay to the beneficiary one-fourth (1/4) of the deceased employee’s daily salary for each day of sick leave accrued to his/her credit as of his/her last day on the active payroll up to a maximum payment equivalent to sixty (60) days pay.”

Condition: Vacation accrual and or sick leave accrual for five (5) employees were incorrectly calculated and reflected in the state's accounting system. In two cases, the system inexplicably applied a higher vacation accrual rate prior to the employee attaining the required minimum years of service. In another case, the system failed to apply the applicable vacation accrual rate for one employee with over five years of service. In yet another case, the system accrued leave time (vacation and sick) when none should have been accrued and failed to accrue leave time when it was earned. Finally, the system calculated one employee's years of service based on an incorrect date that was much later than the employee's actual hire date. As a result, vacation did not accrue at the proper rate when the employee completed 20 years of state service.

Separation payment for 87.97 hours of accumulated sick balance was not made to the beneficiary of one deceased employee, and only a partial payout of the employee's unused vacation balance was made.

Effect: Two employees accrued vacation time totaling 24.33 hours in excess of the correct amount, while the total vacation accrual earned by two other employees was understated by 28.75. Also, accrued sick time earned by one employee was understated by 7.5 hours.

The department did not make a separation payment of \$2,462 for (87.97 hours of) accumulated sick leave balance and two payments totaling \$689 for (28.75 hours of) vacation leave balance earned by two employees. Unpaid separation payment totaled \$3,151.

Cause: It appears that the department did not adequately monitor vacation and sick accrual information to ensure that leave balances were correct.

The department did not determine the correct amount of sick and vacation leave balances of employees who separated from state service, which was necessary in order to make the proper amount of applicable separation payments.

Recommendation: The Military Department should accurately account for accrued vacation and sick time earned by each employee. The department should also comply with policies and procedures regarding employees separating from state service in accordance with state personnel policies. (See Recommendation 4.)

Agency Response: “We concur. The payroll officer and payroll clerk will check all payments for accuracy. The department will periodically review employee leave accrual rates to ensure that sick and vacation accruals are properly calculated.”

Military Family Relief Fund:

Criteria: Section 27-100a, subsection (c), of the Connecticut General Statutes states that the Military Department shall use the Military Family Relief Fund to make grants to immediate family members of eligible members of the armed forces for essential personal or household goods or services in this state if the payment for such goods or services would be a hardship for such family member because of the military service of the eligible member.

Section 27-100a, subsection (e), of the statutes requires the Military Department to establish criteria for the approval of grant applications. To that end, the department developed certain processing standards, the foremost of which is that benefits are approved by a six-person board. A majority of the board members must approve benefit amounts up to \$5,000.

Condition: The board meeting minutes of the Military Family Relief Fund, documenting that the board voted to award one grant in the amount of \$3,663, were not on file.

Effect: We were unable to confirm that the grant expenditure was approved in accordance with procedures that, if properly adopted in regulations as required by statute, would have the effect of law.

Cause: An administrative oversight appeared to contribute to this condition.

Recommendation: The Military Department should obtain and maintain adequate documentation of grants awarded from the Military Family Relief Fund. (See Recommendation 5.)

Agency Response: “We concur. The minutes of this meeting were not maintained; however, will be in the future.”

Cash Receipts:

Criteria: Section 4-32 of the Connecticut General Statutes states that each state department receiving any money or revenue for the state,

shall, within twenty-four hours of its receipt, account for and, if the total of the sums received amounts to five hundred dollars or more, pay the same to the Treasurer or deposit the same in the name of the state in depositories designated by the Treasurer under such regulations as the Treasurer prescribes. Total daily receipts of less than five hundred dollars may be held until the total receipts to date amount to five hundred dollars, but not for a period of more than seven calendar days.

- Condition:* We noted that two cash receipts totaling \$520 were deposited in an untimely manner. One deposit of \$465 and another in the amount of \$55 were each deposited one day late.
- Effect:* The department is not in compliance with the state's statute regarding revenue accounting.
- Cause:* We were unable to determine a cause for these variations from established procedures.
- Recommendation:* The Military Department should ensure that all cash receipts are accounted for in accordance with the state's statutory requirements. (See Recommendation 6.)
- Agency Response:* "We concur. The department will ensure deposits are made timely, and in accordance with the State Accounting Manual. Accounts Receivable staff will perform the physical deposit when Maintenance staff is unavailable."

Asset Management – Inventory:

Criteria: Section 4-36 of the Connecticut General Statutes requires that each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall annually on or before October 1st, transmit to the Comptroller a detailed inventory as of June 30th of all real property and personal property having a value of one thousand dollars or more.

The State Property Control Manual provides guidance on standards and procedures for the compilation and preparation of the Fixed Asset/Property Inventory Report (CO-59) annual report.

The Military Department's state-owned vehicle policy provides standard operating procedures. The policy requires that a properly completed Monthly Usage Report – Form CCP-40 be submitted

for all state vehicles to the Military Department on or before the 5th of each month.

Condition:

We noted the following conditions:

1. One asset was tagged with an incorrect number and recorded in the inventory with an incorrect physical location.
2. Two typographical errors were noted on the CO-59 report for fiscal year ended June 30, 2011. Specifically, the figure for Total Personal Property was erroneously reported as \$3,131,261 instead of \$3,121,261, and the prior year's figure for Easements was incorrectly carried over as zero instead of \$14,175.
3. We noted omissions and/or inaccuracies in seventeen (17) of the thirty (30) monthly motor vehicle mileage reports reviewed. Specifically:
 - a. Fourteen (14) vehicle usage reports were not signed by the supervisor and/or the employee.
 - b. The amount of gas purchased was omitted from five (5) monthly reports and was inaccurately reported on one (1) monthly report.

Effect:

The department's asset tag did not agree with the asset's inventory record and physical location.

The Fixed Asset/Property Inventory Report (CO-59) submitted to the State Comptroller contained inaccurate asset values resulting in the state's asset being understated.

The department is not in full compliance with its monthly motor vehicle usage reporting policy.

Cause:

The incorrect tagging, recording and reporting of the department's assets appear to have occurred due to human error.

The department failed to fully comply with its state-owned vehicle policy relating to monthly usage reports.

Recommendation:

The Military Department should review and follow the state and department policies and procedures to ensure that assets are properly recorded and correctly reported. (See Recommendation 7.)

Agency Response: “(1) We concur. Based on the most recent physical inventory all assets have been accounted for.”

“(2) We concur. In regards to the typographical errors, the stated findings are correct; however, the year-end current balance was listed accurately.”

“(3) We concur. Vehicle mileage sheets will be reviewed and signed by the Maintenance Supervisor.”

Connecticut National Guard Foundation:

Background: Title 27 of the Connecticut General Statutes governs the operation of the Military Department. The department carries out both a federal and state mission via four functional components, including the Connecticut Army National Guard and the Connecticut Air National Guard. The state mission is to coordinate, support, and augment federal, state and local authorities in emergency response; to provide emergency response planning; and to conduct community service programs.

Section 4-37e of the Connecticut General Statutes defines a foundation as “an organization, fund or any other legal entity which is (A) exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and (B) established for the principal purpose of receiving or using private funds for charitable, scientific, cultural, educational or related purposes that support or improve a state agency.”

The expressed purpose of the Connecticut National Guard Foundation, Inc. is to provide “temporary assistance for the Connecticut National Guard and Organized need.” Members to whom the foundation provides benefits constitute the vast majority of the Military Department’s functional responsibility; therefore, the foundation essentially provides support that supplements one of the missions of the Military Department.

Criteria: The Connecticut General Statutes outline the requirements for foundations established for the principal purpose of supporting or improving state agencies. Specifically, Section 4-37f(5) requires that “the governing board of the foundation shall annually file with the state agency an updated list of the members and officers of such board.” Also, Section 4-37f(8) requires an audit of the foundation’s books and records and that such audit report include

“financial statements, a management letter and an audit opinion which address the conformance of the operating procedures of the foundation with the provisions of sections 4-37e to 4-37i, inclusive, and recommend any corrective actions needed to ensure such conformance.”

In addition, Section 4-37g(b) dictates that if the required audit of the foundation was not conducted by the Auditors of Public Accounts, the audit report must be reviewed by the executive authority and chief financial official of the state agency. The executive authority must also submit a signed letter attesting that he has reviewed the audit report. Furthermore, “If such audit report indicates that (1) funds for deposit and retention in state accounts have been deposited and retained in foundation accounts or (2) state funds, personnel, services or facilities may have been used in violation of sections 4-37e to 4-37i, inclusive, or any other provision of the general statutes, the Auditors of Public Accounts may conduct a full audit of the books and accounts of the foundation pertaining to such funds, personnel, services or facilities, in accordance with the provisions of section 2-90.”

Section 4-37f(9) states, “there shall be a written agreement between the state agency and the foundation which ... (B) provides that the state agency shall have no liability for the obligations, acts or omissions of the foundation, (C) requires the foundation to reimburse the state agency for expenses the agency incurs as a result of foundation operations, if the agency would not have otherwise incurred such expenses, ... and (E) provides that if the foundation ceases to exist or ceases to be a foundation, as defined in section 4-37e, (i) the foundation shall be prohibited from using the name of the state agency, (ii) the records of the foundation, or copies of such records, shall be made available to and may be retained by the state agency, provided any such records or copies which are retained by the state agency shall not be deemed to be public records and shall not be subject to disclosure pursuant to the provisions of section 1-210, and (iii) there are procedures for the disposition of the financial and other assets of the foundation.”

Condition:

The department does not have a written agreement with the Connecticut National Guard Foundation, Inc. that addresses indemnification for the foundation’s liabilities, reimbursement for expenses of the foundation incurred by the department, a provision prohibiting use of the department’s name, and for providing foundation records as stated in the statutes.

In an immediate response to our initial inquiries, the department obtained an informal opinion on this matter from a representative of the Office of the Attorney General. While that opinion determined that the foundation does not meet the definition provided for in Section 4-37e, we believe that the authority cited was not directly on point. The fact that the foundation provides services to families in a similar manner as the Military Relief Fund suggests that the purpose of the foundation is to support the Military Department. In addition, an informal opinion is not dispositive.

Effect: The department does not appear to be in compliance with the statutes related to foundations.

Cause: The Military Department maintains that the foundation is not a foundation as defined under Sections 4-37c thru 4-37f of the General Statutes because the foundation is not regarded as providing support to the Military Department. Therefore, the applicability of the statutes had not been considered.

Recommendation: The Military Department should seek a formal opinion from the Office of the Attorney General regarding the applicability of Sections 4-37 et seq. with respect to the Connecticut National Guard Foundation. (See Recommendation 8.)

Agency Response: “We concur. An opinion has been sought from the Office of the Attorney General.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. A current review of cash receipts noted two receipts that were deposited late; therefore, this recommendation is repeated. (See Recommendation 6.)
- The Military Department should implement procedures to ensure compliance with its own policy pertaining to advance approval of overtime. A current review of payroll transactions noted that the department's procedure for approving overtime does not adequately document that overtime was approved in advance; therefore, this recommendation is repeated, as amended. (See Recommendation 2.)

Current Audit Recommendations:

- 1. The Military Department should ensure that medical certificates are submitted when applicable and maintained on file in accordance with the department's policy.**

Comment:

Our review of medical certificates disclosed that a medical certificate for one employee was not submitted in accordance with the department's policy.

- 2. The Military Department should assess the current method of documenting approval of overtime to ensure that advance approval by the appropriate supervisor is adequately supported.**

Comment:

A review of overtime disclosed that the department's practice of documenting supervisory approval of overtime on the employee's timesheet is done after-the-fact; therefore, advanced approval for overtime is not adequately supported.

- 3. The Military Department should ensure that employees who are leaving state service are informed of the state's post-employment restrictions.**

Comment:

The department was unable to provide a signed Exit Interview Checklist & Ethics Compliance policy form for two former employees acknowledging that they were informed of the state's post-employment restrictions prior to them separating from state service.

- 4. The Military Department should accurately account for accrued vacation and sick time earned by each employee. The department should also comply with policies and procedures regarding employees separating from state service in accordance with state personnel policies.**

Comment:

Our review of employee leave accrual balances and payout to employees upon separation from state service noted that vacation and/or sick leave accruals for five (5) employees were incorrectly calculated and reflected in the state's accounting system. In addition, separation payment for accumulated sick balance was not made to the beneficiary of one deceased employee, and only a partial payout of the employee's unused vacation balance was made.

- 5. The Military Department should obtain and maintain adequate documentation of program awards.**

Comment:

Our review of the Military Family Relief Fund (MFRF) grant award program revealed that the MFRF board meeting minutes documenting that the board approved one grant were not on file.

- 6. The Military Department should ensure that all cash receipts are accounted for in accordance with the state's statutory requirements.**

Comment:

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

- 7. The Military Department should review and follow the state and department policies and procedures to ensure that assets are properly recorded and correctly reported.**

Comment:

Our review of the department's asset management practices noted one instance of inaccurate asset tagging, two typographical errors on the Fixed Asset/Property Inventory Report (CO-59) annual report submitted to the Office of the State

Comptroller, and 17 instances of errors and omissions on monthly motor vehicle usage reports the department utilized to monitor employee's use of state vehicles.

- 8. The Military Department should seek a formal opinion from the Office of the Attorney General regarding the applicability of Sections 4-37 et seq. with respect to the Connecticut National Guard Foundation.**

Comment:

The department does not have a written agreement with the Connecticut National Guard Foundation, Inc. that addresses indemnification for the foundation's liabilities, reimbursement for expenses of the foundation incurred by the department, a provision prohibiting use of the department's name, and for providing foundation records as stated in the statutes.

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, 2010 and 2011. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the department are safeguarded against loss or unauthorized use. The financial statement audits of the Military Department for the fiscal years ended June 30, 2010 and 2011 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:

Management of the Military Department is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. 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 department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Military Department's internal control over those control objectives.

A deficiency in internal control 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such

that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation 1 – medical certificate, Recommendation 2 – advance approval of overtime, Recommendation 3 – notification of post-employment restrictions, Recommendation 4– accrued leave balances and payment at separation, Recommendation 5 – MFRF grant award, and Recommendation 7 – asset management,. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 department'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 department 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 department 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.



Marva N. Robinson
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts