

STATE OF CONNECTICUT



*AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010*

AUDITORS OF PUBLIC ACCOUNTS
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June 24, 2011

**AUDITORS' REPORT
SOLDIERS', SAILORS' AND MARINES' FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010**

We have made an examination of the financial records of the state agency known as the Soldiers', Sailors' and Marines' Fund (SSMF) for the fiscal years ended June 30, 2009 and 2010. This report 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 SSMF's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the SSMF'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 SSMF is to provide temporary financial assistance to help meet the health and maintenance requirements of eligible veterans and their dependents or survivors.

Auditors of Public Accounts

Custody of the Soldiers', Sailors' and Marines' Trust Fund (Trust Fund) is assigned, by Section 27-138 of the General Statutes, to the State Treasurer who is charged with the responsibility of the fund's investments. 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, 2008, follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Investment</u> <u>Income</u>
June 30, 2008	\$2,850,629
June 30, 2009	\$3,108,936
June 30, 2010	\$2,804,052

The market value of cash and investments held in the Trust Fund as of June 30, 2010, was \$61,698,754. This compares to a market value of \$60,840,432 as of June 30, 2008.

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, 2008, follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Funds</u> <u>Appropriated</u>
June 30, 2008	\$3,237,970
June 30, 2009	\$3,296,553
June 30, 2010	\$2,978,468

Expenditures during the audited period, as compared to the fiscal year ended June 30, 2008, are presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Services	\$ 701,650	\$727,954	\$ 574,721
Fringe Benefits	416,828	435,297	381,592
Other Expenses	55,897	60,424	37,141
Equipment	5,588	6,880	0
Transfers to Checking Account	<u>1,924,645</u>	<u>1,968,330</u>	<u>1,941,943</u>
Total	<u>\$3,104,608</u>	<u>\$3,198,885</u>	<u>\$2,935,397</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 increased by \$94,277 between the fiscal years ended June 30, 2008 and June 30, 2009, due mainly to an annual increase to employees' wages and an increase in assistance payments to veterans. Total expenditures decreased by \$263,488 between the fiscal years ended June 30, 2009 and June 30, 2010, due mainly to the transferring of one employee to another state agency and the retirement of two employees.

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, 2008, is presented below:

<u>Type of Payment</u>	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Weekly Benefit	\$ 237,227	\$ 224,356	\$ 156,334
Emergency Authorization	1,167,256	1,201,680	1,283,076
Medical, Burial and Prosthesis	<u>533,184</u>	<u>553,712</u>	<u>518,310</u>
Total	<u>\$1,937,667</u>	<u>\$1,979,748</u>	<u>\$1,957,720</u>

CONDITION OF RECORDS

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

Payroll and Personnel – Timesheets

Criteria: The SSMF's policies and procedures require timesheets to be signed by the employee and approved by the employee's appropriate supervisor

Condition: In our review of employees timesheets for 12 employees, we noted that the Assistant Administrator is signing and approving his own timesheet.

Effect: There is less assurance that the employee's timesheet is reflecting the accurate time worked and leave time used, which could result in a payment error or an improper charge of leave time.

Cause: There appears to have been inadequate management oversight in obtaining appropriate supervisory signatures for the processing of timesheets.

Recommendation: The SSMF should improve controls over timesheets by requiring the appropriate supervisor to approve timesheets in order to ensure that attendance and leave records accurately reflect hours worked. (See Recommendation 1)

Agency Response: "The Agency agrees with this finding. The Agency shall establish and enforce a change to the procedure for the completion of employee timesheets whereby the appropriate supervisor will be required to approve the timesheets of subordinates. In the case of those of the Assistant Administrator, they will be approved by the Administrator."

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 clothing vouchers are authorized for the correct amounts. Our current audit disclosed that the SSMF has made changes to the clothing vouchers in order to reduce clerical error. The SSMF has also provided two training sessions to their employees where it reviewed the issue regarding the prior audit finding and provided training on the new authorization amounts for clothing vouchers. This recommendation has been implemented.
- The SSMF should review its calculation 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. Our review disclosed that separation payments are thoroughly reviewed for accuracy before a payment is made. The overpayment of \$2,018 noted in the prior audit was collected by the SSMF on March 31, 2009. In our review of separation payments made during the audit period, we did not note any errors in calculation. This recommendation has been implemented.
- The SSMF should comply with the State of Connecticut's Property Control Manual and improve control over equipment inventory and reporting. Our current audit disclosed that the SSMF has improved control over equipment inventory and reporting and is in compliance with the State of Connecticut's Property Control Manual. This recommendation has been implemented.

Current Audit Recommendations:

- 1. The SSMF should improve controls over timesheets by requiring the appropriate supervisor to approve timesheets in order to ensure that attendance and leave records accurately reflect hours worked.**

Comment:

Our review of employees timesheets disclosed that the Assistant Administrator is signing and approving his own timesheet.

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, 2009 and 2010. This audit was primarily limited to performing tests of the SSMF's compliance with certain provisions of laws, regulations, contracts and grants and to understanding and evaluating the effectiveness of the SSMF's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the SSMF are complied with, (2) the financial transactions of the SSMF are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the SSMF 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, 2009 and 2010, 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 SSMF'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 SSMF's internal control over those control objectives.

A deficiency in internal control 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 and correct unauthorized, illegal or irregular transactions, on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the SSMF's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the SSMF's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this

report to be significant deficiency: Recommendation 1 – Improved Controls Needed over Timesheets.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the SSMF 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 SSMF'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 item: Recommendation number 1 – Payroll and Personnel.

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 SSMF 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:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts