STATE OF CONNECTICUT

AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

AUDITORS OF PUBLIC ACCOUNTS
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March 2, 2007

AUDITORS' REPORT
MILITARY DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

We have examined the financial records of the Military Department for the fiscal years ended June 30, 2004 and 2005. This report of that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Military Department has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

Title 27 of the General Statutes contains the Military Department's statutory authority and responsibility. The Department's principal public responsibilities are (1) to coordinate, resource and train State emergency response methods and operations and (2) to plan for and protect citizens and their property in times of war, terrorism, invasion, rebellion, riot or disaster. The Military Department serves as the Governor's primary agency for ensuring public safety in a variety of emergencies.

The Military Department is functionally divided into three major components: Army National Guard, Air National Guard, and the Organized Militia. The Army National Guard consists of four major commands with fifty-five units stationed in twenty state armories and two Army aviation facilities. The Air National Guard consists of a headquarters and the 103rd Fighter Wing in East Granby and 103rd Air Squadron in Orange. The Organized Militia, commonly known as the Governor's Horse and Foot Guards, maintains four units. The Organized Militia, when required, escorts the Governor, supports emergency operations and conducts ceremonial and civic activities.

Section 27-19a of the General Statutes provides that the Military Department shall be within the Department of Public Safety for administrative purposes only.

During most of the audit period, the Department also consisted of a fourth component, the Office of Emergency Management, which was responsible for developing and executing the Governor's emergency response program which included mitigation, planning, response and recovery plans for a wide range of natural, technological and national security hazards. Effective January 1, 2005, Public Act 04-219 eliminated the Office of Emergency Management and instead created the Department of Emergency Management and Homeland Security, which is within the Office of Policy and Management for administrative purposes only.

The Adjutant General of the Military Department is appointed by the Governor, to a four-year term, under the provisions of Section 27-19 of the General Statutes. Lieutenant General William A. Cugno served as Adjutant General during the audited period until his retirement on April 30, 2005. Major General Thaddeus J. Martin was appointed Adjutant General, effective May 2, 2005, and continues to serve in that capacity.

RÉSUMÉ OF OPERATIONS:

Public Act 04-2 (May Special Session) authorized the establishment of new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

General Fund:

Receipts:

General Fund receipts for the fiscal year examined and the prior fiscal year are summarized below:

	Fiscal Year Ended June 30,		
	2003	2004	2005
Refunds of Expenditures:			
Current Year:	$ 25,718	$ 1,062	$ 147
Prior Year:	94,964	10,746	6,087
Federal Grants	12,429,327	0	0
Receivables other than Federal	1,139,858	0	0
Armory Rentals	5,410	3,540	6,650
All other	509	5,302	11,612
Total General Fund Receipts:	**$ 13,695,786**	**$ 20,650**	**$ 24,496**

The decrease in receipts is due primarily to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained, above, receipts formerly credited to the General Fund were credited to a newly established special revenue fund.

Expenditures:

A summary of General Fund expenditures during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2003	**2004**	**2005**
Budgeted Accounts:			
Personal services	$ 3,874,071	$ 3,432,676	$ 3,206,201
Contractual services	1,762,529	1,880,735	1,967,775
Commodities	417,086	305,263	326,729
Prior year expenditure adjustments	0	(242,113)	0
All other	957	18,444	72,476
Total Budgeted Accounts	6,054,643	5,395,005	5,573,181
Restricted Accounts:			
Federal:		0	0
Personal Services	2,960,295	0	0
Contractual Services	4,640,044	0	0
Commodities	825,824	0	0
Sundry	3,284,638	0	0
Capital Outlay	2,275,485	0	0
Other than Federal	1,604,867	0	0
Total Restricted Accounts	15,591,153	0	0
Total Expenditures	**$21,645,796**	**$ 5,395,005**	**$ 5,573,181**

The decrease in expenditures from restricted accounts was due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, expenditures formerly charged to the General Fund were charged to a newly established special revenue fund.

Personal services decreased during the 2003-2004 fiscal year due to a decrease in the number of employees that was caused by employee layoffs and retirements.

Special Revenue Funds:

Public Act 04-2 (May Special Session) authorized the establishment of new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the “Grants and Restricted Accounts Fund” to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as “Federal and Other Grants.”

Federal and Other Restricted Accounts Fund:

Receipts:

Federal and Other Restricted Accounts Fund receipts for the fiscal years examined and the prior fiscal year are summarized below:

	Fiscal Year Ended June 30,		
	2003	**2004**	**2005**
Federal Grants:	$ 0	$ 6,191,825	$10,797,425
Non-Federal Aid	0	1,174,835	(1,917,085)
Grant Transfers – Non-Federal	0	1,036	(1,031,543)
All other	0	432	14,299
Total General Fund Receipts:	**$ 0**	**$ 7,368,128**	**$ 7,863,096**

The increase in receipts during the 2003-2004 fiscal year is due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, receipts formerly credited to the General Fund were credited to this newly established special revenue fund.

Federal grant collections resulted from agreements or grants between the Federal government and the Military Department for the administration of programs and activities financed in part by the Federal government. The increase in Federal grants during the 2004-2005 fiscal year is due primarily to the timing of the collection of receivables. The decrease in non-Federal aid and non-Federal grant transfers during the 2004-2005 fiscal year appears to be due to errors in the posting of revenue. (See Recommendation 3.)

Expenditures:

A summary of expenditures during the audited period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2003	**2004**	**2005**
Federal:			
Personal services	$ 0	$3,054,634	$3,264,427
Contractual services	0	4,073,827	6,514,063
Commodities	0	638,491	713,926
Sundry Expenses		3,945,452	3,083,920
Capital Outlays	0	3,836,571	3,631,109
Total Federal Accounts	0	15,548,975	17,207,445
Non-Federal	0	1,518,138	1,647,389
Total Expenditures	$ **0**	**$17,067,113**	**$18,854,834**

The increase in expenditures during the 2003-2004 fiscal year is due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, expenditures formerly charged to the General Fund were charged to this newly established special revenue fund. The increase in contractual services during the 2004-2005 fiscal year was caused primarily by an increase in Federal expenditures for renovations and repairs.

Of the non-Federal expenditures reported, $1,514,147 and $1,643,851 for the the 2003-2004 and 2004-2005 fiscal years, respectively, were for the Nuclear Safety Emergency Preparedness program. Section 28-31 of the General Statutes established the Nuclear Safety Emergency Preparedness program. The Department of Public Utility Control (DPUC), Military Department and the Department of Environmental Protection administer the program. The program is financed through assessments made on all Nuclear Regulatory Commission licensees operating nuclear power generating facilities in the State. The assessments are collected by the DPUC and redistributed to the Military Department and the Department of Environmental Protection to support the activities of the program in accordance with a plan approved by the Secretary of the Office of Policy and Management.

Other Special Revenue Funds:

The Department also received funding from three other special revenue funds during the audited period. A summary of expenditures from these funds during the period, along with those of the preceding fiscal year, follows:

	Fiscal Year Ended June 30,		
	2003	**2004**	**2005**
Fund:			
Soldiers, Sailors and Marines	$375,000	268,037	$269,604
Capital Equipment Purchase	274,249	102,537	271,952
Inter Agency/Intra Agency Grants – Tax Exempt Proceeds	333,105	138,937	6,807
Total	$ 982,354	$ 509,511	$ 548,363

Expenditures from the Soldiers, Sailors and Marines Fund were used to fund honor guard details for funerals of veterans of the armed forces or National Guard. Section 27-76 of the General Statutes authorizes funding for this purpose. Expenditures from the Capital Equipment Purchase Fund and the Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund were made for the purchase of equipment and Department-administered capital projects.

Capital Projects:

Capital project expenditures were primarily expended for alterations, renovations and improvements at various State armories for projects administered by the Military Department. Capital project funds expenditures totaled $135,596 and $217,346 for the fiscal years ended June 30, 2004 and 2005, respectively. This compares to $1,445,334 expended in the prior fiscal year. Expenditures for Department-administered capital projects are included in expenditures reported for the Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund noted above.

CONDITION OF RECORDS

Our testing of Military Department records identified the following areas that warrant comment.

Compensatory Time and Overtime:

Criteria: The Department of Administrative Services' (DAS) Management Personnel Policy 80-1 states that an Agency Head may grant extra time off for extra time worked by managers when the amount of extra time worked is significant in terms of total and duration. Compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.

The Military Department's Compensatory Time Policy states that Agency heads or their designees may grant compensatory time to managers when the manager is involved in a project that requires extra hours of work over the period of one week or longer. Compensatory time will accrue on an hour for hour basis with a minimum of three hours recorded during a bi-weekly period. The policy also states that if a manager is required to work extra time on a day due to an isolated requirement, compensatory time will accrue when an additional three hours of extra work has been completed. Compensatory time earned during the twelve months of the calendar year must be used by the end of the succeeding calendar year and cannot be carried forward.

The Military Department's Compensatory Time policy states that compensatory time for all union employees will be recorded on an hour interval basis. Compensatory time earned between January 1st and June 30th must be used by December 31st of that year. Time earned between July 1st and December 31st must be used by June 30th of the following year.

DAS Item No. 486E Payment of Overtime to Managerial and Confidential Employees and Comptroller Memorandum No. 2001-43 authorize the payment of overtime to managerial and confidential employees that are below a specific base annual salary.

Condition: Our review of the compensatory records for six managers and four exempt union employees disclosed the following:

- Two managers accrued less than three hours of compensatory time in seven instances totaling ten hours.

- Two union employees accrued less than one hour of compensatory time in 35 instances totaling 18.50 hours.
- Six employees did not use their earned compensatory time within the applicable time frame and the expired compensatory time was not deducted from their compensatory time balances. The amount of expired compensatory time ranged from eight hours to eighty-five hours.

Our review of overtime records disclosed that one employee who was not eligible for overtime, received overtime pay totaling $1,556 during the audit period. We noted that this employee's salary had been above the threshold for which confidential employees may receive overtime since December 2001.

Effect: Employees are receiving compensatory time accruals for insignificant amounts of time and are permitted to retain and use expired compensatory time contrary to DAS' Management Personnel Policy 80-1 and the Military Department's Compensatory Time Policy. One employee received overtime for which she was not eligible.

Cause: Inadequate procedures were in place to ensure that the minimum amount of compensatory time had been reached before it was posted to the employees' records and to ensure that expired compensatory time was deducted from the employees' balances. It appears that the Agency misinterpreted DAS Item No.486E regarding the payment of overtime to confidential employees.

Recommendation: The Department should strengthen internal controls over compensatory time and overtime. (See Recommendation 1.)

Agency Response: "The Department concurs with the finding. Our process for examining and recording compensatory time has been amended to include the Personnel Manager's review of all compensatory time earned. In addition to this, we are reissuing the Military Department's Compensatory Time Policy to all managers and affected employees. Also the Core-CT Payroll System has been updated to automatically deduct employee's expired compensatory time in accordance with personnel regulations. Our Agency policy will be reviewed to insure that we are consistent with statewide personnel regulation and policy for both compensatory time and the payment of overtime."

Termination Payments:

Criteria: In accordance with Section 5-252 of the Connecticut General Statutes, any State employee leaving State service shall receive a lump sum payment for accrued vacation time.

Section 5-213(b) of the General Statutes states that semiannual longevity lump-sum payments shall be made on the last regular pay day in April and October of each year, except that a retired employee shall receive, in the month immediately following retirement, a prorated payment based on the proportion of the six-month period served prior to the effective date of his or her retirement.

Condition: Our review of termination payments for ten employees disclosed errors in three instances. One employee was underpaid for vacation leave by $90, one employee did not receive a payment for vacation leave of $18, and one employee was not paid for longevity totaling $204.

Effect: Employees were not paid the correct amounts owed.

Cause: The underpayments were due to miscalculations. The amounts not paid were oversights on the part of the Agency.

Recommendation: The Department should strengthen internal controls regarding the processing of termination payments. (See Recommendation 2.)

Agency Response: "The Department concurs with the finding. The affected employees will be paid the amount owed. Future leave pay out calculations will be checked and verified by the Personnel Officer prior to final processing and payment."

Revenue Late Accounting and Incorrect Balances:

Criteria: Section 4-32 of the General Statutes requires that an agency shall account for receipts within twenty-four hours.

Due to the way deposits are processed in the state-wide Core-CT accounting system, it is not possible for checks or cash to be recorded within twenty-four hours of receipt. On a daily basis, the bank deposit information is entered into Core-CT through an interface between the bank and the State. The "Entered Date" recorded on Core-CT represents the date the deposit information was loaded into the system and is ready to be recorded by direct journal entry. During the audit period, the "Journal Posting Date" was the date the posting process was run and the journal entry actually appeared in the General Ledger.

The Core-CT month-end closing instructions require that agencies are responsible for reviewing their deposits to ensure that all valid transactions have been posted correctly by the 15th calendar day of the following month. Agencies are also responsible for correcting any posting errors that result from transactions that are not processed by the month-end close.

Condition: Our review disclosed that thirteen receipts totaling $634,190 were posted to the General Ledger between five and sixty days after the information was available to be recorded on Core-CT. We also noted that one receipt of $86 was posted to the General Ledger 137 days after the information was available to be recorded on Core-CT. It should be noted that all of the receipts reviewed were deposited in a timely manner.

In a separate review we noted that although revenue was collected during the 2004-2005 fiscal year, there were debit balances of $1,917,085 and $1,031,543 in the non-Federal aid and non-Federal grant transfers accounts, respectively, of the Federal and Other Restricted Accounts Fund.

Effect: The Department did not comply with Section 4-32 of the General Statutes. When revenue is not correctly posted, the financial statements of the State could contain misstatements.

Cause: With the implementation of Core-CT, there was confusion regarding the revenue reporting requirements. Regarding the debit balances, it appears that year end adjustments were posted by both the Department and the Comptroller's Office. It is unclear which adjustments were in error. In addition, the Department does not appear to be reviewing the revenue posted on a monthly basis.

Recommendation: The Department should institute procedures to ensure that receipts are accounted for in a timely and accurate manner. (See Recommendation 3.)

Agency Response: "The Department concurs with the finding. A contributing factor was the fact that Agency personnel did not know how to process deposit slips at the beginning of Core-CT. The agency now has written procedures on how to process all deposits and has been administering them properly. Additionally, procedures are being developed to balance the receivable accounts as well as the revenues collected in order to prevent any future errors. We are currently working with the Comptroller's Office to insure that erroneously posted accounts are corrected."

Revenue –Untimely Billing:

Background: Section 28-31 of the General Statutes requires that the Department of Public Utility Control (DPUC) establish a nuclear safety emergency preparedness account that shall be financed through assessments of all Nuclear Regulatory Commission licensees operating nuclear power generating facilities in the State. Moneys in the account shall be expended by the Adjutant General of the Military Department, in conjunction with the Commissioner of Environmental Protection, to support the activities of a nuclear safety emergency preparedness program.

The Military Department periodically submits bills to the DPUC for expenditures for the program that show the amount reimbursable by each nuclear power licensee. Upon receipt of the bills, DPUC bills the nuclear power licensees.

Criteria: Sound business practice dictates that costs should be billed in a timely manner.

Condition: Our review disclosed that the Department did not bill the DPUC for costs of the nuclear safety program in a timely manner. The Department billed DPUC in May 2006, for expenditures of $1,276,024 that were incurred from January 2005 through June 2005.

Effect: When receivables are not billed in a timely manner, there is decreased assurance that all amounts billed will be collected from the nuclear power licensees. In addition, the delays in collecting receivables resulted in the State's loss of use of these funds for considerable periods of time. We estimate that lost interest from these delays amounted to approximately $41,290 based on the State Treasurer's monthly Short-Term Investment Fund rate of return.

Cause: It appears that the billings were prepared late due to other priorities and due to the amount of time involved in compiling the billing information.

Recommendation: The Department should institute procedures to ensure that costs are billed in a timely manner. (See Recommendation 4.)

Agency Response: "The Department concurs with the finding. The Military Department is currently in the process of closing out its responsibility towards the Nuclear Safety program accounts which have been transferred to the Department of Emergency Management and Homeland Security."

GAAP Reporting:

Criteria: The State Accounting Manual and the State Comptroller's Generally Accepted Accounting Principles (GAAP) closing and reporting instructions to all State agencies specify the procedures for completing reporting forms.

Condition: Our review of the GAAP Reporting Form "Contractual Obligations and Retainages" submitted by the Department disclosed the following.

- For the fiscal year ended June 30, 2004, the Department overstated total obligations by $373,917.
- For the fiscal year ended June 30, 2005, the Department reported total obligations and retainages of $834,958 and $97,969, respectively, but should not have submitted the form.

Effect: The State's GAAP basis financial statements could contain misstatements.

Cause: The Department did not follow the instructions and did not deduct expenditures and retainages from the contract amounts in calculating the obligation amount.

Recommendation: The Department should institute procedures to ensure that GAAP forms are prepared in accordance with instructions. (See Recommendation 5.)

Agency Response: "The Department concurs with the finding. All personnel involved with GAAP reporting will be briefed prior to the report and provided with clear instructions on how the report is to be prepared."

Property Control:

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 State Comptroller and shall, annually, on or before October first, transmit to the Comptroller a detailed inventory, as of June thirtieth, of all real property and personal property having a value of one thousand dollars or more and owned by the State and in custody of such department.

The State Property Control Manual requires that furnishings and equipment include all personal property items with a value or cost of $1,000 or more.

Condition: Our review of the CO-59 Fixed Assets/Property Inventory Report disclosed that for the fiscal year ended June 30, 2004, the Department included 108 personal property items with values less than $1,000 in the additions and ending balance of furnishings and equipment. We also noted that 107 of these items, totaling $18,766, were also included in the ending balance of furnishings and equipment for the fiscal year ended June 30, 2005.

Effect: The furnishings and equipment balance reported on the CO-59 Fixed Assets/Property Inventory Report was overstated for each fiscal year.

Cause: We were informed that the Department recorded the items as capitalized based on the expenditure accounts on the purchase orders without verifying that the items met the criteria for capitalized items as defined in the Property Control Manual.

Recommendation: The Department should institute procedures to ensure that the inventory reported on the CO-59 Fixed Assets/Property Inventory Report is accurate. (See Recommendation 6.)

Agency Response: "The Department concurs with the finding. The entries in question have been corrected and appropriate corrective entries will be made on the Department's CO-59 for this year."

Purchasing, Receiving and Expenditures:

Criteria: Section 4-98(a) of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

Proper internal controls related to purchasing require that commitment documents be properly authorized prior to receipt of goods or services.

Condition: Our review of twenty-five expenditure transactions disclosed that in six instances, purchase orders were created after goods or services were received.

Effect: When expenditures are incurred prior to the commitment of funds, there is less assurance that agency funding will be available at the time of payment.

Cause: The Agency did not place sufficient emphasis on completing the purchasing process in an orderly manner.

Recommendation: The Agency should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. (See Recommendation 7.)

Agency Response: "The Department concurs with the finding. We will reinforce the requirements to all personnel who are involved in the process and increase our vigilance to insure that the dictates of C.G.S. Section 4-98(a) are adhered to."

Agency Administered Capital Projects:

Background: The Department of Public Works (DPW) is responsible for overseeing agency administered construction projects under Section 4b-52 of the Connecticut General Statutes. DPW has prepared a *"Guidelines and Procedures Manual for Agency Administered Projects"* in order to aid State agencies in the bidding and construction phases of a project.

Criteria: State agencies completing projects costing in excess of $50,000 shall submit to DPW and the State Building Inspector's Office a certificate of compliance form signed by the Agency's authorized representative.

Agencies must obtain permission from the DPW prior to administering emergency building repairs with a cost exceeding $7,500.

Condition: Our review of two projects administered by the Department disclosed the following.

- Although the certificate of compliance form contained the appropriate signatures for one project, the certificate was not submitted to the DPW or the State Building Inspector's Office. This was a condition sited in our prior audit report.

- For one project the Department did not request approval from the DPW to administer emergency building repairs with a total cost of $8,321.

Effect: When agency administered projects do not adhere to required procedures, State oversight agencies have less assurance that construction projects conform to applicable standards.

Cause: The errors appear to be oversights on the part of the Agency.

Recommendation: The Department should implement internal controls to ensure compliance with the DPW guidelines for agency administered projects. (See Recommendation 8.)

Agency Response: "The Department concurs with the finding. The certificate of compliance has since been submitted to DPW. The Agency will amend an internal checklist for agency administered projects to have specific language added to submit certificates of completion to DPW and the State Building Inspector's Office accordingly and the procedures for agency administered projects have been reviewed with all personnel involved."

Ethics:

Criteria: In accordance with Executive Order No. 1, through a memo issued by Special Counsel for Ethics Compliance, Governor Rell directed that before accepting employment with the State, individuals must be made aware of the State Code of Ethics. During the interview process, the hiring agency must provide each person with a summary of the State Code of Ethics and the agency's ethics statement.

Condition: Our review disclosed that the Military Department did not inform potential employees about the State Code of Ethics during the interview process.

Effect: There is non-compliance with the Governor's directive. When potential employees are not made aware of the Code of Ethics, the risk of non-compliance with the Code increases.

Cause: We were informed that Agency personnel responsible for interviewing potential employees were unaware of the requirement and were providing summaries of the Code of Ethics only to newly hired employees.

Recommendation: The Agency should institute procedures to ensure that all potential employees are made aware of the State Code of Ethics during the interview process. (See Recommendation 9.)

Agency Response: "The Department concurs with the finding. The Agency has implemented procedures that will insure that all interviewees have received a summary of the State ethics policies."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should reconcile its site improvement property control account balance to underlying subsidiary records supporting that balance. Unsupported variances identified as the result of the reconciliation should be removed from the inventory in the form of adjustments. The Department should also make the necessary adjustments to its records for identified transactions that were incorrectly classified or carried on the Department's property control records. The recommendation is repeated as amended. (See Recommendation 5.)

- The Department should review its internal controls over its purchasing and accounts payable functions to ensure that its controls incorporate State purchasing and accounting policies. The recommendation is repeated to reflect current conditions. (See Recommendation 6.)

- The Department should implement internal controls to ensure that certificates of compliance are prepared and submitted to the Department of Public Works and the State Building Inspector's Office. The recommendation is repeated as amended. (See Recommendation 7.)

Current Audit Recommendations:

1. The Department should strengthen internal controls over compensatory time and overtime.

Comment:

Our review of the compensatory records for six managers and four exempt union employees disclosed instances in which four employees earned compensatory time for insignificant amounts of time. In addition, six employees did not use their earned compensatory time within the applicable time frame and the expired compensatory time was not deducted from their compensatory time balances.

2. The Department should strengthen internal controls regarding the processing of termination payments

Comment:

Our review of termination payments for ten employees disclosed errors in three instances. One employee was underpaid for vacation leave by $90, one employee did not receive a payment for vacation leave in the amount of $18, and one employee was not paid for longevity totaling $204.

3. **The Department should institute procedures to ensure that receipts are accounted for in a timely and accurate manner.**

   Comment:

   Our review disclosed that thirteen receipts totaling $634,190 were posted to the General Ledger between five and sixty days after the information was available to be recorded on Core-CT. We also noted that one receipt of $86 was posted to the General Ledger 137 days after the information was available to be recorded on Core-CT.

   In a separate review we noted that although revenue was collected during the 2004-2005 fiscal year, there were debit balances of $1,917,085 and $1,031,543 in the non-Federal aid and non-Federal grant transfers accounts of the Federal and Other Restricted Accounts Fund, respectively.

4. **The Department should institute procedures to ensure that costs are billed in a timely manner.**

   Comment:

   Our review disclosed that the Department did not bill the DPUC for costs of the nuclear safety program in a timely manner. The Department billed DPUC in May 2006, for expenditures of $1,276,024 that were incurred from January 2005 through June 2005.

5. **The Department should institute procedures to ensure that GAAP forms are prepared in accordance with instructions.**

   Comment:

   Our review of the GAAP Reporting Form "Contractual Obligations and Retainages" submitted by the Department disclosed errors in the preparation of the report.

6. **The Department should institute procedures to ensure that the inventory reported on the CO-59 Fixed Assets/Property Inventory Report is accurate.**

   Comment:

   Our review of the CO-59 Fixed Assets/Property Inventory Report disclosed that for the fiscal year ended June 30, 2004, the Department included 108 personal property items with values less than $1,000 in the additions and ending balance of furnishings and equipment. We also noted that 107 of these items totaling $18,766 were also included in the ending balance of furnishings and equipment for the fiscal year ended June 30, 2005.

7. **The Agency should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services.**

Comment:

Our review of twenty-five expenditure transactions disclosed that in six instances, purchase orders that were created after goods or services were received.

8. **The Department should implement internal controls to ensure compliance with the DPW guidelines for agency administered projects.**

Comment:

Our review of two projects administered by the Department disclosed that although the certificate of compliance form contained the appropriate signatures for one project, the certificate was not submitted to the DPW or the State Building Inspector's Office. This was a condition sited in our prior audit report. In addition, for one project the Department did not request approval from the DPW to administer emergency building repairs with a total cost of $8,321.

9. **The Agency should institute procedures to ensure that all potential employees are made aware of the State Code of Ethics during the interview process.**

Comment:

Our review disclosed that the Military Department did not inform potential employees about the State Code of Ethics during the interview process.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Military Department for the fiscal years ended June 30, 2004 and 2005. 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 Military Department for the fiscal years ended June 30, 2004 and 2005 are included as a part of our Statewide Single Audits of the State of Connecticut for the fiscal years ended June 30, 2004 and 2005.

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 Military Department 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 Military Department is the responsibility of the Military Department'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, 2004 and 2005, 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 Military Department 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 Military Department’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.

However, we noted certain matters involving the internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency’s financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management’s authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: incorrect revenue balances, and the untimely billing of revenue.

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, grants or the requirements 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. 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weakness. However, we believe that the reportable conditions described above are not material or significant weaknesses.

We also noted other 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 Military Department during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts