

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
SOLDIERS', SAILORS' AND MARINES' FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD



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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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July 2, 2015

### **AUDITORS' REPORT SOLDIERS', SAILORS' AND MARINES' FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

We have audited certain operations of the Soldiers', Sailors' and Marines' Fund in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2014. The objectives of our audit were to:

1. Evaluate the fund's internal controls over significant management and financial functions.
2. Evaluate the fund's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the fund; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United

States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the fund's management and was not subjected to the procedures applied in our audit of the fund. For the areas audited, we identified

1. No deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

## **COMMENTS**

### **FOREWORD**

The Soldiers', Sailors' and Marines' Fund was, during the period covered by this audit, an agency of the State of Connecticut that operated 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 Soldiers', Sailors' and Marines' Fund is to provide temporary financial assistance to help meet the health and maintenance requirements of eligible wartime veterans and their dependents or surviving dependents. The name Soldiers', Sailors' and Marines' Fund has been used to describe both the state agency and the trust fund that is held and managed by the State Treasurer.

Public Act 14-217 eliminated the state agency and transferred the administration of the Soldiers', Sailors' and Marines' Trust Fund from the state agency to the American Legion effective July 1, 2014. Since that change, the State Treasurer maintains custody of the Soldiers', Sailors' and Marines' Trust Fund and responsibility for the fund's investments and the American Legion State Fund Commission is the policymaking body of the Soldiers', Sailors' and Marines' Fund. The commission bears fiduciary responsibility for disbursements of the fund and implements policies and procedures governing the management and administration of the agency. The treasurer of the American Legion administers the disbursements of the fund.

The State Fund Commission consists of the American Legion treasurer, who is also the chair of the State Fund Commission and administrator of the Soldiers', Sailors' and Marines' Fund; the assistant treasurer of the American Legion, who is also the vice-chair and recording secretary of the State Fund Commission and assistant administrator of the Soldiers', Sailors' and Marines' Fund; and nine other members who are legionnaires in good standing and are approved by the executive committee of the American Legion.

John D. Monahan served as administrator of the Soldiers', Sailors' and Marines' Fund through June 30, 2014. Effective July 1, 2014, Charles R. Berry became the administrator of the fund.

### **Significant Legislation**

Section 27-138 of the General Statutes transferred the administration of the Soldiers', Sailors' and Marines' Fund from the state agency to the American Legion effective July 1, 2014. The fund remains in the custody of the State Treasurer as trustee of the fund. The State Treasurer shall disburse not less than two million dollars annually to the American Legion. Such disbursements shall be made initially from interest accumulations of the fund. If such interest accumulations are less than two million dollars, the State Treasurer shall disburse such amount of the corpus of the fund as necessary to equal two million dollars. It should be noted that prior law required the fund's disbursements to be made only from the fund's interest earnings. Any funds disbursed to the American Legion that were not expended by the end of each fiscal year shall be added to the corpus of the fund. All gifts, bequests and donations received by the American Legion in support of the Soldiers', Sailors' and Marines' Fund shall be promptly turned over to the State Treasurer and shall be added to the corpus of the fund. Trust fund disbursements may not be used by the American Legion for the costs of administering the fund. Section 210 of Public Act 14-217 allowed \$635,000 to be appropriated for the administration of the Soldiers', Sailors' and Marines' Fund for the fiscal year ended June 30, 2015.

As a result of Section 27-138 of the General Statutes, the state agency known as the Soldiers', Sailors' and Marines' Fund ceased to exist on July 1, 2014. Each employee covered by a bargaining unit contract was assigned to work at another state agency. Managerial and confidential employees either retired or separated from state service. Section 65 of Public Act 14-217 authorized the State Comptroller to grant American Legion personnel access to the statewide accounting and personnel system during the fiscal year ended June 30, 2015 for the purposes of the orderly transition of accounting, human resources, payroll and other functions. As a result, access was granted to the fund's administrator and fiscal officer. Section 12 of Public Act 14-47 allowed unexpended funds appropriated to the Soldiers', Sailors' and Marines' Fund for personal services to not lapse on June 30, 2014 and continue to be available for personal services during the fiscal year ended June 30, 2015, provided the expenditures were recorded for the fiscal year ended June 30, 2014.

Section 27-138f of the General Statutes allowed all furnishings, equipment, and supplies in the possession of the Soldiers', Sailors' and Marines' Fund on June 30, 2014 to be transferred to the American Legion at no cost. Documents in the possession of the Soldiers', Sailors' and Marines' Fund on June 30, 2014 were to be retained by the state.

Section 27-138g of the General Statutes allows the American Legion to use office space in state-owned or state-leased buildings subject to reasonable office rental or lease costs. Effective July 1, 2014, the American Legion shall not be charged for offices in locations where the space was previously provided on an in-kind basis. As a result, the American Legion is not charged for

office rental or lease costs for the Bridgeport, Hartford, Norwich, and Waterbury field offices. Section 259 of Public Act 14-217 repealed Section 27-138d of the General Statutes that allowed the expenses the state incurred for supervising, maintaining, and controlling the premises used by the Soldiers', Sailors' and Marines' Fund administrator to be charged against the fund's interest.

Section 27-138e of the General Statutes requires the American Legion to cause an annual independent audit of the Soldiers', Sailors' and Marines' Fund on or before January 15<sup>th</sup> and to make such report available to the public in an electronic format. Not later than seven business days after receiving the independent audit report, the American Legion shall submit the report to the Auditors of Public Accounts, the Office of Policy and Management, and the joint standing committees having cognizance over appropriations and budgets of state agencies and military and veterans' affairs.

## **RÉSUMÉ OF OPERATIONS**

The operations of the agency 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 interest and dividend income earned from the principal of the trust fund. Such income is distributed to the Soldiers', Sailors' and Marines' Special Revenue Fund. A schedule of the trust fund's cash and investment balances and activity for the audited period, together with those of the preceding fiscal year, is presented below:

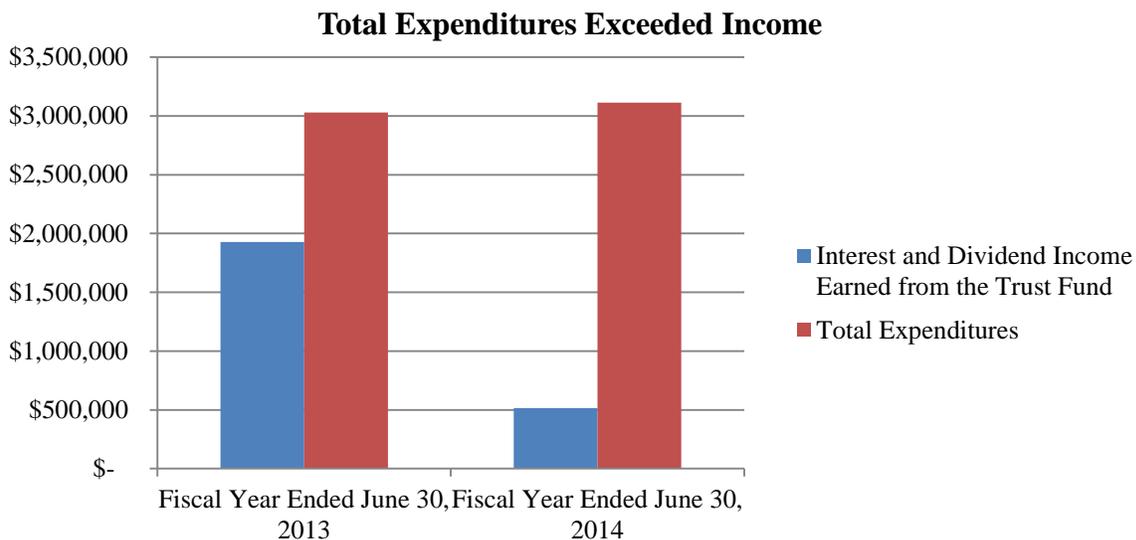
<b>Trust Fund Balances and Activity</b>	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2013</u></b>	<b><u>2014</u></b>
<b>Beginning Market Value of Cash and Investments</b>	\$ 66,634,214	\$ 68,041,363
Net Investment Gains/(Losses)	1,405,472	5,994,646
Net Interest and Dividend Income	1,927,099	515,622
Distributions to the Special Revenue Fund	(1,927,099)	(515,622)
Net Purchases and Redemptions	1,677	(1,686,694)
<b>Net Activity</b>	<b>1,407,149</b>	<b>4,307,952</b>
<b>Ending Market Value of Cash and Investments</b>	<b><u>\$ 68,041,363</u></b>	<b><u>\$ 72,349,315</u></b>

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

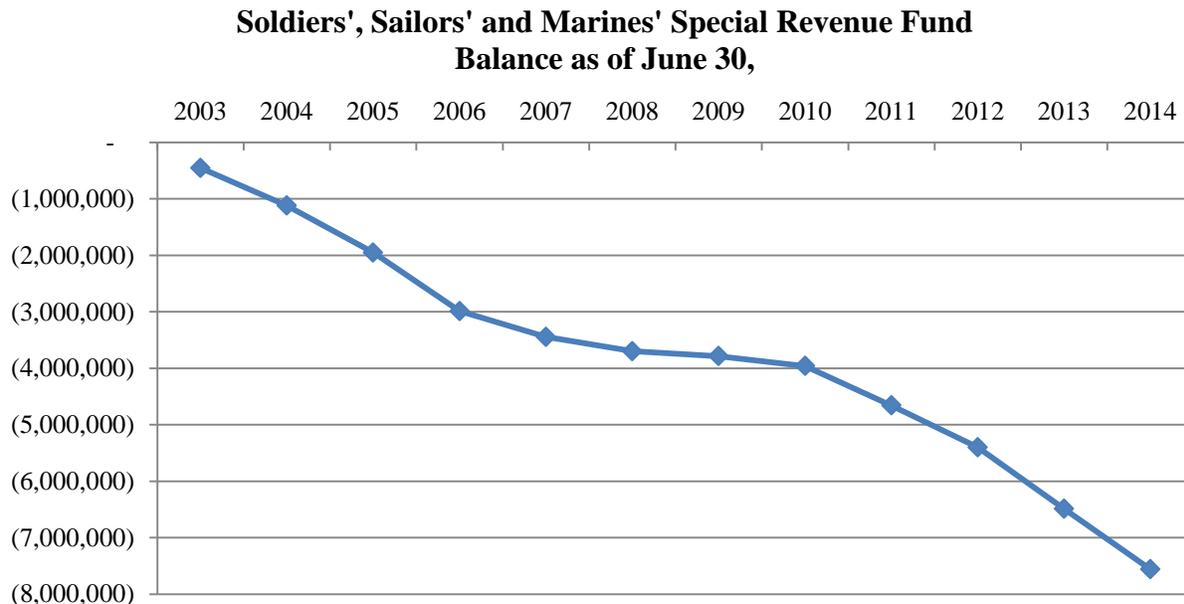
Appropriations from the special revenue fund are used for the agency's operating expenditures and assistance payments. Funds are transferred to the state checking account exclusively for the issuance of assistance payments to eligible wartime veterans and their dependents or surviving dependents. Assistance payments issued from the state checking account are discussed later. A schedule of the Soldiers', Sailors' and Marines' Fund appropriations and expenditures for the audited period, together with those of the preceding fiscal year, is presented below:

<b>Appropriations and Expenditures</b>	<b>Fiscal Year Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>
Interest and Dividend Income Transferred from the Trust Fund	\$ 1,927,099	\$ 515,622
Other Appropriated Funds	1,138,408	2,748,997
<b>Appropriations Budget</b>	<b>3,065,507</b>	<b>3,264,619</b>
Transfer to State Checking Account	1,970,816	1,867,633
Personal Services	586,973	671,926
Fringe Benefits	438,145	529,518
Other Expenses	33,053	45,704
<b>Total Expenditures</b>	<b>3,028,987</b>	<b>3,114,781</b>
<b>Excess of Budget to Total Expenditures</b>	<b>\$ 36,520</b>	<b>\$ 149,838</b>

The total expenditures for the Soldiers', Sailors' and Marines' Fund exceeded the interest and dividend income earned from the trust fund by \$1,101,888 and \$2,599,159 during fiscal years ended June 30, 2013, and 2014, respectively, as presented below:



The amount of the agency's total expenditures that exceeded interest and dividend income earned from the trust fund contributed to the negative balance in the special revenue fund. The Soldiers', Sailors' and Marines' Special Revenue Fund has had a negative balance since fiscal year ended June 30, 2003. The Soldiers', Sailors' and Marines' Special Revenue Fund had a cumulative deficit balance of \$(6,489,562) and \$(7,559,642) for fiscal years ended June 30, 2013 and 2014, respectively, as presented below:



**State Checking Account**

Assistance payments issued to eligible wartime veterans and their dependents or surviving dependents are expended for emergent authorizations (food, shelter, and clothing), medical needs, weekly benefit allowances, burial expenses, and prostheses. A summary of the assistance payments issued during the audited period, along with those of the preceding fiscal year, follows:

Assistance Payments	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2013</u></b>	<b><u>2014</u></b>
Emergent Authorizations	\$ 1,361,283	\$ 1,368,273
Medical Needs	412,860	303,392
Weekly Benefit Allowances	116,658	129,853
Burial Expenses	40,485	43,715
Prostheses	39,530	22,362
Miscellaneous	-	38
<b>Total Assistance Payments</b>	<b><u>\$ 1,970,816</u></b>	<b><u>\$ 1,867,633</u></b>

The final assistance payments from the state checking account were issued on June 30, 2014. The account was closed on October 30, 2014 and the balance of funds was transferred to the Soldiers', Sailors' and Marines' Trust Fund.

**STATE AUDITORS' FINDINGS AND RECOMMENDATIONS**

Our examination of the records of the Soldiers', Sailors' and Marines' Fund for the fiscal year ended June 30, 2014 identified no reportable conditions.

Since the fund no longer exists as a state agency effective July 1, 2014, our office will not be required to audit the operations of the Soldiers', Sailors' and Marines' Fund for fiscal years ending after June 30, 2014 under Section 2-90 of the General Statutes.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

Our prior audit examination resulted in five recommendations. The following is a summary of those recommendations and the current status of each.

1. **The Soldiers', Sailors' and Marines' Fund should improve internal controls over the custody and reporting of its property inventory.** Our current review revealed that the agency conducted an annual physical inventory and complied with the State Property Control Manual over the custody and reporting of property inventory. This recommendation has been resolved.

2. **The Soldiers', Sailors' and Marines' Fund should strengthen internal controls over telecommunication bills to ensure compliance with Section 3-117 subsection (c) of the General Statutes.** Our current review determined that compliance with Section 3-117 of the General Statutes is no longer relevant since the administration of the Soldiers', Sailors' and Marines' Fund was transferred to the American Legion. This recommendation is considered resolved.

3. **The Soldiers', Sailors' and Marines' Fund should strengthen internal controls over the approval of employee mileage reimbursements.** Our current review disclosed that the Assistant Administrator approved employee mileage reimbursement forms. This recommendation has been resolved.

4. **The Soldiers', Sailors' and Marines' Fund should ensure that annual performance evaluations are performed on all of its employees.** Our current review revealed that the agency has conducted performance evaluations with employees. This recommendation has been resolved.

5. **The agency should seek an official opinion from the Freedom of Information Commission or the Office of the Attorney General to obtain clarification as to the applicability of Section 1-225 of the General Statutes as it relates to the State Fund Commission.** Our current review revealed that since the administration of the Soldiers', Sailors' and Marines' Fund was transferred to the American Legion, the State Fund Commission has posted meeting minutes and upcoming meeting announcements to the American Legion of Connecticut Soldiers', Sailors' and Marines' Fund's website. This recommendation has been resolved.

### *Current Audit Recommendations:*

There were no recommendations as a result of this examination.

**CONCLUSION**

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



Lee LeFrançois  
Associate Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts