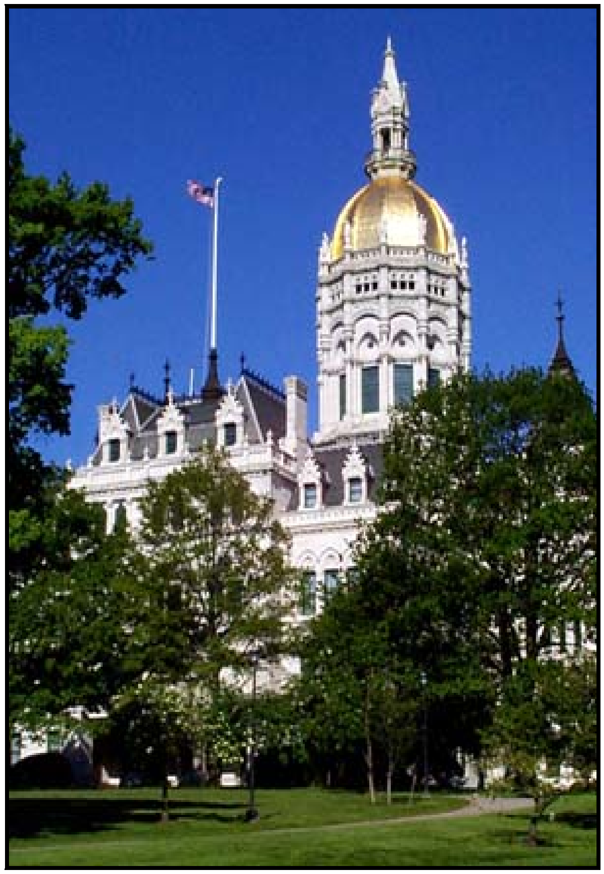
# STATE OF CONNECTICUT



***AUDITORS' REPORT***
***MILITARY DEPARTMENT***
***FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007***

AUDITORS OF PUBLIC ACCOUNTS
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November 7, 2008

**AUDITORS' REPORT**
**MILITARY DEPARTMENT**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have examined the financial records of the Military Department for the fiscal years ended June 30, 2006 and 2007. 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 responsibility is to serve as the protector of citizens and their property in time of war, invasion, rebellion, riot or disaster. It serves as the main source for the Governor in ensuring public safety in a variety of emergencies.

The Military Department is functionally divided into four major components: Headquarters, Army National Guard, Air National Guard and the Organized Militia. Headquarters includes the Adjutant General and Assistant Adjutant General who are appointed by the Governor. The Adjutant General is the commander of the National Guard and Organized Militia. The Adjutant General commands the elements of the Military Department through Joint Forces Headquarters located in the William A. O'Neill Armory in Hartford. The Adjutant General also oversees civilian employees who provide administrative support to the military personnel of the department. The Connecticut Army National Guard consists of four major commands with forty units stationed in twenty state armories and two Army aviation facilities. The Connecticut Air National Guard consists of a headquarters element, the 103rd Fighter Wing in East Granby and 103rd Air Control Squadron in Orange. The Organized Militia consists of four company sized units, two companies of the Governor's Foot Guard and two companies of the Governor's Horse Guard. The Organized Militia may be called upon to augment the State's military force structure during emergency situations with administrative and logistical support. They also support ceremonial and civic activities throughout the State.

Major General Thaddeus J. Martin served as Adjutant General during the audited period and currently serves in that capacity.

## RÉSUMÉ OF OPERATIONS:

### General Fund:

#### Revenues:

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

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Refunds of expenditures | $ 6,234 | $ 64,293 | $ 10,725 |
| Armory rentals | 6,650 | 9,140 | 9,319 |
| All other | 11,612 | 8,825 | 7,395 |
| Total General Fund Revenue: | $ 24,496 | $ 82,258 | $ 27,439 |

The increase in revenue in the fiscal year ended June 30, 2006, was due primarily to payments received from the State Judicial Department for receivable amounts due as of June 30, 2005.

#### 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, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Personal services | $ 3,206,201 | $ 2,663,857 | $ 3,339,374 |
| Contractual services | 1,967,775 | 2,192,881 | 2,265,218 |
| Commodities | 326,729 | 981,620 | 795,879 |
| Sundry expenditures | 0 | 422,444 | 261,500 |
| Capital outlays | 72,476 | 10,800 | 8,835 |
| Total Expenditures | $ 5,573,181 | $ 6,271,602 | $ 6,670,806 |

The decrease in personal services expenditures of $542,344 during the fiscal year ended June 30, 2006 compared to the earlier fiscal year was primarily due to the transfer of personnel from the Office of Emergency Management to the Department of Emergency Management and Homeland Security. Public Act 04-219, effective January 1, 2005, eliminated the Office of Emergency Management and created the new Department of Emergency Management and Homeland Security. The increase in personal services expenditures of $675,517 during the fiscal year ended June 30, 2007, compared to the fiscal year ended June 30, 2006, was due primarily to the hiring of additional personnel during the fiscal year.

Increases in commodities and sundry expenditures during the fiscal years ended June 30, 2006 and 2007, were due primarily to three new initiatives authorized by the General Assembly. Public Act 05-03 of the June 2005 Special Session established a bonus program for current or former Guard members called to active service on or after September 11, 2001. A bonus of $50 is paid for each month of active service up to a maximum of $500.

The Act also directed the Veterans' Affairs Commissioner, in conjunction with the Adjutant General, to award a ribbon and medal to wartime veterans who lived in Connecticut when they were called to active duty service or were domiciled in Connecticut on the date of the award. The Act directed the Military Department to pay for the ribbons and medals from funds appropriated to the Department for such purpose.

The Act also established the Military Family Relief Fund as a separate, non-lapsing General Fund account. The Fund makes grants to immediate relatives of Connecticut-domiciled armed forces members on active duty, including Guard members, to pay for essential personal and household goods or services in Connecticut, if paying for them would be a hardship for the relatives because of the member's service.

**Special Revenue Funds:**

**Federal and Other Restricted Accounts Fund:**

**Revenues:**

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

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Federal Grants | $ 10,797,425 | $ 17,592,870 | $14,877,038 |
| Non-Federal Aid | (1,917,085) | 528,956 | 758,540 |
| Grant Transfers – Non-Federal | (1,031,543) | 0 | 0 |
| All other | 14,299 | 4,073 | 3,629 |
| Total Revenue | $ 7,863,096 | $ 18,125,899 | $15,639,207 |

Federal grant revenue was primarily received from the Department of Defense for the administration of programs and activities financed in part by the Defense Department. The increase in Federal grant revenue during the fiscal years ended June 30, 2006, and June 30, 2007, compared to the fiscal year ended June 30, 2005, was due to reimbursements for increased construction activity during the audited period and errors in the posting of revenue made to the general ledger in the fiscal year ended June 30, 2005.

**Expenditures:**

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

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Federal: | | | |
| Personal services | $ 3,264,427 | $ 2,439,893 | $ 2,860,170 |
| Contractual services | 6,514,063 | 6,506,185 | 6,002,036 |
| Commodities | 713,926 | 225,905 | 214,435 |
| Sundry expenses | 3,083,920 | 1,563,286 | 1,668,506 |
| Capital outlays | 3,631,109 | 2,760,356 | 2,939,649 |
| Total Federal Accounts | 17,207,445 | 13,495,625 | 13,684,796 |
| Non-Federal | 1,647,389 | 398,035 | 414,528 |
| Total Expenditures | $18,854,834 | $13,893,660 | $14,099,324 |

The decrease in Federal expenditures during the fiscal years ended June 30, 2006 and 2007, compared to the fiscal year ended June 30, 2005, was primarily due to the elimination of the Office of Emergency Management, as noted earlier in this report. The decrease in Non-Federal expenditures was also attributable to the elimination of this Office. Expenditures of the nuclear preparedness program for the fiscal year ended June 30, 2005, are included in Non-Federal expenditures noted above. Public Act 05-03 of the June Special Session transferred the responsibility of administering the nuclear preparedness program from the Military Department to the Department of Emergency Management and Homeland Security, effective July 1, 2005.

**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, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Fund: | | | |
| Soldiers', Sailors' and Marines' | $ 269,604 | $ 306,803 | $ 0 |
| Capital Equipment Purchase | 271,952 | 31,013 | 137,355 |
| Inter Agency/Intra Agency Grants – Tax Exempt Proceeds | 6,807 | 5,000 | 0 |
| Total | $ 548,363 | $ 342,816 | $ 137,355 |

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 through the fiscal year ended June 30, 2006. Funding of the Honor Guard program was changed to the General Fund commencing in the fiscal year beginning July 1, 2006. Section 27-76 of the General Statutes authorizes funding for this program.

Expenditures from the Capital Equipment Purchase Fund were made for the purchase of equipment. Expenditures from the Inter Agency/Intra Agency Grants – Tax Exempt Proceeds Fund were made for building improvements.

**Bond Funds:**

The Department used bond funds administered by the Department of Public Works to fund capital projects administered by the Department. Capital project expenditures totaled $49,624 and $123,791 for the fiscal years ended June 30, 2006 and 2007, respectively. This compares to $217,346 expended in the prior fiscal year. Expenditures were primarily for renovations and improvements at various Department locations.

## CONDITION OF RECORDS

Our testing of Military Department records identified the following reportable matters.

**Payroll/Time and Attendance:**

*Criteria:* Personnel policies and procedures afforded Military Department employees are governed by State policies and procedures and/or practices and policies prescribed by collective bargaining agreements specific to the various collective bargaining units. Such policies and procedures include the following:

- No employee can carry over, without agency permission, more than 10 days of vacation to the next year. (Maintenance and Service (NP2) Contract)
- Employee leave balances and accruals should reflect accurate information.
- Compensatory time earned by union employees shall be used by December 31$^{st}$ of that year. Time earned between July 1$^{st}$ and December 31$^{st}$ must be used by June 30$^{th}$ of the following year. (Military Department Compensatory Time Policy)
- Employees are entitled to shift differential payments for all hours worked between 6:00 pm and 6:00 am. (Protective Services (NP5) Contract)

*Condition:* Our review of payroll and personnel records of 25 employees disclosed the following:

- One employee carried over 12 vacation days to the next year without receiving agency permission to do so.
- Vacation leave balance for one employee was incorrect.
- Vacation and sick leave balance accruals for two separated employees were not closed out in Core-CT when they left State service.
- Expired compensatory time for one employee was not adjusted from her compensatory time leave balance.
- One employee was paid for the incorrect number of hours for shift differential.

*Effect:* The effects of the above conditions were as follows:

- One employee was underpaid $7.

- Incorrect vacation or compensatory leave balances could result in incorrect payments at separation, employees using time they are not entitled to or conversely losing time that they are entitled to.

- Leave accruals of the separated employees continue to be factored in the reporting of compensated absences on the State's financial statements.

*Cause:* Internal controls over the processing of payroll/personnel transactions were inadequate.

*Recommendation:* The Department should improve its internal controls over time and attendance record keeping. (See Recommendation 1.)

*Agency Response:* "Concur – The employee who carried over more than the ten (10) hours of vacation time has subsequently requested the carryover which was approved.

Concur – Employee took 6.5 hours of vacation time. Core-CT however subtracted 8.5 hours from the leave balance. We have manually added 2 hour of vacation time back into the vacation accruals and reported the discrepancy error to Core-CT.

Concur - The leave balances for the 2 separated employees have been closed. The agency will add vacation and sick leave close outs to the agency's Out Processing Check List.

Non Concur – The expired compensatory time was not deducted by Core-CT as it should have been. We have notified Core-CT of the automated error.

Concur – Shift differential calculation error was corrected and the employee was paid $6.80."

*Auditors Concluding Comments:* Core-CT daily mail issued August 30, 2004, reminded users that Core-CT is unable to expire compensatory time to meet the State's requirements. Compensatory plans set up in Core-CT give users an idea of when compensatory time will expire for a particular plan. It's incumbent upon each State agency to ensure that earned compensatory time is removed from employee records when it expires.

**Property Control and Reporting:**

*Criteria:* The State Comptroller's Property Control Manual identifies the policies and procedures State agencies must follow to account for and report upon assets owned by each State agency. Policies and procedures prescribed by the State Comptroller include the following:

- An agency's property control system must include a control account for each reportable category on the Asset Management/Inventory Report/GAAP Reporting Form (Form CO-59) and a detailed subsidiary record for each individual item in the category. The subsidiary records must be reconciled with the control account.

- Property inventory values reported on Form CO-59 should reconcile with values entered in the Core-CT Asset Management Module.

- Property additions should be recorded at the property's cost or fair market value depending on the method of acquisition (estimated value if necessary).

- The purpose of the Form CO-59 is to report all property owned by each State agency.

- Assets that have an expected useful life of one or more years and have a value or cost of $1,000 or more should be capitalized.

*Condition:* Our review of the Department's property inventory records and CO-59 form prepared for the fiscal year ended June 30, 2007, noted the following:

- The cost of site improvements, leasehold improvements and equipment reported on the CO-59 form were partially supported or not supported at all with detailed subsidiary records that reconciled to the reported cost. The cost of site improvements was reported as $11,248,100. Detailed subsidiary records provided in support of the reported amount totaled $7,506,599, a difference of $3,741,501. Leasehold improvements totaling $8,950 were not supported. Detailed subsidiary records were not provided for each individual item in the equipment asset category ($2,055,067).

- Building improvements ($3,492,333) and site improvements ($11,248,100) were not recorded in the Core-CT Asset Management Module.

- Two parcels of land transferred to the Department from another State agency were each recorded on the Department's property inventory records at a cost of $1.

- Buildings owned by the Federal Government costing $10,151,140 were reported on the CO-59 form.

- Expenditures for some items capitalized and recorded in the Core-Ct Asset Management Module or reported on the CO-59 form were recorded as current expenses on the State's general ledger when purchased. Accounting adjustments were not made to the general ledger to change the expense account codings to capitalized account codings.

*Effect:* Some Military Department assets were not properly supported, recorded and reported on the State's financial statements.

*Cause:* Internal controls over the accounting for and reporting of Department assets were inadequate.

*Recommendation:* The Department should implement internal controls that ensure that reported property inventory values are supported with detailed subsidiary records recorded in the Core-CT Asset Management Module. The Department should also implement internal controls that ensure that real property is accurately reported and that capitalized equipment is properly recorded in the general ledger. (See Recommendation 2.)

*Agency Response:* "Non concur – The fundamental issue with this finding is that it deals with transactions that are between 10 and 18 years old which are outside the stated scope of the current audit. Additionally the departments detailed subsidiary records prior to Fiscal Year 1991 were properly approved by the State Library for destruction on 11 February 1997. This was based on record retention and disposition schedules proscribed by the State Library which required retention for 3 years or until audited which ever comes later. The personnel associated with the destruction of the records are no longer with the agency. Further the property records have undergone numerous audits and at least two conversions of accounting systems which have validated the figures *per se*. Arbitrarily dropping the figures from the CO-59 without having the detail necessary to make building by building adjustments just doesn't seem to make sense. That being said we will seek guidance from the Comptroller's Office as final disposition of the matter.

Non concur – Initial implementation guidance from the Core-CT asset management conversion team, that was provided to our asset management section during their training, was to input initial cost only during the initial load. Supplemental guidance was not issued. Further the conversion to the Core-CT Asset Management Module is an ongoing project. As subsequent guidance is issued and further training is conducted we will finalize whatever additional entries are required.

Non concur – The property was correctly picked up at the same cost that the losing agency assigned to it when it was transferred to us. We have subsequently requested and received additional information from the Department of Public Works relating to the initial cost data and have made the corresponding corrective entries.

Non concur – The department has real property assets in various classes. Some of the property is owned, some is leased and some is under license from Federal Agencies such as the Army Corps of Engineers. The Department will be seeking guidance from the State Comptrollers Office on the proper way to record property that is under long term license from other federal agencies since these licensing agreements do not impart any leasehold interest but do require the State to maintain the property and protect against its loss. At the very least this would dictate that we carry the present value on the books for insurance purposes.

Concur – The Department will determine proper coding prior to the acquisition of capital assets to insure that the transaction is properly recorded in the general ledger."

**Revenue:**

*Criteria:* Good internal control contemplates that receipts are reconciled to all related revenue accounts.

*Condition:* Our review of the Department's procedures for processing receipts noted that the Department did not reconcile receipts or inter agency transfers to postings made to the general ledger.

*Effect:* The Department has lessened assurance that receipts are properly accounted for and allocated to the correct account or funds.

*Cause:* Internal controls over the processing of receipts were inadequate.

*Recommendation:* The Department should implement procedures that reconcile receipts to postings made to the general ledger. (See Recommendation 3.)

*Agency Response:* "Concur - The Agency has expended much effort in attempting to balance the Agency deposits to outstanding receivables without having a reliable Core-CT report to reconcile against. In an effort to overcome that deficiency the Department will implement a manual internal procedure in which all deposits are matched to open and outstanding receivables using an Excel spreadsheet."

**Ethics:**

*Criteria:* Before accepting employment with the State, individuals must be made aware of the State Code of Ethics (Code) so that they will understand their general ethical duties as a state employee or public official. During the interview process, each person must be given a summary of the Code and the agency's ethics statement by the hiring agency. Each new employee is required to sign a statement acknowledging receipt of such summary and agree to comply with the requirements of the state ethics laws. (Executive Order Number 1, Ethics Compliance Plan)

*Condition:* A statement acknowledging receipt of a summary of the Code and agreement to comply with the requirements of state ethics laws was not found for one of two newly-hired employees tested.

*Effect:* The Department has lessened assurance that the employee understands their ethical responsibilities.

*Cause:* The Department does have an acknowledgement of receipt form that it requires new employees to sign; however, the form was not found in the employee's personnel records.

*Recommendation:* The Department should implement procedures that ensure that statements are received from new employees acknowledging receipt of a summary of the State Code of Ethics and agreement from the new employee to comply with the requirements of state ethics laws. (See Recommendation 4.)

*Agency Response:* "Non Concur – The employee executed the proper statement when hired. The statement was missing from the personnel file due to a filing error. We have obtained a copy of the statement from the employee and placed it in the personnel file."

**Purchasing, Receiving and Expenditures:**

*Criteria:* State statutes, policies, procedures and practices for processing expenditure transactions include the following:

Payment of new year purchasing card invoices received in July should be charged in full to the new fiscal year even for transactions that occurred prior to the end of the previous year (June 30). (State Comptroller Purchasing Card Program Agency Purchasing Card Coordinator Manual)

No budgeted State agency shall incur an obligation to the State prior to the issuance of a purchase order. (Section 4-98 of the Connecticut General Statutes)

State agencies shall certify that goods or services have been received or performed prior to processing transactions for payment. (Section 3-117 of the Connecticut General Statutes)

State agencies are responsible for ensuring that each user's access to the Core-CT computer system does not result in improper segregation of duties. (State Comptroller Memorandum 2008-07)

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. (Office of Management and Budget, Circular A-87, Cost Principles for State, Local and Indian Tribal Governments)

*Condition:* Our review of 25 non-payroll expenditure transactions totaling $1,316,002 selected from an audit universe of $26,164,895 noted the following reportable conditions.

- June 2007 purchasing card transactions ($3,201) that would have normally appeared on the July 2007 bill were paid in June.

- Two purchase orders were prepared after goods and services were received.

- The Department purchased 200,000 veteran's service medals and ribbons at a cost of $340,000 and $192,000, respectively. The medals and ribbons were purchased in two separate transactions of 100,000 units each. The cost of the medals and ribbons could have been less had the Department purchased one additional medal and ribbon each order. The production lots and related per unit costs are noted below.

| | Medal | Ribbon |
|---|---|---|
| Production Run | Unit price | Unit Price |
| 75,001 – 100,000 | $1.70 | $.96 |
| 100,000+ | $1.69 | $.94 |

- Services and dates noted on one receiving report did not match services and dates identified on the vendors invoice, yet, payment was made to the vendor.

- Two purchase orders were entered and approved by the same individual in the Core-CT accounting system.

*Effect:* Management has lessened assurance that the Department is processing its expenditure transactions in accordance with State policies and procedures.

The Department could have saved approximately $6,000.

*Cause:* Internal controls over the processing of expenditures were inadequate. The purchasing employee's security access was changed in Core-CT in November of 2006 resulting in proper segregation of duties.

*Recommendation:* The Department should implement internal controls that ensure that expenditure transactions are processed prudently and in accordance with State statutes, policies and procedures. (See Recommendation 5.)

*Agency Response:* "Concur – The agency will heighten its vigilance to insure that all purchase card procedures are followed.

Partial non concurrence – PO#3305 to Salmon Brook was issued on 09/19/05 after the original PO #2831 issued on 07/12/05 had to be closed due to a Core-CT reversal problem. PO#5704 issued to Enfield enterprises should have been issued under the emergency purchase order procedures. The agency will re-emphasize the necessity to have purchase orders in place prior to receipt of goods and services.

Non concur – The underlying contract issued by the Department of Administrative Services (DAS) established the order quantity of between 75,000 – 100,000 units therefore the agency ordered 100,000 which was also consistent with available funding. Subsequently additional funds were made available and the agency ordered an additional 100,000 units on a separate order.

Concur – Accounts payable personnel have been instructed to more closely scrutinize receiving reports.

Concur – This occurred in the beginning of FY-2006 and has not occurred since due to routine reviews of Core-CT roles and permissions."

*Auditors Concluding Comments:* "We spoke to the buyer at DAS who procured the services for the medals and ribbons. We asked her whether the Department could have ordered 100,001 units based on the awarded contract. She responded that they could have."

**RECOMMENDATIONS**

*Status of Prior Audit Recommendations:*

- The Department should strengthen internal controls over compensatory time and overtime. Our current review did not identify any exceptions relative to overtime. We did, however, note the same condition from the prior audit that expired compensatory time balances were not deducted from employees' compensatory time balances. The portion of the prior audit finding pertaining to compensatory time is repeated, as amended. (See Recommendation 1.)

- The Department should strengthen internal controls regarding the processing of termination payments. Our current review did not identify any exceptions relative to termination payments. Thus, the recommendation has been implemented.

- The Department should institute procedures to ensure that receipts are accounted for in a timely and accurate manner. Our current review did not identify any exceptions relative to the timely accounting of receipts. Thus, the recommendation has been implemented.

- The Department should institute procedures to ensure that costs are billed in a timely manner. The responsibility for administration (including billing) of the nuclear safety program was transferred to the Department of Emergency Management and Homeland Security, effective July 1, 2005. Thus, the recommendation has been resolved.

- The Department should institute procedures to ensure that GAAP forms are prepared in accordance with instructions. Our current review concluded that GAAP forms were prepared in accordance with instructions. Thus, the recommendation has been implemented.

- The Department should institute procedures to ensure that the inventory reported on the CO-59 Fixed Assets/Property Inventory Report is accurate. Our current review of property inventory accountability and reporting identified deficiencies in internal controls. Thus, the recommendation is repeated, as amended. (See Recommendation 2.)

- The Agency should strengthen its internal controls to ensure that funds are committed prior to purchasing goods and services. Our current review identified transactions that were not properly committed. Thus, the recommendation is repeated, as amended. (See Recommendation 5.)

- The Department should implement internal controls to ensure compliance with the DPW guidelines for agency administered projects. The Department did not complete any projects that exceeded $50,000 requiring submission of a certificate of compliance form during the audited period. Thus, the recommendation has been resolved.

- The Agency should institute procedures to ensure that all potential employees are made aware of the State Code of Ethics during the interview process. In our current review, a statement of receipt from one new employee acknowledging receipt of a summary of the Code of Ethics and agreement to comply with the requirements of state ethics laws, was not found in the employee's personnel records. Thus, the recommendation is repeated, as amended. (See Recommendation 4.)

*Current Audit Recommendations:*

1. **The Department should improve its internal controls over time and attendance record keeping**.

   Comment:

   Our review of time and attendance records disclosed that vacation and sick leave accrual balances of two former employees of the Department were never closed out in Core-CT when they separated State service. We also noted that one current employee's vacation leave balance was incorrect and noted that expired compensatory time for one other employee was not deducted from the employee's earned compensatory time leave balance accrual.

2. **The Department should implement internal controls that ensure that reported property inventory values are supported with detailed subsidiary records recorded in the Core-CT Asset Management Module. The Department should also implement internal controls that ensure that real property is accurately reported and that capitalized equipment is properly recorded in the general ledger.**

   Comment:

   Our review of property inventory records disclosed that certain categories of assets reported on the CO-59 form were partially supported or not supported at all with detailed subsidiary records that reconciled to the reported cost. We also noted that certain real property was not recorded in the Core-CT Asset Management Module, was recorded incorrectly or recorded in the wrong amount and that some capitalized equipment was expensed on the general ledger.

3. **The Department should implement procedures that reconcile receipts to postings made to the general ledger.**

   Comment:

   Our review of the Department's procedures for processing receipts noted that the Department did not reconcile receipts or inter agency transfers to postings made to the general ledger.

4. **The Department should implement procedures that ensure that statements are received from new employees acknowledging receipt of a summary of the Code of State Ethics and agreement from the new employee to comply with the requirements of state ethics laws.**

   Comment:

   A statement acknowledging receipt of a summary of the Code of State Ethics and agreement to comply with the requirements of state ethics laws was not found for one of two newly-hired employees tested.

5. **The Department should implement internal controls that ensure that expenditure transactions are processed prudently and in accordance with State statutes, policies and procedures.**

   Comment:

   Our review of expenditure transactions noted that the Department did not follow fiscal year end payment instructions for purchasing card payments, purchase orders that were prepared after goods and services were received, inadequate segregation of duties and a receiving report that did not match the vendor's invoice. We also noted that the Department could have saved the State approximately $6,000 had they considered purchasing one additional unit for two separate purchases that would have resulted in a lower per unit cost for all items purchased on the two orders.

## 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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management’s direction, 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, 2006 and 2007, 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 Military Department complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls 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 Military Department’s 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 deficie*ncy 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 2 – property inventory accountability, valuation and reporting and Recommendation 3 – reconciliation of receipts to the general ledger.

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 neither of the significant deficiencies described above is a material weakness.

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Military Department 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 matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Military Department's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Military Department's response and, accordingly, we express no opinion on it.

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 Military Department during this examination.

Joe Faenza
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts