



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF MILITARY AFFAIRS

Compliance Examination
 For the Two Years Ended June 30, 2018

Release Date: March 10, 2020

FINDINGS THIS AUDIT: 16	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	4	5	2016		18-10	
Category 2:	7	4	11	2014	18-5	18-6, 18-9	
Category 3:	0	0	0	2012	18-2, 18-4	18-7	
TOTAL	8	8	16	2004	18-1		
FINDINGS LAST AUDIT: 11							

SYNOPSIS

- (18-1) The Department did not maintain sufficient controls over its property and related fiscal records.
- (18-2) The Department did not adhere to the internal auditing provisions of the Fiscal Control and Internal Auditing Act.
- (18-3) The Department did not provide adequate documentation or support for testing in multiple areas.
- (18-4) The Department did not exercise adequate internal control over its commodities inventories.
- (18-5) The Department did not exercise adequate control over monthly reconciliations.
- (18-6) The Department did not exercise adequate control over receipts and refunds.
- (18-7) The Lincoln’s Challenge Academy within the Department did not maintain documentation to support compliance with the National Guard Challenge Program’s Cooperative Agreement.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2018**

EXPENDITURE STATISTICS	2108	2017	2016
Total Expenditures	\$ 43,644,443	\$ 37,749,844	\$ 32,200,110
OPERATIONS TOTAL.....	\$ 41,710,625	\$ 36,171,088	\$ 31,211,728
% of Total Expenditures.....	95.6%	95.8%	96.9%
Personal Services.....	\$ 17,569,814	\$ 17,256,071	\$ 16,955,255
Other Payroll Costs (FICA, Retirement).....	5,077,356	5,231,788	5,280,912
All Other Operating Expenditures.....	19,063,455	13,683,229	8,975,561
AWARDS AND GRANTS.....	\$ 652,290	\$ 608,779	\$ 610,260
% of Total Expenditures.....	1.5%	1.6%	1.9%
PERMANENT IMPROVEMENTS.....	\$ 1,281,528	\$ 931,845	\$ 374,349
% of Total Expenditures.....	2.9%	2.5%	1.2%
REFUNDS.....	\$ -	\$ 38,132	\$ 3,773
% of Total Expenditures.....	0.0%	0.1%	0.0%
Total Receipts	\$ 28,161,037	\$ 27,043,492	\$ 21,783,537
Average Number of Employees	222	215	217

SELECTED ACTIVITY MEASURES	2018	2017	2016
Illinois National Guard			
Illinois National Guard Personnel Supported...	13,000	13,000	12,998
Number of Facilities Supported.....	98	100	100
Lincoln's Challenge Academy			
Number of Graduates.....	254	282	313
Number of Graduates with a GED.....	149	173	187
Cost per Graduate.....	\$ 25,743	\$ 25,571	\$ 21,997
Illinois Military Family Relief Fund			
Average Grant Amount.....	\$ 500	\$ 500	\$ 689
Number of Grants.....	930	578	283

ADJUTANT GENERAL
During the Examination Period: Major General Richard Hayes, Jr. (through 2/7/19)
Currently: Brigadier General Richard R. Neely (effective 2/8/19)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

PROPERTY CONTROL WEAKNESSES

The Department did not maintain sufficient controls over its property and related fiscal records.

During testing, we noted the Department did not maintain detailed supporting documentation for its quarterly Agency Report of State Property (Form C-15) filed with the Office of the State Comptroller (Comptroller). Due to the lack of detailed documentation, the following compliance examination procedures could not be performed:

Lack of detailed supporting documentation

Additions and deletions could not be agreed to C-15 reports

Unable to reconcile the Department's records

- Annual addition and deletion reports provided by the Department could not be agreed to activity reported in the quarterly Form C-15 reports submitted to the Comptroller.
- Property additions during the examination period could not be reconciled to the Comptroller's records reflected on the Object Expense/Expenditures by Quarter Report (SA02).

Unable to conclude the Department's records were sufficiently precise and detailed

Due to these conditions, the accountants were unable to conclude whether the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's equipment.

Even given the population limitations noted above which hindered the ability of the accountants to conclude whether selected samples were representative of the population as a whole, the accountants performed testing of what records were available.

Some of the more significant issues noted by the accountants included the following:

C-15 Reports submitted untimely

Additions added to property records late

Deletions removed from property records late

- Eight of eight (100%) C-15 Reports were not submitted timely. The reports were submitted between 2 and 297 days late.
- Thirty-eight of 44 (86%) equipment additions tested, totaling \$245,293, were added to the Department's property listing records between 31 and 595 days late.
- Eighteen of 60 (30%) equipment deletions tested, totaling \$33,338, were removed from the Department's property listing records between 14 and 42 days late.

Inventory certifications filed untimely with CMS

- The Department did not submit its annual inventory certifications to Department of Central Management Services (CMS) on a timely basis. The Fiscal Year 2017 and Fiscal Year 2018 certifications were filed 90 and 65 days late, respectively.

Historical artifacts listed as being located in a nonexistent building

- During list to floor testing, we noted two of 25 (8%) historical artifacts were listed as being in Building 41, which has been nonexistent for several years. Upon further review of the historical artifacts listing, we noted many other artifacts as being located in Building 41. (Finding 1, pages 11-14) **This finding has been repeated since 2004.**

We recommended the Department take actions to strengthen its internal controls over recording and reporting its State property and equipment transactions. Further, we recommended the Department implement a corrective action plan to complete a full inventory to identify and correct its accumulated property and equipment errors.

Department officials agree

Department officials agreed with the finding.

NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

The Department did not comply with the Fiscal Control and Internal Auditing Act (Act).

No full-time program of internal auditing or Chief Internal Auditor

During testing, we noted the Department did not have a full-time program of internal audit and the Adjutant General did not appoint a Chief Internal Auditor at the Department during the examination period. (Finding 2, pages 15-16) **This finding has been repeated since 2012.**

We recommended the Department establish a full-time internal audit program with a duly appointed Chief Internal Auditor in accordance with the provisions of the Act.

Department officials agree

Department officials agreed with the finding.

LACK OF DOCUMENTATION FOR TESTING

The Department did not provide adequate documentation or support for testing in multiple areas.

During testing, we noted the following:

Federal reimbursement packages not provided

- Forty of 40 (100%) Federal Reimbursement packages and support were not provided for testing. Therefore, no conclusions could be reached about the

Department's federal reimbursement process and compliance with laws rules, and regulations related to the federal reimbursements.

Support for verification of employees was not provided

- For 6 of 30 (20%) employees tested, the Department did not provide support to verify the employees were on the payroll system.

Absence documentation was not provided

- For 2 of 30 (7%) employees tested, the Department did not provide adequate support for the absence of the employee indicating leave was approved and the type of leave taken.

Contracts were not provided

- The Department failed to provide six (100%) requested contracts selected for testing.

Documentation of supporting calculations was not provided

- During permanent improvement expenditure testing, the Department failed to provide documentation of supporting calculations for the SCO-537/538 forms, and therefore, auditors were unable to test if the Department appropriately recorded the purchase as a building improvement, land improvement, or site improvement.

Support for CDB transfers was not provided

- During testing of Capital Development Board (CDB) transfers, the Department failed to provide requested documentation for seven (100%) CDB transfers, including documentation to show that the CDB project was properly authorized, that CDB transfers-in were added to the Department's property control records or expensed in the period of the transfer-in, any repair and maintenance charges, and the tag number for each project. (Finding 3, pages 17-18)

We recommended the Department comply with the State Auditing Act and provide the Auditor General with requested documentation without delay.

Department officials agreed

Department officials agreed with the finding.

INADEQUATE INTERNAL CONTROL OVER COMMODITIES

The Department did not exercise adequate internal control over its commodities inventories.

During testing, we noted the following:

No records of commodities on hand maintained

- The Department did not establish two parts of the transaction cycle, including **recordkeeping** by maintaining a record of current items on hand or performing formal inventory counts and **reconciliation** by preparing reconciliations to the

State Comptroller's records to verify each transaction's validity, proper authorization, and entry into the Department's accounting records.

Accountants unable to conclude the Department's records were sufficiently precise and detailed

Due to these conditions, the accountants were unable to conclude whether the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's commodities inventories. (Finding 4, pages 19-20) **This finding has been repeated since 2012.**

We recommended the Department implement procedures to maintain records of its commodities inventory, perform periodic inventory counts, and reconcile its records to the State Comptroller's records.

Department officials agree

Department officials agreed with this finding.

INADEQUATE CONTROLS OVER MONTHLY RECONCILIATIONS

The Department did not maintain adequate controls over its monthly appropriation balance reconciliations

During testing of reconciliations between the records maintained by the Comptroller and the Department's records during the examination period, we noted the following:

Differences noted between Department expenditure records and Comptroller's SB01 report

- The auditors noted differences of \$1,353,466 and \$3,127,670, respectively between the Department's Fiscal Year 2017 and Fiscal Year 2018 expenditure records and the Comptroller's final Monthly Appropriation Status Report (SB01). The Department could not reconcile these differences.

Failed to perform monthly reconciliations for Fund 686

- The Department failed to perform monthly reconciliations during Fiscal Year 2017 of its expenditure records for Fund 686, Budget Stabilization Fund, to the Comptroller's SB01.

Reconciliation not performed for September Fiscal Year 2018 lapse period

- The Department failed to perform reconciliations of its expenditure records to the Comptroller's SB01 during the September Fiscal Year 2018 lapse period. (Finding 5, pages 21-22) **This finding has been repeated since 2014.**

We recommended the Department ensure required reconciliations to the Comptroller's records are performed, reviewed, and any differences are appropriately handled timely.

Department officials disagreed with the assertion that the SB01 reconciliations for FY17 and FY18 were not reconciled.

Department officials partially agree

The SB01 expenditures were reconciled with agency records each month with the vouchers in transit identified which represented the differences between IOC and agencies expenditure totals. Department officials agreed with the finding that Fund 686 was not reconciled to the Comptroller's SB01. Department officials disagreed with the failure to provide reconciliations of expenditure records to the SB01 for September.

Accountant's Comment

The accountant's commented that differences between Department records and Comptroller records were not reconciled or explained. If reconciliations had been done properly, the differences would have already been identified by the Department and should have been readily available upon request. The Department did not provide support these reconciliations had been performed and differences reconciled. In addition, the accountants maintain the Fiscal Year 2018 September lapse period reconciliation was not provided.

INADEQUATE CONTROLS OVER RECEIPTS AND REFUNDS

The Department did not maintain adequate controls over its receipts and refunds. During testing, we noted the following:

One receipt and one refund did not include a date stamp

- One of 60 (2%) receipts tested, totaling \$58,205, as well as one of six (17%) refunds tested, totaling \$212, did not include a date stamp. Therefore, timeliness of the deposits could not be determined.

Two deposits chosen for testing were not maintained

- Two of 60 (3%) deposits chosen by the auditors for testing were not maintained by the Department. Therefore, auditors were unable to test compliance with applicable laws and standards.

One receipt adjustment was not updated in the Department's receipt records

- One of 60 (2%) receipts tested resulted in an adjustment, which was not properly updated in the Department's receipt records.

Sufficient support of refunds chosen for testing was not provided

- Six of six (100%) refunds tested, totaling \$5,853, did not contain sufficient support for testing. The refund support lacked corresponding voucher numbers of expenditures being offset, no details if the amount was a current or prior year refund, details for how much and what the refund was for.

Refunds were submitted with the wrong transmittal form

- Six of six (100%) refunds tested, totaling \$5,853, were submitted using a Receipt Deposit Transmittal instead of an Expenditure Adjustment Transmittal as required for refunds. (Finding 6, pages 23-25) **This finding has been repeated since 2014.**

We recommended the Department retain all receipts and adequate supporting documentation and follow up on the returned check. Further, we recommended the Department implement controls to ensure current year refunds are submitted using an Expenditure Adjustment Transmittal (EAT) in accordance with SAMS (Procedure 25.20.20).

Department officials partially agree

Department officials agreed with the finding relative to the lack of a date stamp on one deposit resulting in the inability of the auditors to determine timeliness. Department officials agreed with the finding that it was not communicated effectively when two overlooked deposits were available for testing of compliance with applicable laws and standards. The Department agrees partially with the finding that 6 of 6 refunds tested did not contain sufficient support for testing and those six were incorrected submitted using a Receipt Deposit Transmittal. The Department asserts that four of these six items were salary reversals resulting in a refund. These types of transactions differ from typical refunds and have substantially different documentation of the refund transaction; however, the Department acknowledges this information was not communicated with the OAG effectively.

Accountant's Comment

The accountant's commented the supporting documentation lacked sufficient information needed for testing. The accountants agree different types of refunds will have different support; however, the support provided to the accountants lacked the basic information needed for testing, as noted in the finding.

LACK OF DOCUMENTATION FOR LINCOLN'S CHALLENGE CADETS

The Lincoln's Challenge Academy (LCA) within the Department did not maintain documentation to support compliance with the National Guard Challenge Program's Cooperative Agreement (Agreement).

During testing at LCA, we noted the following:

Applicant used marijuana or other illegal drug within the last 30 days

- Ten of 60 (17%) Pre-challenge Phase cadet files tested indicated on the Applicant Interview Questionnaire that the applicant used marijuana or another illegal drug within the last 30 days.

No support for a cadet's unemployment or underemployment

- Twenty-one of 60 (35%) Pre-challenge Phase cadet files tested indicated on the Applicant Interview Questionnaire that the cadet marked no or did not answer the question if they were unemployed or underemployed.

Drug tests not performed timely

- Seven of 60 (12%) Pre-challenge Phase cadet files tested had instances where drug tests were not

administered within 40 days of starting the program. These drug tests were completed between 24 and 83 days late for four of the seven, and drug tests were not performed at all for three of the seven. (Finding 7, pages 26-27). **This finding has been repeated since 2012.**

We recommended the Department comply with the Agreement by ensuring cadets meet all required criteria for entry into LCA program and maintaining documentation to substantiate cadet qualifications and compliance during each phase of the LCA.

Department officials agree

Department officials agreed with this finding.

OTHER FINDINGS

The remaining findings pertain to inadequate controls over Agency Fee Imposition Reports, contractual services, employee records, payroll vouchers, permanent improvements and voucher processing, failure to file required reports, failure to develop a Formal Fraud Risk Assessment Program, and failure to submit required reports. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2018, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2018-001 through 2018-005. Except for the noncompliance described in these findings, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by the Office of the Auditor General's staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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