

STATE OF CONNECTICUT



***AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2003, 2004, 2005 AND 2006***

AUDITORS OF PUBLIC ACCOUNTS
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July 23, 2007

**AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2003, 2004, 2005 AND 2006**

We have made an examination of the financial records of the State agency known as the Soldiers', Sailors' and Marines' Fund for the fiscal years ended June 30, 2003, 2004, 2005 and 2006. This report thereon consists of the Comments, Condition of Records, Recommendations and Certification, which follow.

Financial Statement presentation and auditing are done on a Statewide Single Audit basis to include all State agencies. This audit is limited to assessing the Agency's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the Agency's internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Soldiers', Sailors' and Marines' Fund is an agency of the State of Connecticut that operates under the provisions of Sections 27-138 and 27-140 of the General Statutes and under the authority and bylaws of the American Legion. The Soldiers', Sailors' and Marines' Fund was created as a direct result of the General Assembly establishing the Soldiers', Sailors' and Marines' Trust Fund in 1919. The purpose of the State Agency is to provide temporary financial assistance to help meet the health and maintenance requirements of eligible veterans and their dependents or survivors.

Custody of the Soldiers', Sailors' and Marines' Trust Fund is assigned, by Section 27-138 of the General Statutes, to the State Treasurer who is charged with the responsibility of investing the Trust Fund. Section 27-140 of the General Statutes provides for investment earnings received from the Soldiers', Sailors' and Marines' Trust Fund to be expended for furnishing

food, wearing apparel, medical or surgical aid or care or relief to, or in bearing the funeral expenses for eligible soldiers, sailors and marines.

In accordance with Section 27-138 of the General Statutes and its bylaws, the American Legion has established a commission, known as the State Fund Commission, to oversee the administration of the Soldiers', Sailors' and Marines' Fund. The State Fund Commission consists of the Treasurer of the American Legion, who is also the Chairman of the Commission and Administrator of the Soldiers', Sailors' and Marines' Fund, the Assistant Treasurer of the American Legion, who is also the Vice-Chairman of the Commission and Assistant Administrator of the Soldiers', Sailors' and Marines' Fund, and seven other members approved by the Executive Committee of the American Legion.

Gerald F. Dierman served as Administrator of the Soldiers', Sailors' and Marines' Fund during the audited period. John D. Monahan was subsequently appointed to Administrator, effective August 1, 2006, due to the retirement of Mr. Dierman on July 31, 2006.

RÉSUMÉ OF OPERATIONS:

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

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 Fund. 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 Fund during the audited period, as compared to the fiscal year ended June 30, 2002, follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Investment</u> <u>Income</u>
June 30, 2002	\$3,147,190
June 30, 2003	\$2,785,287
June 30, 2004	\$2,720,446
June 30, 2005	\$2,620,826
June 30, 2006	\$2,571,714

The market value of cash and investments held in the Trust as of June 30, 2006, was \$59,418,517. This compares to a market value of \$56,372,944 as of June 30, 2002.

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

Appropriations are made from this Special Revenue Fund to the Soldiers', Sailors' and Marines' Fund for its operating expenses and award payments made to veterans. Separate appropriations were made during the audited period to the Department of Veteran's Affairs for

burial expenses and headstones to indigent veterans and to the Military Department for honor guards at veterans' funerals. Information presented below represents resources and expenditures relative to the Soldiers', Sailors' and Marines' Fund only.

Special Revenue Fund appropriations made available to the Soldiers', Sailors' and Marines' Fund during the audited period, as compared to the fiscal year ended June 30, 2002, follow:

<u>Fiscal</u> <u>Year Ended</u>	<u>Funds</u> <u>Appropriated</u>
June 30, 2002	\$3,155,691
June 30, 2003	\$3,162,214
June 30, 2004	\$2,928,792
June 30, 2005	\$3,068,058
June 30, 2006	\$3,260,419

Expenditures during the audited period, as compared to the fiscal year ended June 30, 2002, are presented below:

	<u>Fiscal Year Ended June 30,</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Personal Services	\$ 730,283	\$ 675,425	\$ 676,291	\$ 713,024	\$ 757,204
Fringe Benefits	308,932	271,467	320,283	391,156	440,381
Other Expenses	100,300	99,501	91,526	100,071	89,491
Equipment	5,514	0	0	0	7,627
Transfers to Checking Account	<u>1,818,330</u>	<u>1,824,948</u>	<u>1,807,691</u>	<u>1,728,383</u>	<u>1,756,537</u>
Total	<u>\$2,963,359</u>	<u>\$2,871,341</u>	<u>\$2,895,791</u>	<u>\$2,932,634</u>	<u>\$3,051,240</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 or survivors to help meet their health and maintenance needs. Award payments made from the checking account are discussed below.

Total expenditures decreased by \$92,018 between the fiscal years ended June 30, 2002 and June 30, 2003, due mainly to a staffing decrease of two positions and a temporary vacancy in a third position during this period. Expenditure increases of \$24,450, \$36,843, and \$118,606, for the fiscal years ended June 30, 2004, 2005 and 2006, respectively, were mainly due to general wage increases, fluctuations in amounts transferred to the checking account for award payments, and the hiring of a Veterans' Aid Investigator during July 2003.

Checking Account:

Award payments made from the checking account to veterans, or on their behalf, are expended for weekly benefits, emergency authorizations (food, shelter, and clothing), and medical needs and funeral expenses. A summary of the type and amount of payments during the audited period, as compared to the fiscal year ended June 30, 2002, is presented below:

<u>Type of Payment</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Weekly Benefit	\$ 360,647	\$ 433,933	\$ 412,472	\$ 294,017	\$ 306,002
Emergency Authorization	669,528	725,809	812,410	751,815	928,645
Medical, Burial and Prosthesis	<u>799,761</u>	<u>683,785</u>	<u>596,624</u>	<u>692,797</u>	<u>540,536</u>
Total	<u>\$1,829,936</u>	<u>\$1,843,527</u>	<u>\$1,821,506</u>	<u>\$1,738,629</u>	<u>\$1,775,183</u>

CONDITION OF RECORDS

Our testing of the Soldiers', Sailors' and Marines' Fund's records identified the following areas that require improvement:

Award Payments – Incorrect Procedure Codes:

Criteria: The Soldiers', Sailors' and Marines' Fund pays medical providers the prevailing Medicaid rates for medical goods or services. The rates are determined using online resources, schedules or pharmacy-related publications.

Condition: Our review of 30 award payments totaling \$6,516 made to, or on behalf of, veterans disclosed two payments totaling \$782 that were made using incorrect rates of pay. Those two payments should have been for \$765. Our sample was selected from a universe of 15,433 checks issued from July 1, 2004 through June 30, 2006, totaling \$3,597,750.

Effect: Management has less assurance that payments made to providers have been correctly paid.

Cause: Incorrect payment rates were due to clerical errors.

Recommendation: Internal controls over award payments should be improved to ensure that correct rates of pay are used in the determination of assistance payments for medical services and prescriptions. (See Recommendation 1).

Agency Response: "We agree with the finding. We will endeavor to improve internal controls over audit payments, and in particular, apply efforts toward increasing the level of automation of the awards payments calculations, such that we are more confident that the payments made are in conformance with the appropriate fee schedule."

Award Payments – Residency Eligibility Requirement:

Criteria: The Office of the Attorney General issued an opinion in 1990 that concluded that a provision in Section 27-140 of the General Statutes is unconstitutional. According to the opinion, "the State may not favor established residents over new residents based on the view that the State may take care of "its own", if such is defined by prior residence. Newcomers, by establishing bona fide residence in the State, become the State's "own" and may not be discriminated against."

Condition: Section 27-140 of the General Statutes imposes the eligibility requirement that benefits be provided to veterans, “who were citizens or resident aliens of the State at the time of entering said armed forces of the United States.”

The Soldiers’, Sailors’ and Marines’ Fund has been determining the eligibility of veterans in accordance with the opinion issued by the Office of the Attorney General. However, the Soldiers’, Sailors’ and Marines’ Fund has not attempted to change the Statute to reflect the opinion issued by the Office of the Attorney General.

Effect: Section 27-140 of the General Statutes, which in 1990 was deemed by the Office of the Attorney General to contain unconstitutional eligibility requirements related to State residency, remains unchanged.

Cause: The Agency did not view it as its responsibility to pursue the change to the Statute.

Recommendation: The Soldiers’, Sailors’ and Marines’ Fund should take necessary action to ensure that Section 27-140 of the General Statutes is amended to reflect the opinion issued by the Office of the Attorney General in regards to residency requirements. (See Recommendation 2).

Agency Response: “We agree with the finding. We will undertake the responsibility of proposing the necessary change to the provisions of Connecticut General Statute 27-140 in order to reflect the Attorney General’s Opinion of April, 1990, for consideration by the Connecticut General Assembly during the 2008 Session.”

Equipment Inventory and Reporting:

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 annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all of the real property and personal property having a value of \$1,000 or more.

According to the State of Connecticut Property Control Manual, State agencies are required to use the Core-CT Asset Management Module to record and control all property owned by and/or in the custody of a State agency. Beginning with fiscal year 2005-2006, State agencies were to generate information within Core-CT on assets that are capitalized and depreciated and include the information on the CO-59 Fixed Assets/Property Inventory Report.

Condition: The Soldiers', Sailors' and Marines' Fund did not utilize the Core-CT Asset Management Module to maintain and report inventory for the fiscal year ended June 30, 2006. The Agency continued to use an internal inventory tracking and reporting spreadsheet to maintain and report its inventory.

Effect: The central asset management and inventory system is not being properly utilized by the Soldiers', Sailors' and Marines' Fund in accordance with State requirements.

Cause: Various discrepancies were noted by the Soldiers', Sailors' and Marines' Fund between the Core-CT Asset Management Module and its own tracking system which it has been unable to resolve.

Recommendation: The Soldiers', Sailors' and Marines' Fund should utilize the Core-CT Asset Management Module to record and control its real and personal property in accordance with established requirements. (See Recommendation 3).

Agency Response: "We agree with the finding. We maintained an agency specific property tracking system during the audited period, as we had not fully resolved several discrepancies in tracking property through the Core-CT system. We did so in order to assure strict accountability of State property, which we view as the overriding responsibility. We acknowledge the requirement to utilize the Core-CT system, and will do so in the future in accordance with established requirements, consistent with our ability to reconcile the system to the actual property in our possession. We will seek such assistance as may be required from external sources to achieve this end."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report contained three recommendations, as follows:

- Internal controls over award payments should be reviewed to determine whether controls are operating in accordance with management's objectives. – Our current audit disclosed two payments that were made using incorrect rates of pay. This recommendation is being restated. (See Recommendation 1).
- 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. – Our current audit noted the proper authorization and processing of disposals, as well as, the removal from inventory of three items identified during the prior audit as exceptions. Further, no similar instances were noted during the current audit. This recommendation has been implemented.
- The Agency should review its procurement procedures to ensure that its procedures are consistent with State purchasing requirements. – Our current audit noted no instances of violations of State purchasing requirements. This recommendation has been implemented.

Current Audit Recommendations:

- 1. Internal controls over award payments should be improved to ensure that correct rates of pay are used in the determination of assistance payments for medical services and prescriptions.**

Comment:

Our test of award payments noted two instances where incorrect rates were used in the determination of payments for medical services and prescriptions.

- 2. The Soldiers', Sailors' and Marines' Fund should take necessary action to ensure that Section 27-140 of the General Statutes is amended to reflect the opinion issued by Office of the Attorney General in regards to residency requirements.**

Comment:

The Office of the Attorney General issued an opinion in 1990 that rendered the statutory requirement that veterans had to be residents of the State at the time of entering the armed forces to be restrictive and unconstitutional. Although the Soldiers', Sailors' and Marines' Fund's eligibility determinations are made in accordance with the opinion, no action has been taken to amend the residency requirement within Section 27-140 of the General Statutes.

- 3. The Soldiers', Sailors' and Marines' Fund should utilize the Core-CT Asset Management Module to record and control its real and personal property in accordance with established requirements.**

Comment:

The Soldiers', Sailors' and Marines' Fund did not utilize the Core-CT Asset Management Module to maintain and report inventory for the fiscal year ended June 30, 2006. The Agency continued to use an internal inventory tracking and reporting spreadsheet to maintain and report its inventory.

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, 2003, 2004, 2005 and 2006. 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, 2003, 2004, 2005 and 2006, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Soldiers', Sailors' and Marines' Fund complied in all material or significant respects with 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, 2003, 2004, 2005 and 2006, 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 controls 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.

Vincent Filippa
Auditor II

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts