

STATE OF CONNECTICUT



*AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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**AUDITORS' REPORT
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We have audited certain operations of the Military Department in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014 and 2015. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions;
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk

assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Military Department.

COMMENTS

FOREWORD

Title 27 of the General Statutes contains the Military Department's statutory authority and responsibilities. The department's principle public responsibilities are to train, resource, and coordinate state emergency response assets and 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 4 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 and oversees civilian employees who provide administrative support to the department's military personnel. 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. As of June 30, 2015, the Connecticut Army National Guard consisted of 4 major commands with 47 units stationed in 17 state readiness centers, 3 army aviation facilities, 8 maintenance facilities, and 5 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, which are all located in East Granby. The Organized Militia consists of the Connecticut State Guard, Connecticut State Guard Reserve, and the Governor's Foot and Horse Guards. The Connecticut State Guard and Connecticut State Guard Reserve may be called upon during emergencies to augment the state's military force structure with administrative and logistical support. The Foot and Horse Guards also represent the Governor and the citizens of the state in a ceremonial capacity.

Major General Thaddeus J. Martin served as adjutant general during the audited period.

Legislation

The following notable legislative changes affecting the department took effect during the audited period:

- Public Act 13-25, effective October 1, 2013, updated and changed several laws pertaining to the state's armed forces personnel and Military Department. The act : (1) permits unpaid state military duty for members and retirees of the state's armed forces, with the consent of the governor and service member or retiree, and credits such unpaid duty toward retirement and other benefits; (2) made changes concerning paid duty, including the elimination of additional state remuneration beyond salary for certain service members and reimbursement expenses for other members; (3)(a) gave members of the state's armed forces and retirees performing state military duty the same workers' compensation, liability, and immunity protections as state employees and (b) compensates members injured or killed according to the greater of their respective civilian salary or the state's average production wage, without prorating this compensation due to the member's other employment; (4) repealed two death benefit statutes; (5) changed how certain military service is defined for state employee benefits; (6) removed the Military Department from the Department of Emergency Services and Public Protection, where it was located for administrative purposes only; and (7) expanded the possible locations where veterans' memorials can be placed.
- Public Act 13-49, effective October 1, 2013, (1) extended employment protections that had only been afforded U.S. Armed Forces reservists or National Guard members to all members of the state's armed forces who take time off from their employment to perform ordered military duty and (2) expanded the type of protected duty from meetings and drills to all ordered military duty.
- Public Act 13-107, effective July 1, 2013, (1) expanded the group of eligible Military Family Relief Fund grant recipients to also include armed forces members and (2) capped the amount of any grant at \$5,000. The act changed the name of the fund to the Military Relief Fund. The act requires, rather than allows, the Military Department to adopt regulations governing the fund.

- Public Act 13-113, effective July 1, 2013, established the New England Disaster Training Center activity account as a separate nonlapsing General Fund account and authorizes the adjutant general to use the money in the account to operate the New England Disaster Training Center. The act also authorized the adjutant general to apply for and accept public or private gifts, grants, and donations to fund the account.
- Public Act 14-131, effective October 1, 2014, required various government entities to substitute military experience for service members for similarly required qualifications in order to certify, grant, or award certain licenses.
- Public Act 14-112, effective June 6, 2014, made several minor changes to the laws on certain state property acquisitions. It allowed the state, through the Department of Administrative Services (DAS), with the governor’s and the Office of Policy and Management (OPM) secretary’s approval, to accept real property, interests in real property, and other rights in land or water or interests in such rights by gift, devise, or exchange. It retained an existing provision that allows the state treasurer, without approval by another official, to accept gifts or devises of land to be used by the state Military Department.
- Public Act 14-188, effective July 1, 2014, specifically allowed the DAS commissioner to (1) enter into “on-call” contracts with architects, professional engineers, and construction administrators for certain projects involving the Military Department or the Department of Energy and Environmental Protection (DEEP) and (2) when purchasing equipment, supplies, materials, or other property or services needed to fulfill his public works-related responsibilities, to (a) use cooperative purchasing and (b) purchase directly from the federal government.

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>2013</u>	<u>2014</u>	<u>2015</u>
Armory Rentals	\$ 1,180	\$-	\$-
Refunds of Expenditures	487,457	129,552	7,165
All Other	-	11,112	9,157
Total Revenue	<u>\$488,637</u>	<u>\$140,664</u>	<u>\$16,322</u>

The decreases in General Fund revenues during the fiscal years ended June 30, 2014 and 2015 are due to a reduced number of weather-related events. The department received reimbursements in fiscal year ended June 30, 2013 from the Department of Emergency Services and Public Protection for expenditures incurred due to winter storm Alfred. In addition, military facility rentals are now accounted for under the special revenue fund and a non-federal aid account.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Personal Services & Employee Benefits	\$3,258,978	\$3,123,508	\$3,417,563
Purchased and Contracted Services	74,947	113,426	115,652
Rental and Maintenance – Equipment	64,873	63,336	58,629
Motor Vehicle Costs	110,998	155,824	149,724
Premises and Property Expenses	1,949,440	2,174,967	2,161,388
Information Technology	2,180	16,402	1,996
Communications	47,635	38,338	96,110
Purchase Commodities	59,155	57,723	95,244
Capital Outlays	1,937	39,593	21,937
Reimbursements	234,088	-	8,370
Grants	249,000	154,900	26,500
Total Expenditures	<u>\$6,053,231</u>	<u>\$5,938,017</u>	<u>\$6,153,113</u>

Total General Fund expenditures decreased by \$115,214 during the fiscal year ended June 30, 2014 and increased by \$215,096 during the fiscal year ended June 30, 2015. These changes resulted primarily from the following significant fluctuations in expenditures.

Personnel services expenditures decreased by \$135,470 and increased by \$294,055 during the fiscal years ended June 30, 2014 and 2015, respectively, as compared to the previous fiscal years. The fluctuation is primarily due to the use of Army and Air National Guard personnel to address weather-related emergencies in the state. The increase in fiscal year 2015 was due to snow removal for the Governor’s inauguration.

Purchased and contracted services expenditures increased by \$38,479 during the fiscal year ended June 30, 2014, and by \$2,226 during the fiscal year ended June 30, 2015. The increases are due to a Phase II environmental assessment to identify potential contamination, and microfilm services and thermal roof scans to determine sub-surface moisture.

Communications and purchase commodities expenses increased by \$57,772 and \$37,521 during the fiscal year ended June 30, 2014 and 2015, respectively, due to the purchase of new cell phones and the phone system update at the Hartford Armory. Capital outlays increased by \$37,656 in fiscal year 2014, primarily due to expenditures related to

the renovation of Building 65. Building 65 is a post headquarters building located at Camp Niantic.

The amounts reported as grants consist of sums paid for veteran service bonuses, which are awarded to qualified military personnel returning from deployment. The amount paid each year fluctuates, depending on the number of qualified personnel returning from deployment during the year. The amounts reported as reimbursements are due to expenses incurred by the Army and Air National Guards. The amounts reported each year fluctuate, depending on the number of weather-related emergencies.

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>2013</u>	<u>2014</u>	<u>2015</u>
Federal Grants	\$22,937,407	\$17,720,051	\$16,364,817
Non-Federal Aid	220,121	1,715,098	1,800,640
All Other	182,781	367,566	179,853
Total Revenue	<u>\$24,340,309</u>	<u>\$19,802,715</u>	<u>\$18,345,310</u>

The majority of the federal grants revenue received was from the Department of Defense to provide support to the Army and Air National Guards for the construction, maintenance, and operation of military facilities. The significant increase in non-federal aid revenue during the fiscal year ended June 30, 2014 was attributable to New England Disaster Training Center (NEDTC) event income, and Military Wellness and Recreation (MWR) and Billeting, which generated \$85,000 in revenue and \$70,000 in income. The “chargeable transient quarters and billeting account” includes proceeds of room service charges at Camp Niantic. Funds in this account are to be expended for the purpose of temporarily housing armed forces members at Camp Niantic. Also included in non-federal aid revenue is rental income (Military Facilities Fund). In 2014 and 2015, the Military Department collected \$258,276 and \$230,194, respectively, for various rental events and activities.

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>2013</u>	<u>2014</u>	<u>2015</u>
Federal:			
Personal Services & Employee Benefits	\$7,774,214	\$8,063,157	\$8,232,610
Purchased and Contracted Services	1,662,192	1,685,742	1,158,540
Rental and Maintenance – Equipment	123,815	156,620	126,213
Motor Vehicle Costs	70,861	85,285	85,658
Information And Technology	0	271	2,078
Premises and Property Expenses	6,057,483	7,090,000	6,394,273
Communications	32,472	51,276	39,767
Purchase Commodities	59,853	79,896	66,910
Reimbursements	0	0	157
Capital Outlays	58,642	57,153	154,424
Fixed Charges	1,360,171	773,570	554,843
Total Federal Expenditures	17,199,433	18,042,970	16,815,473
Non-Federal:	105,093	375,344	410,122
Total Expenditures	<u>\$17,304,526</u>	<u>\$18,418,314</u>	<u>\$17,225,595</u>

Federal and Other Restricted Accounts expenditures increased during the fiscal year ended June 30, 2014 by over \$1 million and decreased in the fiscal year ended June 30, 2015 by over \$1 million. The significant increase in expenditures during the fiscal year ended June 30, 2014 was primarily due to several construction, modernization, and renovation projects. These increases included grounds improvements, sidewalk and guardrail installations, parking lot resealing at the Hartford Armory, and the sealing of surface and structure cracks.

Personnel services and employee benefits increased during the fiscal years ended June 30, 2014 and 2015, by \$288,944 and \$169,453, respectively. This increase can be attributed to an activation of the State Active Duty (SAD) program. SAD is operated by the National Guard and is activated at the Governor’s request. The activation of this program during these years was due to snow removal and the Governor’s inauguration.

The increase in premises and property expenses during the fiscal year ended June 30, 2014 was due to various repairs to the security systems and the rekeying of certain buildings. In addition, the cost of propane escalated in fiscal year 2013-2014 in comparison to the prior fiscal year and fiscal year 2014-2015.

Communications expenditures increased by over \$18,000 during the fiscal year ended June 30, 2014, mostly as a result of the department upgrading its telecommunication system and the purchase of additional cell phones for maintenance staff. In addition, expenditures for purchased commodities increased during the fiscal year ended June 30, 2014 due to clothing and footwear expenses, and the purchase of minor equipment.

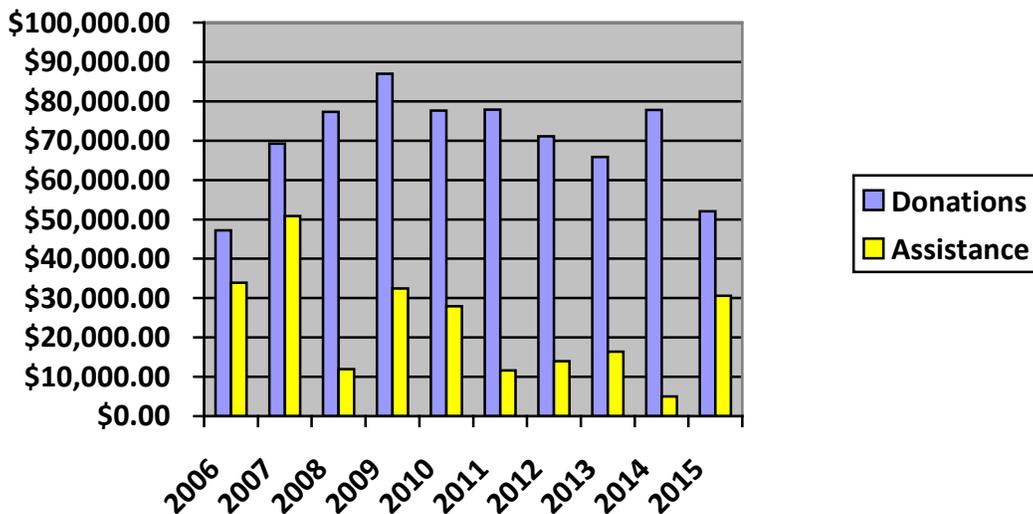
Capital outlay expenditures mostly represent costs associated with equipment needed to furnish newly constructed or renovated buildings. Variances noted seem in line with the deviation with purchased and contracted services expenditures. Fixed charges primarily consist of grant transfers to the Bureau of Construction Services within the Department of Administrative Services for various construction, modernization, and renovation projects. Amounts for both these categories fluctuate based on the types of projects that the department is undertaking at the time.

Military Relief Fund

The Military Relief Fund (MRF) was established by Section 27-100a of the General Statutes for the purpose of providing financial assistance in times 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 and National Guard and Reserves who are on active duty. The Military Department established a grant application and approval process that includes a 6-person board responsible for awarding benefits to eligible applicants.

The MRF 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 state income tax refunds, which began July 1, 2005 for tax years commencing January 1st of that year. The fund collected \$703,142 in donations and awarded \$234,603 in assistance from July 1, 2005 to June 30, 2015. As of June 30, 2015, the MRF program account had a balance of \$968,539. The graph below presents the net donations collected and assistance awarded in each calendar year since the program’s inception:

MRF Donations & Assistance Awarded Calendar Years 2006 – 2015



Capital Equipment Purchase Fund

The department expended \$145,981, \$37,715, and \$272,400 from the Capital Equipment Purchase Fund, for the fiscal years ended June 30, 2013, 2014, and 2015, respectively. Expenditures were for the purchase of IT equipment, motor vehicles, and office equipment. The increase in expenditures in fiscal year 2014-2015 was primarily due to the purchase of a utility tractor. Equipment funding is based on replacement needs or the purchase of new equipment, such as vehicles and IT servers.

Capital Improvements Funds

The department expended \$266,882, \$967,058, and \$1,498,895 for the fiscal years ended June 30, 2013, 2014, and 2015, respectively, from the Capital Improvements Funds. The department uses bond funds to finance capital projects administered by the Department of Administrative Services Bureau of Construction Services. Year-to-year fluctuations of expenditures reflect the department's practice of designing projects one year and constructing them in the next. In addition, the availability of bond funds impacts 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 a public charity whose purpose is to provide familial assistance and support for members of the Connecticut National Guard and Organized Militia. The foundation raises funds from the general public, corporations, and their employees for temporary financial assistance, scholarships, special projects, and endowment for those needs. The foundation provides benefits in the form of clothing, food, medical/surgical aid, and general care and relief to eligible candidates via an application process. The Military Department provides space to the foundation at no cost. The foundation's audited financial statements for the years ended December 31, 2014 and 2015 reported total revenues and support of \$112,871 and \$80,239, respectively. Total expenses reported for the same periods were \$137,952 and \$123,788, respectively.

The Military Department obtained 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. The Attorney General determined that the foundation was not established for the principle purpose of supporting or improving a state agency as defined under Section 4-37e of the Connecticut General Statutes.

Other Matters

On July 1, 2016, the Attorney General's fraud hotline received an anonymous complaint. The complaint alleged that the building superintendent assigned to the Branford and Westbrook Armories and the New Haven Armed Forces Reserve Center was parking a state owned vehicle containing construction materials at his home. The Military

Department assigned the building superintendent a truck to use due to his emergency response responsibilities for the 3 facilities. The truck was supposed to be parked overnight at a state-owned property. Based on these allegations and other information, the Military Department questioned the building superintendent regarding his use of the state vehicle. The building superintendent admitted to taking a state vehicle home approximately 18 times between December 2014 and December 2016 and not recording the information on the vehicle mileage sheets. The Military Department determined that they had sufficient evidence that the building superintendent misused a state-owned vehicle and falsified mileage sheets. The department entered into a stipulated agreement with him on December 19, 2016. The department suspended the building superintendent for 2 working days. He is still permitted the daily use of a state-owned vehicle, but must park it overnight at an armory. The agreement states that if this conduct reoccurs in the next 24 months, the building superintendent will be immediately suspended without pay for 5 working days.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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

Expenditures – Improper Use of Purchasing Cards

Criteria: Purchasing cards (P-cards) are distributed to agencies under a program cosponsored by the Department of Administrative Services and the Office of the State Comptroller and may be used for approved state purchases as prescribed by individual agencies.

Effective July 1, 2011, state agencies must make all purchases under \$1,000 using a P-card. P-cards are used in conjunction with current state contracts and agency purchasing policies. Employees must use P-cards only for official state business. Therefore, they should not use them for personal or private business purchases.

The State of Connecticut Credit Card Use Policy states that the “intentional misuse or fraudulent abuse of any state card may result in disciplinary action, up to and including dismissal, referral to the State of Connecticut Ethics Commission, and/or criminal sanctions. In addition, the authorized holder of the state card shall promptly reimburse the state for any unacceptable purchases.”

Condition: An authorized P-card holder purchased \$45.07 in personal items. The Military Department terminated the employee for unrelated reasons, prior to identifying the purchase and did not seek reimbursement.

Effect: The department paid \$45.07 for unallowable personal items.

Cause: The department did not adequately design and implement internal controls over P-Cards. There is the potential that employees will make improper purchases.

Recommendation: The Military Department should strengthen internal controls to prevent the intentional misuse or fraudulent abuse of purchasing cards. The department should seek reimbursement for any improper purchases. (See Recommendation 1.)

Agency Response: “Although the agency recognizes payment was made for unallowable personal items, the agency disagrees with the finding. The employee in question was terminated and later that same year deceased.”

Auditors' Concluding

Comment: Although the agency recognized the payments for unallowable personal items, it did not seek reimbursement, which is required by OSC/DAS policy. The department needs to strengthen its controls.

Revenue and Receipts – Cash Reconciliations Not Performed

Criteria: The State Accounting Manual, issued by the Office of the State Comptroller, requires that accountability reports or cash proofs be periodically prepared to compare the monies that were actually recorded with the monies that should have been accounted for.

Condition: The Military Department did not reconcile the cash receipts journal to the general ledger during fiscal years 2014 and 2015.

As a result of a prior audit recommendation, the department implemented a procedure in 2017 to reconcile the cash receipts ledger to the general ledger. We requested supporting reconciliation documentation. The department informed us that it performed the reconciliation, but did not retain the records. The department recreated the reconciliation for our audit purposes. We were unable to verify that the department actually performed the reconciliation in fiscal year 2017.

Effect: Inadequate controls increase the risk that errors or irregularities may go unnoticed.

Cause: The department did not implement internal controls over the processing of receipts.

Recommendation: The Military Department should perform monthly reconciliations of the cash receipts journal to postings made in the general ledger and maintain supporting documentation for audit purposes. (See Recommendation 2.)

Agency Response: “The agency acknowledges that reconciliations were not completed; however, the final audit report noting this finding wasn’t issued until June 21, 2017. Once the issue was brought to light, a procedure was created and reconciliations commenced. The original recommendation didn’t have a recommended frequency of reconciliations and therefore the agency procedure was created with a quarterly requirement not monthly as suggested above.”

Auditors' Concluding

Comment:

As noted in the Condition of this finding, the department did not implement a reconciliation process until fiscal year 2016-2017. While the department stated that it performed reconciliations, it did not retain any supporting documentation. Therefore, we were unable to ascertain whether the department performed the reconciliations prior to our request, quarterly, or otherwise.

Asset Management – CO-59 GAAP Reporting Errors

Criteria:

Section 4-36 of the General Statutes requires that each state agency 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. For audit purposes, each state agency shall establish and keep a list of personal property having a value of less than one thousand dollars and defined as “controllable property” in the property control manual published by the Comptroller.

The State of Connecticut Property Control Manual provides the following standards and procedures for maintaining a property control system.

- Agencies should report the value of all capitalized real and personal property on the CO-59 Asset Management / Inventory Report / GAAP Reporting Form and the number of agency-owned motor vehicles on the CO-648B, Summary Motor Vehicle Report, annually.

Condition:

Our review of the Military Department's property control system for fiscal years ended June 30, 2014 and 2015 revealed the following:

- Amounts reported on the CO-59 Asset Management / Inventory Report / GAAP Reporting Form for the fiscal year ended June 30, 2015, did not agree with the department's inventory records. The amount reported on the previous year's buildings balance on the CO-59 Report was \$224,278,358. However, the amount in the department's inventory records was \$224,383,795, a \$105,438 difference. The department was aware that there was a difference between the amount in Core-CT and the CO-59 that existed since the inception of Core-CT.

- The department understated reported additions and deletions for the fiscal year ended June 30, 2015 by \$2,000 and \$1,645 respectively.
- The department did not accurately prepare CO-648B Summary of Motor Vehicle Reports in fiscal years 2014 and 2015. The department did not accurately calculate and report beginning and ending balances of miles travelled.

Effect: The risk of inventory being lost or stolen increases when the department does not maintain accurate inventory records. The department reported inaccurate inventory amounts on the state's Comprehensive Annual Financial Report (CAFR).

Cause: The department has not made a sufficient effort to maintain accurate inventory records in accordance with the state Property Control Manual.

Recommendation: The Military Department should ensure that it reports accurate amounts on the CO-59 Asset Management / Inventory Report / GAAP Reporting Form and CO-648B Summary Motor Vehicle Report. (See Recommendation 3.)

Agency Response: "A reconciliation was conducted; however, the origin of the monetary discrepancy for the buildings line cannot be located. The \$105,438.00 discrepancy was identical for FYE 2012 and FYE 2013 as well and it appears that the discrepancy was carried over from year to year. The agency will seek permission from the State Comptroller's Office to make a onetime adjustment.

The agency concurs with the discrepancies noted in the additions and deletions portion of the CO-59. The variances have been identified.

The agency concurs with the discrepancies in the reporting of vehicles. Inadequate documentation submitted from the ANG as well as a corrupted spreadsheet contributed to the errors. The agency has corrected the spreadsheet and in the future will ensure proper documentation is obtained from the various contributing sections."

Vehicle Usage Not in Accordance with Prescribed Procedures

Criteria: The Department of Administrative Services General Letter 115 contains the policies for the use of state-owned motor vehicles. General Letter 115 requires each agency to designate an agency transportation administrator who is a high-level manager or executive with fiscal and policymaking authority and reports directly to the agency head.

Each agency is responsible for maintaining records regarding its state-owned vehicle usage, including daily mileage logs. These logs provide a means of documenting that vehicles were used for official state business.

In general, all state-owned vehicles must be parked overnight at state-owned or leased facilities. Agencies seeking permission to allow employees to garage a state-owned vehicle at their home on a continuous basis must obtain approval from the director of DAS Fleet Operations. The Military Department's vehicle policy provides that a state vehicle may be parked at the employee's home only when it is used to conduct state business the same day or (before usual working hours) on the next workday.

Condition: Our review of 20 monthly vehicle usage reports revealed that the department did not accurately prepare 2 reports:

- a. The department reported the beginning and ending balance as the same number. The ending mileage did not account for the 470 detailed miles reported.
- b. The department reported the incorrect registration number on 1 monthly usage report; therefore, the ending balance of the previous month did not agree with the beginning balance on the following report.

The department did not obtain approval from the director of the Department of Administrative Services Fleet Operations to permit employees to garage vehicles overnight at their home on a continuous basis.

Effect: The department did not comply with General Letter 115 and its own policies. There is reduced assurance that state-owned vehicles are only being used for official state business and are being utilized effectively.

Cause: The department did not make a sufficient effort to monitor the use of state-owned vehicles during the audited period.

Recommendation: The Military Department should strengthen its internal controls over state-owned vehicles to ensure compliance with established policies and procedures and make certain state resources are being used efficiently. (See Recommendation 4.)

Agency Response: “The agency concurs. Supervisors have been notified and will continue to be reminded of the importance of maintaining accurate Vehicle Usage Reports. Staff has been assigned to review the usage reports on a monthly basis.

The agency concurs. As of May 31, 2017, approval from Frank Sanzo, Director of Fleet Operations for the Department of Administrative Services has been obtained to permit employees to park state-owned vehicles overnight at their home on a continuous basis.”

Asset Management – Failure to Properly Account for Renovation Costs

Criteria: Section 29-252a(d)(2) of the General Statutes provides that no state building or structure erected or altered on and after July 1, 1989, for which a building permit has not been issued pursuant to subsection (b) of this section, shall be occupied or used in whole or in part until the commissioner of the agency erecting or altering the building or structure certifies to the State Building Inspector that the building or structure substantially complies with the provisions of the State Building Code, the Fire Safety Code and such, regulations lawfully adopted under said codes for such building.

The State of Connecticut Property Control Manual provides that the recorded asset cost for buildings should include the purchase or construction cost, professional fees for architects, attorneys, appraisers, or financial advisors, and any other expenditure necessary to put a building or structure into its intended state of operation. The value should include any improvements to the building and the original building costs if the building improvements significantly extend the useful life or enhance the value of the building.

Condition: The department obtained a certificate of compliance in March 2017 for one of its buildings commonly known as Building 65 in Niantic. Section 29-252a(d)(2) of the General Statutes provides that no state building or structure be occupied until it has been certified to meet all safety codes and regulations. The project coordinator typically

submits all certificates in January and August. The department submitted the certificate of compliance to the Department of Construction Services in August 2017. The Military Department did not certify to the State Building Inspector that the building substantially complies with the provisions of the State Building Code, the Fire Safety Code, and the relevant regulations prior to occupying the building.

Building 65 took 16 months to complete, and the department did not track the total cost of the project. The department estimates that it spent at least \$160,000, but that does not include expenses paid through the department's purchasing card or the labor costs of the state employees doing the work. The department did not record Building 65 at the proper value on its inventory records.

Effect: Building 65 should not have been occupied because the department never provided a certificate of occupancy to the State Building Inspector. Inventory amounts reported on the state's Comprehensive Annual Financial Report (CAFR) could be inaccurate.

Cause: The department did not comply with General Statutes pertaining to agency-administered construction projects.

Recommendation: The Military Department should ensure that it complies with all General Statutes pertaining to agency-administered construction projects and should verify that projects are completed in the most efficient and cost-effective manner. In addition, the department should ensure that buildings are properly valued in inventory records in accordance with the State of Connecticut Property Control Manual. (See Recommendation 5.)

Agency Response: "The agency concurs. Building 65 has since been inspected to ensure compliance with state building codes. The agency acknowledges its error in not seeking DAS permission to execute this project as an agency-administered construction project as is required on any construction totaling over \$10,000. As the project is considered a life cycle renovation, bringing the office space up to current standards, the agency does not feel the value has been increased significantly enough to warrant an update in CORE. However, if the auditors so feel, the agency will obtain an appraisal."

Information and Technology – Inventory

Criteria: The Office of the State Comptroller’s Property Control Manual (Chapter 7) sets agency standards for governing the use of approved and/or licensed software by state agencies, to maintain inventory control of software, and to establish a uniform policy for the prevention of software copyright infringement.

All state agencies must establish a software library (or inventories) to track and control all of their software media, licenses or end user license agreements, certificates of authenticity (where applicable), documentation and related items. Agencies may decide in what manner they accomplish this, but they must at least have a central library covering all software components. This includes software acquired with state funds (including external funding sources) and installed by the agency or its funding units. The library must be located in a secure area or be maintained in a secure manner. The library must include all copies of media, at least one copy of the manual and other documentation.

All agencies must perform a physical inventory of the software library at the end of each fiscal year and compare it to the annual software inventory report.

Condition: The department maintained an on-line software inventory for the fiscal years ended June 30, 2014 and 2015; however, the library was not complete and was not in accordance with the Property Control Manual. In addition, the department did not perform an annual physical software inventory in fiscal years ended June 30, 2014 or 2015.

Effect: Failure to maintain inventory control of software may create an opportunity for copyright infringement.

Cause: The IT Unit at the Military Department consists of 1 IT Analyst II, who was hired by the agency in January 2013. The analyst performed the same duties as his predecessor and was not aware of the requirements in the State Property Control Manual.

Recommendation: The Military Department should establish a software library/inventory in compliance with the State Property Control Manual. In addition, the department should perform and document an annual physical software inventory. (See Recommendation 6.)

Agency Response: “The agency acknowledges that it was not in compliance with Chapter 7 of the state property control manual and will establish policies and procedures regarding an agency software library. The library administrators will be the Military Administrative & Programs Officer and the Information Technology Analyst 2.”

Information and Technology – Network Security

Criteria: The Department of Administrative Services’ Bureau of Enterprise Systems and Technology (BEST) establishes policies, reporting requirements, and associated standards to ensure critical information is protected from unauthorized access.

We extracted the following policy statement excerpts from the official State of Connecticut Network Security Policy:

1. It is the policy of the state to prohibit unauthorized access, disclosure, duplication, modification, diversion, destruction, loss, misuse, or theft of information travelling over state computer networks.
2. It is the policy of the state to protect information belonging to third parties and entrusted to the State in confidence in the same manner as private sector trade secrets as well as in accordance with applicable contracts.
3. All computers permanently or intermittently connected to state of Connecticut networks, and all BEST computers that intermittently or continuously connect to an internal or external network must employ password-based access controls.
4. The computer and communications system privileges of all users, systems, and independently operating programs must be restricted based on a need-to-know basis.
5. All users wishing to use the state internal networks, or multi-user systems that are connected to the state internal networks, must sign a compliance statement prior to being issued a user-ID.

Each state agency is responsible for developing its own network security policy. The agency security policy must address system access control, which include how to choose passwords, how to set up passwords, and log-in/log-off procedures.

Condition: The department does not have a network security policy in place that ensures the security of information on state computer networks.

Employees at the Military Department do not lock or log off their computers when they are unattended. In addition, the IT Analyst receives requests to remove the settings that automatically lock computer screens after a duration of inactivity.

Effect: Information on state networks can be compromised, modified, or viewed by unauthorized individuals.

Cause: Employees have informed the IT Analyst that it is inconvenient for them to log in to their computer every time they leave and return to their desk.

Recommendation: The Military Department should establish a network security policy that addresses system access control and prohibits unauthorized access to state and military information. (See Recommendation 7.)

Agency Response: “The agency acknowledges that it does not have an agency Network Security Policy and will draft one in accordance with DAS-BEST Network Security Policy & Procedures version 2.1.

The policy will address the following:

1. System Access Control which includes how to choose passwords, how to set-up passwords and log-in/log-off procedures;
2. System Privileges; limiting system access, process for granting system privileges and the process for revoking system privileges and Establishment of Access Paths;
3. Computer Network Changes; conditions for participation in external networks, policy for initiating sessions via dial-up lines, establishing wireless communications and discussion of computer viruses, worms, and Trojan horses.”

Administration of the Military Relief Fund

Criteria: Section 27-100a (f) of the Connecticut General Statutes states that “on or before February fifteenth of each calendar year, the department shall submit a report to the joint standing committee of the General Assembly having cognizance of matters relating to veterans’ and military affairs, in accordance with Section 11-4a.”

In accordance with Section 11-4a of the general statutes, each commission, task force, or committee appointed by the Governor or the General Assembly, or both, is required to report its findings and recommendations, and each state agency which submits a report to the General Assembly or any committee of the General Assembly, shall submit its report (may be electronic during the audited period) to the clerks of the Senate and the House of Representatives and the Office of Legislative Research, and shall file one copy with the State Librarian.

Section 27-100a (d) of the Connecticut general statutes requires that the department shall act on each application no later than 7 days after the date on which the completed application is submitted to the department.

Section 27-100a (e) of the Connecticut General Statutes states that the department shall adopt regulations implementing the provision of this section, in accordance with the provisions of chapter 54, and may implement the policies and procedures contained in such proposed regulations while in the process of adopting the regulations, provided the department publishes notes of intention to adopt the regulations in the Connecticut Law Journal no later than twenty days after implementing such policies and procedures. Policies and procedures implemented pursuant to this subsection shall be valid until the earlier of the date on which such regulations are effective or one year after the publication of such notice of intention.

Condition:

The Military Department informed us that it prepared and submitted the 2014 and 2015 annual reports manually. However, we cannot determine whether the department actually submitted these reports or submitted them on time in accordance with Sections 27-100a (f) or 11-4a of the Connecticut General Statutes.

The department had not yet adopted required regulations, although they were recently submitted for review.

The department has not completely documented the submission and processing dates of grant applications and other required information. While the department notes the application date, it informed us that the applicant frequently does not submit the required documentation with the application. In addition, the application does not specify that documentation must be submitted with the application. Therefore, the seven days noted as a processing time is generally not enforced. The department also does

not appear to specifically note when it receives documentation during the application review.

Effect: The Military Department does not appear to be in compliance with Section 27-100a (d) through (f), of the Connecticut General Statutes.

Cause: The department did not maintain supporting submission date documentation for the fiscal years ended June 30, 2014 and 2015 annual Military Relief Fund reports. It appears there was confusion over the processing versus approval time period. The department revised its application form to reflect a ten-day processing period, which is not in compliance with Section 27-100a(d). In addition, the department believes that the seven-day period does not start until all documentation is received. However, we were unable to verify this was always the case due to the lack of supporting documentation.

Recommendation: The Military Department should comply with Sections 27-100a (d) through (f) of the General Statutes and obtain sufficient and adequate supporting documentation to verify delivery and timeliness of reports and supporting documentation. In addition, regulations should be in place to adequately address the department's grant award process. (See Recommendation 8.)

Agency Response: "Connecticut General Statutes section 27-100a, subsection (d) states "The department shall act on each application no later than seven days after the date on which the completed application is submitted to the department."

The agency interprets a "completed application" to be to be a submitted & signed CTMD Form 7-1. A completed application does not necessarily need to have all supporting documentation as it would place an undue burden on the applicant to know or understand everything that would be required by the MRF committee to make a fair determination. The agency interprets "shall act" to take initial action and not to make a final decision. This action requires the Military Administrative & Programs Officer to review the application, determine if they meet the program criteria, understand the nature of the hardship to military service and determine what supporting documentation would be required to make that connection. The agency then takes action by sending CTMD Form 7-2 "Request for Information" to the applicant. The agency has taken action within seven days of all submitted applications and disagrees that appropriate action was not taken. Therefore, the agency strongly disagrees with the finding that "the seven days

noted as a processing time is hardly enforced and meaningless” as it has always been enforced by the agency.

The agency does acknowledge that it does not record the date of receipt of each piece of correspondence or documentation received in response to the requests for further information on CTMD Form 7-2. The agency can date stamp these articles of information but does not consider it a requirement in accordance with 27-100a (d).

In regards to the application form, the CTMD Form 7-1 was updated in January 2015 to reflect the 7-day standard and not a 10-day standard.

The annual reports for 2014 and 2015 were submitted timely by the agency. However, the agency did not use a transmittal record or other form of verification to acknowledge receipt by the Joint Standing Committee of the General Assembly. The agency will use a transmittal letter for future submissions.”

*Auditors’ Concluding
Comment:*

Although the department states that it complied within the 7-day statutory guideline to act on an application, we could not confirm the department’s compliance due to the lack of a receipt or date stamp on supporting documentation. We also noted that in addition to the incorrect timeframe on the CTMD Form 7-1, the department changed the wording from “all applications should be processed within” 7 or 10 days (depending on the version) to “all applications should be reviewed within 7 days.” We believe the department made this change to address its interpretation, but the revision does not necessarily adhere to the statutory requirement. In addition, the departments’ response notes that the statute does not detail what is to be specifically accomplished within the 7-day timeframe. The completion and approval of updated regulations should help clarify this.

RECOMMENDATIONS

Our prior report on the fiscal years ended June 30, 2012 and 2013 contained 11 recommendations. Of those recommendations, 4 have been implemented, resolved, or are not being repeated. The status of recommendations contained in the prior report is presented below.

Status of Prior Audit Recommendations:

- **The Military Department should implement procedures to reconcile its cash receipts journal to postings made to the general ledger.** The department did not reconcile the cash receipts journal to the General Ledger during fiscal years 2014 and 2015. The finding will be repeated. (See Recommendation 2.)
- **The Military Department should strengthen its internal controls to ensure that GAAP forms submitted to the State Comptroller are accurate and complete.** The department did not implement controls during the current audited period to ensure that the GAAP forms submitted to the State Comptroller are accurate and complete. The finding will be repeated. (See recommendation 3.)
- **The Military Department should strengthen internal controls over petty cash to ensure that employee reimbursement forms for travel advances are submitted in a timely manner and that state purchasing cards are used rather than petty cash when feasible.** We did not perform transaction testing during the current audited period due to the minimal amount administered through the petty cash fund. We verified that annual petty cash reports were prepared accurately and submitted timely. We reviewed purchasing card transactions in our expenditure testing and we noted that purchasing cards were used when feasible. The finding will not be repeated.
- **The Military Department should ensure that employees who are leaving state service are informed of the state's post-employment restrictions and turn in all badges and keys to the building.** All terminated employees in our current review had a signed out-processing checklist and acknowledgement receipt for the State Code of Ethics. The out-processing checklist includes the return of all keys, badges, and access cards. The finding will not be repeated.
- **The Military Department should ensure that retired employees are properly rehired under the Temporary Worker Retiree Program with the approval of the Commissioner of the Department of Administrative Services, the Secretary of the Office of Policy and Management, and the Governor's office.** The department obtained a formal opinion from the Attorney General on December 11, 2017 which concluded that the State Active Duty program is being utilized as intended. Employees are being properly rehired through the program. The finding will not be repeated.

- **The Military Department should improve internal controls, maintain its property control system in accordance with the State of Connecticut Property Control Manual, and ensure that amounts reported on the CO-59 Asset Management/Inventory Report/GAAP Reporting Form and CO-648B Summary Motor Vehicle Report are accurate.** The current audit disclosed that the department is not maintaining its property control system in accordance with the State of Connecticut Property Control Manual and that amounts reported on the CO-59 Asset Management/Inventory Report and GAAP Reporting Form are not accurate. Therefore, the recommendation is being repeated. (See Recommendation 3.)
- **The Military Department should strengthen its internal controls over state-owned vehicles to ensure compliance with established policies and procedures and make certain state resources are being used efficiently.** The current audit disclosed that the department did not comply with established policies in regard to the efficient use of state-owned vehicles. The recommendation will be repeated in part. (See Recommendation 4.)
- **The Military Department should ensure that it complies with all General Statutes pertaining to agency-administered construction projects and verify that projects are completed in the most efficient and cost-effective manner. In addition, the department should ensure that buildings are valued in inventory records in accordance with the State of Connecticut Property Control Manual.** The current review disclosed that the Military department is not in compliance with statutes pertaining to the occupancy and certification of agency-administered construction projects. In addition, one construction project known as Building 65 is not accurately valued in Core-CT. The finding will be repeated. (See Recommendation 5.)
- **The Military Department should review its use of the State Active Duty Program to verify that it is only being utilized in emergency situations as intended.** The Military Department obtained a formal opinion from the Attorney General on December 11, 2017, which concluded that the State Active Duty program is being utilized as intended. The finding will not be repeated.
- **The Military Department should maintain adequate documentation of grants awarded from the Military Family Relief Fund and ensure that grants are only awarded for allowable purposes.** During our current review, we could not determine whether annual reports for 2014 and 2015 were submitted timely in accordance with Section 27-100a(f) of the Connecticut General Statutes. The finding will be repeated in part. (See Recommendation 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.** The Military Department obtained 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. The finding will not be repeated.

Current Audit Recommendations:

1. **The Military Department should strengthen internal controls to prevent the intentional misuse or fraudulent abuse of purchasing cards. The department should seek reimbursement for any improper purchases.**

Comment:

An authorized P-card holder purchased \$45.07 in personal items. The Military Department terminated the employee prior to the identification of the purchase but did not seek reimbursement.

2. **The Military Department should perform monthly reconciliations of the cash receipts journal to postings made in the general ledger and maintain supporting documentation for audit purposes.**

Comment:

Our review noted that the department did not reconcile cash receipts per its cash receipts journal to postings made to the general ledger during the audited period.

As a result of prior audit findings received in October 2016, the department established a procedure to reconcile the cash receipts journal to the general ledger. Upon request, the department informed us that it performed the reconciliation in 2017, but did not retain the documentation. We could not verify that department actually performed the reconciliation.

3. **The Military Department should ensure that it reports accurate amounts on the CO-59 Asset Management / Inventory Report / GAAP Reporting Form and CO-648B Summary Motor Vehicle Report.**

Comment:

Amounts reported on the CO-59 Asset Management report did not agree with the department's inventory records. Additions and deletions for the fiscal year 2015 were understated by \$2,000 and \$1,645 respectively. CO-648B Summary of Motor Vehicle Reports were not accurately prepared in fiscal years 2014 and 2015.

- 4. The Military Department should strengthen its internal controls over state-owned vehicles to ensure compliance with established policies and procedures and make certain state resources are being used efficiently.**

Comment:

The department did not maintain approvals from the Director of the Department of Administrative Services Fleet Operations to park state-owned vehicles at locations other than state-owned or leased properties. The department did not accurately prepare 2 monthly motor vehicle usage reports.

- 5. The Military Department should ensure that it complies with all General Statutes pertaining to agency-administered construction projects and should verify that projects are completed in the most efficient and cost-effective manner. In addition, the department should ensure that buildings are valued in inventory records in accordance with the State of Connecticut Property Control Manual.**

Comment:

The department obtained a certificate of compliance in March 2017 for Building 65, but has not yet certified to the State Building Inspector that the building substantially complies with the provision of the State Building Code, the Fire Safety Code, and the regulations lawfully adopted under said codes for such building prior to occupancy. The department did not track all purchasing card and labor expenditures related to the construction project; therefore, Building 65 is not accurately recorded in the department's inventory records and cannot be accurately valued in Core-CT.

- 6. The Military Department should establish a software library/inventory in compliance with the State Property Control Manual. In addition, the department should perform and document an annual physical software inventory.**

Comment:

Our review disclosed that the department maintained an on-line software inventory during the audited period; however, the inventory was not complete and not in compliance with the State Property Control Manual. The department did not perform an annual physical software inventory.

- 7. The Military Department should establish a network security policy that addresses system access control and prohibits unauthorized access to state and military information.**

Comment:

The department does not have a network security policy in place that ensures the security of information on state computer networks. Employees do not lock or log off their computers when unattended. The IT analyst receives requests to remove the settings that automatically lock computer screens after a period of inactivity.

- 8. The Military Department should comply with Section 27-100(a) (d) through (f) of the General Statutes and obtain sufficient and adequate supporting documentation to verify delivery and timeliness of reports and supporting documentation. In addition, regulations should be in place to adequately address the department's grant award process.**

Comment:

The Military Department informed us that it prepared and submitted the 2014 and 2015 annual reports manually. However, we cannot determine whether the department actually submitted these reports or submitted them on time in accordance with Sections 27-100a (f) or 11-4a of the Connecticut General Statutes.

The department has not completely documented the submission and processing dates of grant applications and other required information. The application does not specify that documentation must be submitted with the application. The mandated 7-day processing period is generally not enforced.

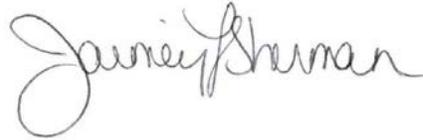
ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Christine Delaney
Jaimey Sherman

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Military Department during the course of our examination.



Jaimey Sherman
Auditor II

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor