

STATE OF CONNECTICUT

**AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

AUDITORS OF PUBLIC ACCOUNTS
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**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the records of the State agency known as the Soldiers', Sailors' and Marines' Fund for the fiscal years ended June 30, 2001 and 2002. 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' Trust Fund was established by the General Assembly in 1919 and operates under the provisions of Section 27-138 and 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, their dependents and survivors.

Custody of the Fund is assigned by Section 27-138 to the State Treasurer who is charged with the responsibility of investing the Fund. 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.

In accordance with Section 27-138 and its bylaws, the American Legion has established a commission, known as the State Fund Commission, to approve the administration of the Fund. The State Fund Commission consists of the American Legion Treasurer, who is chairman of the Commission and the Administrator of the Fund, the Assistant Treasurer of the Fund and seven other members approved by the Executive Committee of the American Legion. Gerald F. Dierman served as Administrator of the Fund during the audited period.

The operations of the Fund are administered through the Soldiers', Sailors' and Marines' Trust Fund, the Soldiers', Sailors' and Marines' Special Revenue Fund and a State checking account administered by the American Legion. The funds and checking account are discussed below.

RÉSUMÉ OF OPERATIONS:

Soldiers', Sailors' and Marines' Trust Fund:

The Trust Fund principal is invested by the State Treasurer. Appropriated funds are derived from investment income earned from the principal of the Trust. The investment income is distributed from the Trust Fund to the Soldiers', Sailors' and Marines' Special Revenue Fund. Net investment income earned by the Trust totaled \$3,464,603 and \$3,147,190 for the fiscal years ended June 30, 2001 and 2002, respectively. This compares to net investment income earned of \$3,292,546 for the fiscal year ended June 30, 2000. The market value of cash and investments held in the Trust as of June 30, 2002, was \$56,372,944. This compares to a market value of \$57,517,331 as of June 30, 2000.

Soldiers', Sailors' and Marines' Special Revenue Fund:

Appropriations are made from this Fund to the Soldiers', Sailors' and Marines' Fund agency for its operating expenses and award payments made to veterans. Separate appropriations are made to the Department of Veteran's Affairs for burial expenses and headstones to indigent veterans. Information presented below represents fund resources and expenditures relative to the Soldiers', Sailors' and Marines' Fund agency only.

Funds appropriated from Trust Fund income for this special revenue fund account totaled \$3,135,315 and \$3,155,691 for the fiscal years ended June 30, 2001 and 2002, respectively. Expenditures for the fiscal years ended June 30, 2000, 2001 and 2002 are presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal services	\$ 735,652	\$ 739,682	\$ 730,283
Other expenses	403,486	391,986	409,231
Equipment	19,483	11,535	5,514
Transfers to checking account	<u>1,724,350</u>	<u>1,794,325</u>	<u>1,818,330</u>
Total agency expenditures	<u>\$2,882,971</u>	<u>\$2,937,528</u>	<u>\$2,963,358</u>

Expenditures include deposits of funds to a State checking account administered by the American Legion. Deposited funds are used to make award payments to veterans and their dependents to help meet their health and maintenance needs. Award payments made from the checking account are discussed below.

Total expenditures increased \$93,980 for the fiscal year ended June 30, 2002 from the fiscal year ended June 30, 2000. This was mainly due to increases in amounts transferred to the checking account for award payments.

Checking Account:

Award payments made from the checking account to veterans or on their behalf are expended for weekly assistance, food, shelter, clothing, medical needs and funeral expenses. A summary of the type and amount of payments is presented below:

<u>Type of Payment:</u>	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Weekly benefit	\$ 348,982	\$ 343,254	\$ 360,647
Emergency authorization	628,064	647,394	669,528
Medical, burial and prosthesis	<u>771,297</u>	<u>832,270</u>	<u>799,761</u>
Total Benefits Paid	<u>\$1,748,343</u>	<u>\$1,822,918</u>	<u>\$1,829,936</u>

CONDITION OF RECORDS

Our testing of the Soldiers', Sailors' and Marines' Fund Agency records identified the following areas that warrant comment.

Award Payments:

Criteria: Internal controls over the processing of award payments should provide reasonable assurance that payments for goods and/or services made to providers are adequately documented, properly approved and correctly calculated.

Condition: Our review of 59 award payments (\$8,619) made to or on behalf of veterans disclosed the following conditions:

- We were unable to verify whether the amount paid (\$833) to two providers was in accordance with American Legion policy.
- One payment (\$96) was not supported with a complete provider invoice or billing.
- One improper payment (\$21) was made that was not authorized.
- Two payments (\$744) were made using the incorrect rate of pay. Payments should have been for \$671.

Our sample was randomly selected from a universe of 15,372 checks issued from July 1, 2000, through June 30, 2002, totaling \$3,735,417.

Effect: Management has lessened assurance that payments to providers have been properly authorized and correctly paid.

Cause: The conditions noted above were the result of several different causes.

- The Agency pays medical providers the prevailing Medicaid rates for medical goods or services. The rates are determined using online resources, schedules or pharmacy-related publications. The two conditions noted above were for prescription drugs. The Agency pays pharmacies the drug manufacturer's average wholesale price for the drug less 12 percent plus a dispensing fee. Calculations performed by the Agency to determine the payment amount are not documented. In addition, the publication used to determine the payment amount was not retained by the Agency.

- The Agency accepted an explanation of benefits from the provider as documentation for payment.
- The improper payment was made due to administrative oversight.
- The reasons for using the incorrect payment rates could not be determined

Recommendation: Internal controls over award payments should be reviewed to determine whether controls are operating in accordance with management's objectives. (See Recommendation 1).

Agency Response: "We agree with the finding. We will continue to review payment procedures with the staff. We have developed a form that will provide the detail necessary to insure that payments made for prescriptions are in conformance with Medicaid rates. Another individual as a matter of quality control will review calculations."

Equipment Inventory and Reporting:

Criteria: State agencies are responsible for maintaining adequate inventory controls and accountability systems for their personal use. Each agency should continuously survey its property to determine unserviceable, obsolete or otherwise unusable property. Identified surplus or scrap property should be properly disposed of and adjusted on agency property control records. (Property Control Manual)

Condition: Our physical inspection of property items reported on the Agency's property records identified three items of equipment costing \$18,816 that were not being used by the agency due to equipment purchased or acquired that replaced such equipment. The cost of the unused equipment was reported on the Agency's Fixed Asset/Property Inventory Report for the fiscal year ended June 30, 2002. The total value of all equipment reported for this category of property was \$98,524.

Effect: The Fixed Asset/Property Inventory Report does not accurately reflect the residual value of certain unused equipment in the custody of the Agency.

Cause: Agency staff was uncertain whether the unused property was still usable.

Recommendation: The Agency should review its property control records to determine whether its reportable property reflects property used by it in performance of its operations. Property identified as no longer useful should be disposed of and reflected on the Agency's property records. (See Recommendation 2).

Agency Response: "We agree with this finding. The property in question is no longer of use or serviceable and will be removed from our property control in accordance with current procedures. As part of our annual physical inspection, management will monitor appropriate use of current equipment under our control."

Purchasing, Receiving and Expenditures:

Criteria: State agencies contracting for goods and/or services should prepare purchase orders prior to obligating State funds to purchase such goods or services. (State Accounting Manual)

Condition: Our review of expenditure transactions noted that a purchase order was not prepared for one of 12 transactions tested requiring such orders. The amount of the transaction totaled \$370. The dollar value of transactions tested requiring purchase orders was \$19,032.

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

Cause: The cause was not determined.

Recommendation: The Agency should review its procurement procedures to ensure that its procedures are consistent with State purchasing requirements. (See Recommendation 3).

Agency Response: "We agree with the finding. With the implementation of CORE CT, purchase orders are prepared before any purchases are made."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report contained one recommendation. The recommendation was:

- Policies should be established and enforced for dealing with employees who have separated from State service, especially in the area of computer operations. The Agency did establish policies for employees separating from State service. Thus, this recommendation was implemented.

Current Audit Recommendations:

- 1. Internal controls over award payments should be reviewed to determine whether controls are operating in accordance with management's objectives.**

Comment:

Our test of award payments noted several exceptions. We were unable to determine whether the amount paid to two providers was in accordance with American Legion policy. One payment was not supported with a complete provider invoice or billing. One improper payment was made that was not authorized. Two payments were made using the incorrect rate of pay.

- 2. The Agency should review its property control records to determine whether its reportable property reflects property used by it in the performance of its operations. Property identified as no longer useful should be disposed of and reflected on the Agency's property records.**

Comment:

Our physical inspection of property items reported on the Agency's property records identified three items of equipment costing \$18,816 that were not being used by the agency due to equipment purchased or acquired that replaced such equipment.

- 3. The Agency should review its procurement procedures to ensure that its procedures are consistent with State purchasing requirements.**

Comment:

Our review of expenditure transactions noted that a purchase order was not prepared for one expenditure transaction.

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, 2001 and 2002. 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, 2001 and 2002, 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, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of the 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.

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 material or significant weaknesses. 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 failure 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. We noted no matters involving internal control that we consider to be material or significant weaknesses.

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

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

CONCLUSION

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

Joseph Faenza
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts