# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**MILITARY DEPARTMENT**
**FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**


AUDITORS OF PUBLIC ACCOUNTS
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September 8, 2003

# AUDITORS' REPORT
# MILITARY DEPARTMENT
# FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

We have examined the financial records of the Military Department for the fiscal years ended June 30, 2001 and 2002. 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:

Titles 27 and 28 of the General Statutes contain the Military Department's statutory authority and responsibility. The Department's principal public responsibilities are (1) to coordinate, resource and train the Armed Forces of the 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 four major components: Army National Guard, Air National Guard, Organized Militia and the Office of Emergency Management. The Army National Guard consists of four major commands with 42 units stationed throughout the state in 23 armories. 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. The Office of Emergency Management is responsible for developing and executing the Governor's emergency response program which includes mitigation, planning, response and recovery plans for a wide range of natural, technological and national security hazards. Section 27-19a of the General Statutes provides that the Military Department shall be within the Department of Public Safety 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 was appointed Adjutant General on May 3, 1999, and continues to serve in that capacity.

## RÉSUMÉ OF OPERATIONS:

### General Fund:

#### Receipts:

General Fund receipts of the Military Department consisted primarily of the collection of receivables from the Federal government and other receivables from non-Federal sources. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Refunds of Expenditures: | | | |
| Applied | $ 81,821 | $ 58,943 | $ 79,575 |
| Not credited to appropriations | 2,404 | 30 | 0 |
| Prior year | 13,919 | 50,494 | 15,415 |
| Federal aid receivables collected | 8,053,812 | 11,090,151 | 12,408,107 |
| Receivables other than Federal | 212,452 | 1,709,185 | 851,396 |
| Federal grants from another agency | 0 | 996 | 101,180 |
| Grants other than Federal | 227,364 | (58,924) | 650 |
| Armory rentals | 59,430 | 46,320 | 8,975 |
| Miscellaneous receipts | 5,469 | 4,318 | 9,131 |
| Transfer from State agencies | 2,475 | 2,150 | |
| Total General Fund Receipts | **$ 8,659,146** | **$ 12,903,663** | **$ 13,474,429** |

Federal receivable 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. Federal contributions are further discussed under the caption "Restricted Appropriations – Federal."

The increase in Federal receivables from the 1999-2000 fiscal year to the 2001-2002 fiscal year was mainly attributable to increased operating costs associated with Air National Guard operations. Federal collections for this activity almost tripled from

$1,966,531 received in the fiscal year ended June 30, 2000 to $5,634,750 received in the fiscal year ended June 30, 2002.

The increase in non-Federal receivables was attributable solely to the Nuclear Safety Emergency Preparedness program administered by the Office of Emergency Management. The wide disparity in receivables collected for this program was the result of timing differences between the fiscal years from when the receivable was established to the time it was received. The Nuclear Safety Preparedness program is further discussed under the caption "Restricted Appropriations – Other."

**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, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Budgeted Accounts: | | | |
| Personal services | $ 3,979,916 | $ 4,352,894 | $ 4,718,409 |
| Contractual services | 1,837,451 | 1,965,994 | 1,914,071 |
| Commodities | 300,887 | 407,414 | 346,373 |
| Sundry | 75 | (55) | 17,194 |
| Capital Outlay | 127,532 | 933 | 1,000 |
| Total Budgeted Accounts | 6,245,861 | 6,727,180 | 6,997,047 |
| Federal contributions | 10,850,825 | 9,795,726 | 11,414,278 |
| Restricted-other than Federal | 1,139,537 | 1,331,710 | 1,319,814 |
| Total Expenditures | **$ 18,236,223** | **$ 17,854,616** | **$ 19,731,139** |

General Fund expenditures were relatively level during the audited period. Increases in personal service costs were attributable primarily to collective bargaining increases and costs associated with the deployment of Department personnel due to the terrorist attacks of September 11, 2001.

**Restricted Appropriations – Federal:**

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

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Federal Restricted Accounts: | | | |
| Personal services | $ 2,576,683 | $ 2,897,127 | $ 2,956,101 |
| Contractual services | 4,631,973 | 3,387,923 | 4,528,533 |
| Commodities | 336,476 | 534,402 | 794,188 |
| Sundry | 3,290,968 | 2,735,077 | 2,975,069 |

| | | | |
|---|---|---|---|
| Capital Outlay | 14,725 | 241,197 | 160,387 |
| Total | **$ 10,850,825** | **$ 9,795,726** | **$ 11,414,278** |

A decrease in contractual services between the 1999-2000 and 2000-2001 fiscal years was caused primarily by decreases in Federal expenditures for renovations and repairs of Department facilities. Increases in contractual services in the following fiscal year was primarily due to an increase in Federal expenditures for renovations and repairs.

Increases in commodities were due mainly to the purchase of equipment and supplies for the State domestic preparedness program purchased during the fiscal year ended June 30, 2002. These purchases were made by the Military Department on behalf of local jurisdictions requesting assistance for the purchase of such equipment for use in responding to apparent chemical or biological attacks.

**Restricted Appropriations – Other:**

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. Total expenditures charged to the program by the Military Department were $1,323,847 and $1,313,665 for the fiscal years ended June 30, 2001 and 2002 compared with $922,126 charged to the program in the fiscal year ended June 30, 2000.

**Special Appropriations:**

In addition to its regular General Fund appropriation, the Department administered two special appropriations during the audited period. A description of the activities provided is discussed below:

**Honor Guard Detail at Funerals** – Section 27-76 of the General Statutes provides for an honor guard at the funeral of a veteran of the armed forces or National Guard, when so requested. Appropriations made for the operating of the firing squads were $433,800 and $320,000 for the 2000-2001 and 2001-2002 fiscal years, respectively. Expenditures made against these appropriations were $335,570 and $310,050 for the 2000-2001 and 2001-2002 fiscal years, respectively.

**Insurance Recoveries** – Budgeted appropriations available from insurance recoveries were $18,415 and $152,941 for the 2000-2001 and 2001-2002 fiscal years, respectively. Expenditures during the 2000-2001 and 2001-2002 fiscal years were $0 and $17,563, respectively.

**Special Revenue Funds:**

The Department received funding from two special revenue funds that were used primarily for the purchase of equipment and Department-administered capital projects. Expenditures from these funds totaled $812,049 and $118,679 during the 2000-2001 and 2001-2002 fiscal years, respectively.

**Capital Projects:**

Capital project expenditures were primarily for alterations, renovations and improvements at Camp Rowland and various State armories for projects administered by the Department of Public Works. Capital project funds expenditures totaled $1,879,067 and $296,605 during the 2000-2001 and 2001-2002 fiscal years, respectively. Capital project funds expenditures included grant transfers of $145,228 and $70,196 from the Department of Public Works to the Department for Department-administered capital projects. Expenditures for Department-administered capital projects are included in expenditures reported under Special Revenue Funds noted above.

## CONDITION OF RECORDS

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

**Property Control:**

*Background:* Section 4-36 of the Connecticut General Statutes provides 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 her a detailed inventory, as of June thirtieth, of certain property owned by the State and in the custody of the State agency. The State Comptroller's Property Control Manual establishes guidelines for providing guidance to State agencies relative to property accountability and reporting.

*Criteria:* A property system must include a control account for each reportable category on the Fixed Assets/Property Inventory Report and a detailed subsidiary record for each individual item in the category. The subsidiary records must be reconciled with the control account. Fixed assets/property inventory items should be properly carried and reported under the appropriate reportable category. Errors or omissions identified in property records after the due date of the property report should be accounted for in the year the error or omission is discovered and be accounted for as an addition or deletion in the year of discovery. (State Comptroller Property Control Manual)

*Condition:* We noted the following conditions regarding the Department's property control records.

- Property control reported balances on the Fixed Assets/Property Inventory Report for site improvements, buildings and furnishings and equipment categories were not supported by detailed subsidiary records.

- Property control classification and accounting for Department administered capital projects are expensed when paid for rather than capitalized. Many of the capital projects involve significant repairs or renovations to existing facilities that increase the value of the property. The Department initially records the cost of these projects to the current expense category of general repairs versus a capital outlay category for equipment or building structures. When the project is completed, the cost is capitalized and reported as real property on the Department's property control records.

- We identified certain real and personal property that was incorrectly classified and/or carried on the Department's property control records. We noted that the Department classifies the cost and installation of carpeting as personal property and includes the property as capitalized equipment if the cost is greater than $1,000. Carpeting costing less than $1,000 is accounted for as a current expense. We also noted that a fence costing $33,135 was classified as equipment rather than a site improvement. When we inquired about the property control treatment of these transactions, we were informed that the classification of certain property items is based on the funding source and cost rather than the item itself.

- The Department filed amended Fixed Assets/Property Inventory Reports well after the due date of the report in both fiscal years of our audit period.

*Effect:* The Department has lessened assurance that fixed asset/property inventory values are properly classified and reported.

*Cause:* Property internal controls were inadequate.

*Recommendation:* The Department should review its property control policies and procedures to determine whether its procedures incorporate Property Control Manual guidelines to properly classify and report upon real and personal property. Questions arising as a result of this review should be directed to the State Comptroller's Office for clarification and guidance. (See Recommendation 1.)

*Agency Response:* "Timelier determination will be exercised to the categorization of real property transactions in accordance with State Accounting Manual guidelines."

"Agency will seek advisement from the Comptroller's Office with respect to the interpretation of the Property Control Manual as it pertains to proper classification of carpeting."

**Payroll and Personnel:**

*Criteria:* The Military Department's Compensatory Time Policy states that managers may be eligible for compensatory time if he or she is involved in a project that requires extra hours of work over the period of one week or longer and will accrue on an hour for hour basis with a minimum of three hours recorded during a bi-weekly period. It 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.

*Condition:* We reviewed compensatory time for four employees and noted that one employee accrued compensatory time despite working less than one hour of compensatory time per day or less than the required minimum three hours per bi-weekly period. Thus the employee accrued compensatory time despite not working the minimum number of hours to earn such time.

*Effect*: The employee received compensatory time accruals for which he was not entitled.

*Cause:* Inadequate procedures were in place to ensure that the minimum amount of compensatory time had been reached before it was posted to the employee records.

*Recommendation:* The Department should institute controls which will ensure that compensatory time recorded by employees is in accordance with the Military Department's Compensatory Time Policy. Also, employees should be informed of the compensatory time policy, so that compensatory time will be recorded accurately on the timesheets. (See Recommendation 2.)

*Agency Response:* "Concur with the finding. The Department will rewrite its policy on compensatory time to preclude future misunderstandings. Additionally, all time sheets with compensatory time will be reviewed and countersigned by the Fiscal Administrative Manager to ensure compliance."

**Purchasing, Receiving and Expenditures:**

*Criteria:* State agencies are responsible for ensuring that State accounting policies and procedures are followed and laws and regulations are complied with in the administration of such agency.

*Condition:* Our review of expenditure transactions disclosed the following.

- The Department recorded the incorrect receipt date of goods or services on three State invoices. A total of 18 State invoices were tested.

- Receiving report documentation for one transaction was not prepared evidencing receipt of the goods. Documentation for one transaction was insufficient to determine whether the transaction was a valid and reasonable State business transaction. A total of 20 invoices (18 vendor invoices and two state agency invoices) were tested.

- The Department stopped performing monthly reconciliations of it's expenditure and appropriation internal accounting records with those of the State Comptroller in July 2001. We were informed that a year-end reconciliation was performed in July 2002 for the fiscal year ended June 30, 2002.

*Effect:* There were two different effects based on the conditions.

One of the incorrect receiving dates recorded involved a payment for goods received in two fiscal years. Because the receiving date recorded was for the latter year, an accounts payable ($44) was not established and reported by the State Comptroller.

The Department has lessened assurance that the State Comptroller has properly recorded its accounting transactions.

*Cause:* Inadequate internal controls existed over certain aspects of the Department's purchasing, receiving and accounts payable functions.

*Recommendation:* The Department should review its internal controls over accounting, receiving and accounts payable functions to ensure that its controls incorporate State accounting policies and procedures and related laws and regulations. (See Recommendation 3.)

*Agency Response:* "Concur with the findings and recommendations. Agency will reaffirm proper recognition of receipt date criteria in accordance with the State Accounting Manual and will monitor any monthly post audit findings if such occurrences are cited."

"Department has recognized the inconsistency in the performance of reconcilaitions with that of the Comptroller's due to the vacancy of an Associate Accountant. In the future, all appropriations and expenditures will be reconciled on a quarterly basis until such time allows for this position to be refilled thereby allowing the process to occur on a more frequent basis."

**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:* Contractors for all projects involving labor and materials must submit to the administering agency a certificate of insurance form covering public liability and property damage. The certificate shall name the State of Connecticut as an additional insured.

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.

*Condition:* Our review of three capital projects administered by the Department disclosed the following.

- One of three certificates of insurance reviewed did not name the State of Connecticut as an additional insured.

- A certificate of compliance form was not submitted to DPW and the State Building Inspector's Office for one completed project. The other two projects were either still in progress or cost less than $50,000.

*Effect:* The State's liability for possible damages or injuries caused by the contractor is increased.

The failure of the Department to obtain a certificate of compliance from the contractor lessens the Department's assurance that the completed project is in substantial compliance with the approved plans and specifications and requirements of the State's basic building code and all other codes as required by State statute.

*Cause:* The cause was not determined.

*Recommendation:* The Department should review its internal controls over capital projects to ensure that required information and documentation is obtained from contractors and, if applicable, that appropriate oversight agencies are provided the information/documentation. (See Recommendation 4.)

*Agency Response:* "Concur with the findings and recommendations. Agency will amend an internal checklist for administered projects to have the specific caveat noticeable in the appropriate criteria field accordingly."

"Agency will take corrective action in obtaining a certificate of compliance for the completed project cited."

## RECOMMENDATIONS

*Status of Prior Audit Recommendations:*

Our prior auditor's report of the Department contained five recommendations. The recommendations were:

- The Department should deposit its receipts in accordance with Section 4-32 of the General Statutes. The Department deposited one receipt one day late in our current review. However, a finding is not warranted because the cause of the exception was personal safety considerations arising from a storm-related early closing. Thus, this recommendation was implemented.

- The Department should improve internal controls over its armory rental operations to ensure compliance with its regulations by instituting adequate review and approval procedures for each rental. The Department discontinued armory rentals with the occurrence of the terrorist attacks of September 11, 2001. Thus, this recommendation was resolved.

- The Department should keep a detailed listing of additions and deletions of its property and should be able to produce these upon request. Testing performed during our current review disclosed that additions and deletions reported by the Department on its Fixed Asset/Property Inventory Report were supported with subsidiary documentation. Thus, this recommendation was implemented.

- The Department should establish a minimum amount of compensatory time that may be accrued in each bi-weekly pay period for all eligible employees. The Department did establish a minimum amount of compensatory time needed to be accrued. Thus, this recommendation was implemented.

- The Personnel Office should maintain copies of all WC-207, "Report of Occupational Injury" forms processed and should be able to produce these upon request. In addition, a CO-715, "Accrued Leave Request" form should be completed at the beginning of the compensation period. Testing performed during our current review disclosed that applicable forms were provided for review and completed when required. Thus, this recommendation was implemented.

*Current Audit Recommendations:*

1. **The Department should review its property control policies and procedures to determine whether its procedures incorporate Property Control Manual guidelines to properly classify and report upon real and personal property. Questions arising as a result of this review should be directed to the State Comptroller's office for clarification and guidance.**

Comment:

We noted that certain property control categories were not supported by detail subsidiary records. We also noted that property control classification and accounting for Department administered capital projects are expensed when paid for rather than capitalized. We identified certain real and personal property that was incorrectly classified and/or carried on the Department's property control records. We noted that amended Fixed Assets/Property Inventory Reports were filed after the due date of the report in both fiscal years of our audit period.

2. **The Department should institute controls which will ensure that compensatory time recorded by employees is in accordance with the Military Department's Compensatory Time Policy. Also, employees should be informed of the compensatory time policy, so that compensatory time will be recorded accurately on the timesheets.**

Comment:

We noted that one employee accrued compensatory time despite not working the minimum number of hours required to earn such time.

3. **The Department should review its internal controls over accounting, receiving and accounts payable functions to ensure that its controls incorporate State accounting policies and procedures and related laws and regulations.**

Comment:

We noted that the Department recorded the incorrect receipt date of goods or services on three State invoices. Receiving report documentation for one transaction was not prepared evidencing receipt of the goods. Documentation for one transaction was insufficient to determine whether the transaction was a valid and reasonable State business transaction. The Department stopped performing monthly reconciliations of its expenditure and appropriation internal accounting records with those of the State Comptroller in July of 2001.

4. **The Department should review its internal controls over capital projects to ensure that required information and documentation is obtained from contractors and, if applicable, that appropriate oversight agencies are provided the information/documentation.**

Comment:

We noted that one certificate of insurance did not name the State of Connecticut as an additional insured. A certificate of compliance form was not submitted to DPW and the State Building Inspector's Office for one completed project.

## 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, 2001 and 2002. 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, 2001 and 2002, 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 generally accepted auditing standards and the standards applicable to financial-related 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, 2001 and 2002, 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: reconciliations not prepared or not prepared in a timely manner and the incorrect accounting treatment of capital assets.

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 none of the reportable conditions described above is a material or significant weakness.

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.

Patricia A. Wilson
Staff Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts