

STATE OF CONNECTICUT

AUDIT REPORT

**SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

AUDITORS OF PUBLIC ACCOUNTS

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**AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

We have examined the records of the State agency known as the Soldiers', Sailors' and Marines' Fund for the fiscal years ended June 30, 1999 and 2000. This report thereon consists of the Comments, Recommendations and Certification, which follow. Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Agency's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the Agency's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Soldiers', Sailors' and Marines' Fund, a trust fund established by the General Assembly in 1919, operates under the provisions of Section 27-138 through 27-140 of the General Statutes. The purpose of the fund is to provide temporary financial assistance to help meet the health and maintenance needs of eligible veterans and/or their dependents. Custody of the Soldiers', Sailors' and Marines' Fund is assigned by Section 27-138 to the State Treasurer who is charged with the responsibility of investing the fund and with the approval of procedures for proof of eligibility.

Responsibility for the determination of eligibility of applicants, expenditures, accounting and related administrative matters is assigned to the American Legion in accordance with the provisions of Section 27-140 of the General Statutes.

Section 27-138 of the General Statutes requires that payments for the operation of this program be made from interest accumulations of the Trust Fund and that any excess balance in the operating fund, other than a contingency reserve of \$100,000, be transferred annually to the trust fund principal.

In accordance with Section 27-138 of the General Statutes and its bylaws, the American Legion has established a special committee, known as the State Fund Committee, to approve the administration of the fund by the American Legion Treasurer, who is also Administrator of the Fund. Edward D. Barry served as Administrator until June 30, 1999. Gerald F. Dierman served as Assistant Administrator until he became the Administrator effective July 1, 1999. Effective December 31, 1999 and through the remainder of the audited period, John D. Monahan served as Assistant Administrator.

Funds:

The Soldiers', Sailors' and Marines' Fund, for administrative and accounting purposes, consists of the following separately accounted for funds.

<u>Name</u>	<u>Administered by</u>
Trust Fund	State Treasurer
Operating Fund	State Comptroller and Treasurer of the American Legion
American Legion Fund	Treasurer of the American Legion

The Trust Fund principal is invested by the State Treasurer. As of June 30, 2000, the market value of the Trust Fund per the Treasurer was \$57,517,049. Revenue of the Trust Fund, governed by a legislatively-enacted budget plan of the Operating Fund, is transferred to the Operating Fund. The State Comptroller charges Operating Fund appropriations for personal service costs and other administrative expenses.

The Operating Fund and American Legion Fund are discussed below.

RÉSUMÉ OF OPERATIONS:

Operating Fund:

This special revenue fund is used for the financing of the administrative expenses of the Soldiers', Sailors' and Marines' Fund agency and for financing burial expenses and headstone expenses which are administered by the Veterans' Home and Hospital, as well as the amount appropriated and transferred to the American Legion Fund to cover award payments. The costs of this Fund are offset by transfers of income from the Trust Fund and income from the Treasurer's Short Term Investment Fund (STIF). Amounts transferred from the Trust Fund totaled \$2,914,180, \$3,360,738, and \$3,289,284, for the fiscal years ended June 30, 1998, 1999, and 2000, respectively.

The Fund's expenditures exceeded the Fund's income by \$119,148, \$471,047, and \$203,032 for the fiscal years ended June 30, 1998, 1999, and 2000, respectively.

Operating Fund expenditures during the fiscal years ended June 30, 1998, 1999 and 2000 are presented below:

	<u>Fiscal year ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personal services	\$ 681,936	\$ 693,090	\$ 735,652
Other expenses	358,392	341,658	403,486
Equipment	17,581	0	19,483
Transfers to American Legion Fund for award payments	<u>1,782,251</u>	<u>1,629,452</u>	<u>1,724,350</u>
Total agency expenditures	\$2,840,160	\$2,664,200	\$2,882,971
Veterans' Home and Hospital	<u>193,168</u>	<u>225,490</u>	<u>203,280</u>
Total	<u>\$3,033,328</u>	<u>\$2,889,690</u>	<u>\$3,086,251</u>

Total expenditures decreased by \$143,638 during the 1998-1999 fiscal year from the previous fiscal year. This was mainly due to a decrease in the amount transferred for award payments. Total expenditures increased by \$196,561 during the 1999-2000 fiscal year. This was mainly the result of an increase in the amount transferred to award payments. In addition, the increase in personal services was due to accrued sick and vacation leave payments upon the retirement of the Administrator. Other expenses increased as a result of an increase in the fringe benefit recovery rate for full time salaries from 35.55 percent for the 1998-1999 fiscal year to 41.28 percent for the 1999-2000 fiscal year.

American Legion Fund:

These funds are appropriated for the purpose of aiding temporarily needy veterans and/or their dependents. Funds are transferred quarterly from the Operating Fund to the American Legion Fund and then disbursed in accordance with the bylaws of the American Legion as approved by the State Treasurer. Funds for the immediate needs of the veterans are retained in a checking account. The remainder of the quarterly transfer of funds are invested in STIF and transferred from STIF to the checking account as needed. From the checking account the agency issues weekly benefit payments to veterans or on their behalf for rent, fuel, medical services, etc.

Summaries of types and amounts of payments and period of service are presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Type of Payment:</u>			
Weekly benefit	\$ 387,285	\$ 399,185	\$ 348,982
Emergency authorization	526,011	547,523	628,064
Medical, burial and prosthesis	<u>897,279</u>	<u>712,844</u>	<u>771,297</u>
Total Benefits Paid	<u>\$1,810,575</u>	<u>\$1,659,552</u>	<u>\$1,748,343</u>

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Period of Military Service of Applicants:

World War I	11	5	2
World War II	585	573	571
Korea	457	407	400
Vietnam	1,416	1,368	1,367
Persian Gulf	98	93	96
Veterans in two or more conflicts	<u>82</u>	<u>83</u>	<u>73</u>
Total Applications Received	<u>2,649</u>	<u>2,529</u>	<u>2,509</u>

CONDITION OF RECORDS

Our previous audit of the Soldiers', Sailors' and Marines' Fund did not reveal a reportable area of concern. During this audit, we found the following area in need of corrective action.

Employee separation policies:

Criteria: Good internal controls require termination policies for employees upon their separation from State service, especially in the area of computer access controls. Employee user names and passwords should be deleted at the latest, on their separation date.

Condition: We found three instances where employees did not have their access to the Soldiers' Sailors' and Marines' Fund award system removed in a timely manner. Two employees' access had been removed more than two years after they had separated. One employee's access had been removed one month after his separation date.

Effect: Internal controls are weakened when separated employees still have access to the system.

Cause: There were no policies in effect at this State agency at the time the employees separated to delete employees' from the computer systems.

Recommendation: Policies should be established and enforced for dealing with employees who have separated from State service. (See Recommendation 1).

Agency Response: "There is justifiable concern that there is a weakness in the area of computer access control for employees that have been terminated, resigned, or retired from this agency.

A new policy has been implemented, which would require two signatures from management that departing employees have been deleted in respect to their access to our computer systems as well as ensuring that all keys to the offices they have been assigned to have been turned in.

A copy of the policy, and the form designed to accommodate the new policy is enclosed for your information.

The completed form will then become a part of the employees' personnel record."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

There were no prior audit recommendations.

Current Audit Recommendations:

- 1. Policies should be established and enforced for dealing with employees who have separated from State service, especially in the area of computer operations.**

Comment:

We found three instances where separated employees' access to the computer system had not been terminated in a timely manner.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Soldiers', Sailors' and Marines' Fund for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Soldiers', Sailors' and Marines' Fund for the fiscal years ended June 30, 1999 and 2000, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Soldiers', Sailors' and Marines' Fund complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Soldiers', Sailors' and Marines' Fund is the responsibility of the Soldiers', Sailors' and Marines' Fund's management. As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

However, we noted a certain matter involving internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operation, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following finding represents a reportable condition: lack of a separation policy regarding employees' access to computer systems.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Soldiers', Sailors' and Marines' Fund during the course of this examination.

JoAnne Sibiga
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts