

STATE OF CONNECTICUT



*AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2008*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

TABLE OF CONTENTS

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
RESUME OF OPERATIONS	2
Soldiers', Sailors' and Marines' Trust Fund.....	2
Soldiers', Sailors' and Marines' Special Revenue Fund	2
Checking Account.....	3
CONDITION OF RECORDS	
Award Payments	4
Payroll and Personnel – Payments at Separation	5
Equipment Inventory and Reporting.....	6
RECOMMENDATIONS	8
INDEPENDENT AUDITORS' CERTIFICATION	10
CONCLUSION	12

July 8, 2009

**AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2008**

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, 2007 and 2008. 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

Auditors of Public Accounts

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.

John D. Monahan served as Administrator of the Soldiers', Sailors' and Marines' Fund during the audited period.

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, 2006, follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Investment</u> <u>Income</u>
June 30, 2006	\$2,571,714
June 30, 2007	\$2,583,599
June 30, 2008	\$2,850,629

The market value of cash and investments held in the Trust as of June 30, 2008, was \$60,840,432. This compares to a market value of \$59,418,517 as of June 30, 2006.

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. 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, 2006, follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Funds</u> <u>Appropriated</u>
June 30, 2006	\$3,260,419
June 30, 2007	\$3,429,583
June 30, 2008	\$3,237,970

Expenditures during the audited period, as compared to the fiscal year ended June 30, 2006, are presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Personal Services	\$ 757,204	\$681,527	\$ 701,650
Fringe Benefits	440,381	386,735	416,828
Other Expenses	89,491	72,916	55,897
Equipment	7,627	2,576	5,588
Transfers to Checking Account	<u>1,756,537</u>	<u>1,896,031</u>	<u>1,924,645</u>
Total	<u>\$3,051,240</u>	<u>\$3,039,785</u>	<u>\$3,104,608</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 \$11,455 between the fiscal years ended June 30, 2006 and June 30, 2007, due mainly to the retirement of two employees and the subsequent hiring of an Assistant Administrator in September 2007. Total expenditures increased by \$64,823 between the fiscal years ended June 30, 2007 and June 30, 2008, due mainly to general wage increases and fluctuations in the 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 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, 2006, is presented below:

<u>Type of Payment</u>	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Weekly Benefit	\$ 306,002	\$ 301,177	\$ 237,227
Emergency Authorization	928,645	981,205	1,167,256
Medical, Burial and Prosthesis	<u>540,536</u>	<u>628,307</u>	<u>533,184</u>
Total	<u>\$1,775,183</u>	<u>\$1,910,689</u>	<u>\$1,937,667</u>

CONDITION OF RECORDS

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

Award Payments:

Background:

Prior to July 28, 2006, clothing vouchers were issued specifying the item or items of clothing that were authorized to be purchased along with the maximum allowable price of each item. On July 28, 2006, the State Fund Commission voted on, and passed the decision to amend clothing vouchers to allow specific monetary amounts for vouchers to be issued, based on age, gender, season and/or such other parameters as the Administrator may deem appropriate.

Criteria:

Internal controls over the processing of award payments should provide reasonable assurance that the authorization for goods and/or services made to, or on behalf of, veterans are for the correct amount.

Condition:

During the fiscal years ended June 30, 2007 and June 30, 2008, award payments totaled \$1,957,501 and \$1,980,486, respectively. We reviewed 30 award payments totaling \$9,156 made to, or on behalf, of veterans. Three clothing vouchers authorized to two veterans after July 28, 2006, were not in accordance with policy.

- One veteran was authorized two clothing vouchers, one in the amount of \$279 and one in the amount of \$267, for a total of \$546. However, in accordance with the new type of clothing voucher, the amounts authorized should have been \$250 and \$200, for a total of \$450. The old type of clothing voucher authorized the veteran \$97 more than should have been authorized. Of the amount authorized, \$540 was spent.
- One veteran was authorized one clothing voucher in the amount of \$279. However, in accordance with the new type of clothing voucher, the amount authorized should have been \$250. The old type of clothing voucher authorized the veteran \$29 more than should have been authorized. Of the amount authorized, \$232 was spent.

Effect:

Management has lessened assurance that clothing vouchers authorized to veterans are in the correct amount. In one case, due to the issuance of the old type of clothing voucher, the veteran spent \$540 and should have only been authorized to spend \$450, a difference of \$90.

Cause: It appears that a lack of administrative oversight was responsible for the condition.

Recommendation: Internal controls over award payments should be improved to ensure that clothing vouchers are authorized for the correct amounts. (See Recommendation 1).

Agency Response: “We agree with this finding. We will endeavor to improve internal controls over award payments and, in particular, to ensure more complete and timely dissemination to staff of changes to allowances approved for implementation by the State Fund Commission in order to be certain that such adjustments are reflected in award payments issued as soon thereafter as is reasonably practical.”

Payroll and Personnel – Payments at Separation

Criteria: Section 5-247 of the General Statutes requires that each employee who retires under the provisions of Chapter 66 shall be compensated, effective as of the retirement date, at the rate of one-fourth of such employee’s salary for sick leave accrued to his credit as of the last day on the active payroll, up to a maximum payment equivalent to sixty days.

According to the Performance Assessment and Recognition System (PARS) Handbook, Managers should expect that fulfillment of all performance objectives will result in a Meets All Expectations rating. This rating will merit a salary increase within the manager’s salary range. This increase is usually equivalent to an annual increment for bargaining unit employees. A manager at the maximum of his/her salary group will be eligible for the same amount received by one within the salary range, but payments above the maximum will be made as lump sum bonuses, not built into base salary.

Condition: In our review of four employees that were separated from State service during the fiscal years ended June 30, 2007 and 2008, the following conditions were noted:

- Our review of accumulated sick leave made to employees who left State service disclosed that the incorrect number of accumulated sick leave hours was used to calculate the accumulated sick leave payment made to one employee, resulting in an overpayment of \$14.
- Our review of separation payments made to one employee disclosed that this employee was incorrectly paid a PARS lump sum at separation from State service. This employee

was not at the maximum of his pay scale at the time of retirement and was not entitled to receive a PARS lump sum payment, but instead should have received a three percent increase in his salary. The Department of Administrative Services notified the Agency of this error on September 21, 2006, and advised the Agency to collect the overpayment of \$2,018. The Agency sent a letter to the separated employee requesting reimbursement on November 3, 2006. As a result of our review, the Agency sent a second letter to the separated employee on March 16, 2009 requesting reimbursement. A collection of the overpayment has not been received at this time.

Effect: Improper payments were made to individuals who left State service, totaling \$2,032.

Cause: It appears that the errors were due to clerical oversight.

Recommendation: The Agency should review its calculations of separation payments for employees leaving State service for both accuracy and compliance with State regulations and/or collective bargaining contracts before such payments are made. (See Recommendation 2).

Agency Response: “We agree with this finding. The Agency has since collected from the employee and transmitted to the State Comptroller the overpayment of \$2,018.00. We will review all calculations of separation payments for employees leaving State service for both accuracy and compliance with State regulations and/or collective bargaining contracts before payments are made.”

Equipment Inventory and Reporting:

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

The Connecticut *Property Control Manual* provides guidance on standards and procedures for maintaining a property control system.

Condition: Our review of the Agency’s inventory revealed the following:

- The Agency did not report software inventory on the CO-59 Asset Management Inventory Report for the fiscal years ended June 30, 2007 and June 30, 2008.

Effect: Software inventory was not reported on the CO-59 Asset Management Inventory Report for the fiscal years ended June 30, 2007 and June 30, 2008, resulting in an understatement of software inventory in the amount of \$20,474 and \$20,783, respectively.

Cause: It appears that the error was due to clerical oversight.

Recommendation: The Agency should comply with the State of Connecticut's Property Control Manual and improve control over equipment inventory and reporting. (See Recommendation 3).

Agency Response: "We agree with the finding. The agency shall comply with the State of Connecticut's Property Control Manual and improve control over equipment and software inventory and reporting. We will review calculations and reporting on the CO-59 Asset Management Inventory Report for accuracy and compliance."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report contained three recommendations, as follows:

- 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. Our current audit disclosed that the Agency has implemented new procedures for calculating assistance payments for prescriptions. We did not note any instances of assistance payments made using the incorrect rates of pay during our current audits. This recommendation has been implemented.
- 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. Our current audit disclosed that the Agency has taken action to amend Section 27-140 of the General Statutes to reflect the opinion issued by the Office of the Attorney General in regards to residency requirements. This amendment was brought before the 2009 Session of the Connecticut General Assembly as a Legislative Proposal and became Raised Bill Number 6407 in January 2009. This recommendation has been implemented.
- 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. Our current audit disclosed that the Agency utilizes the Core-CT Asset Management Module to record and control its real and personal property. This recommendation has been implemented.

Current Audit Recommendations:

- 1. Internal controls over award payments should be improved to ensure that clothing vouchers are authorized for the correct amounts.**

Comment:

Our review of assistance payments disclosed two instances where clothing vouchers issued to veterans were authorized for a higher amount than they should have been authorized for.

- 2. The Agency should review its calculations of separation payments for employees leaving State service for both accuracy and compliance with State regulations and/or collective bargaining contracts before such payments are made.**

Comment:

Our review of payments made at separation of State service disclosed two instances where employees leaving State service received incorrect payments.

- 3. The Agency should comply with the State of Connecticut's Property Control Manual and improve control over equipment inventory and reporting.**

Comment:

Our review of equipment inventory and reporting disclosed that the Agency did not report software inventory on the CO-59 Asset Management Inventory Report for the FYE June 30, 2007 and 2008.

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, 2007 and 2008. 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 Commission'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, 2007 and 2008, 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 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.

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

In planning and performing our audit, we considered the Soldiers', Sailors' and Marines' Fund internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that

a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation number 1 – Award payments.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the (State Agency) complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report as the following items: Recommendation number 2 – Payroll and Personnel and 3 – Equipment Inventory and Reporting.

The Soldiers', Sailors' and Marines' Fund's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Soldiers', Sailors' and Marines' Fund's responses and, accordingly, we express no opinion on them.

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

CONCLUSION

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

Amy Bialek
Auditor II

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts