



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF MILITARY AFFAIRS

Compliance Examination
 For the Two Years Ended June 30, 2014

Release Date: February 19, 2015

FINDINGS THIS AUDIT: 11				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	3	5	2012	4	8, 10, 11	
Category 2:	3	3	6	2010	3		
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2004	1		
TOTAL	5	6	11				
FINDINGS LAST AUDIT: 6							

SYNOPSIS

- **(14-1)** The Department's internal controls over its property were insufficient and related fiscal records were not adequately maintained.
- **(14-2)** The Department's revenues, refunds, receivables, and locally held funds were not properly processed or reported.
- **(14-5)** The Department's year-end Generally Accepted Accounting Principles (GAAP) reporting packages contained numerous deficiencies.
- **(14-8)** The Department's documentation associated with the Lincoln's Challenge Academy (LCA) was inadequate to support compliance with the National Guard Challenge Program Cooperative Agreement and LCA policies.

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.

{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014**

EXPENDITURE STATISTICS	2014	2013	2012
Total Expenditures.....	\$ 37,664,221	\$ 38,523,721	\$ 38,261,415
OPERATIONS TOTAL.....	\$ 35,999,559	\$ 36,445,352	\$ 36,175,453
% of Total Expenditures.....	95.5%	94.6%	94.5%
Personal Services.....	\$ 6,890,548	\$ 6,333,701	\$ 6,715,446
Other Payroll Costs (FICA, Retirement).....	503,553	469,143	497,064
All Other Operating Expenditures.....	28,605,458	29,642,508	28,962,943
AWARDS AND GRANTS.....	\$ 1,612,175	\$ 2,078,338	\$ 2,085,962
% of Total Expenditures.....	4.3%	5.4%	5.5%
PERMANENT IMPROVEMENTS.....	\$ 28,195	\$ 31	\$ -
% of Total Expenditures.....	0.1%	0.0%	0.0%
NON-APPROPRIATED FUNDS.....	\$ 24,292	\$ -	\$ -
% of Total Expenditures.....	0.1%	0.0%	0.0%
Total Receipts.....	\$ 24,107,724	\$ 26,168,416	\$ 27,037,120
Average Number of Employees.....	217	222	225

SELECTED ACTIVITY MEASURES	2014	2013	2012
Illinois National Guard			
% of GRF Appropriation Expended	90%	88%	88%
IL National Guard personnel supported	13,102	12,966	12,862
Lincoln's Challenge Academy			
Number of graduates	554	604	661
Number of graduates with a GED	329	471	489
Illinois Military Family Relief Fund			
Number of grants	855	2,769	3,455

AGENCY DIRECTOR	
During Examination Period:	Major General Dennis Celletti (Acting) (through 12/20/12) Major General Daniel Krumrei (effective 12/21/12)
Currently:	Major General Daniel Krumrei

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

PROPERTY CONTROL WEAKNESSES

The Department did not maintain sufficient controls over its property and related fiscal records. Some of the exceptions we noted follow:

Supporting documentation not maintained

Permanent improvements not added to property records

CDB transfers-in not properly accounted for

Property additions not recorded timely

Property not located

Obsolete items on property records

Reports not filed as required

- The Department did not maintain detailed supporting documentation for the Agency Report of State Property (C-15) submitted to the Office of the Comptroller.
- The Department did not add 3 of 9 (33%) permanent improvements, totaling \$149 thousand, to the property records.
- Six of 11 (55%) Capital Development Board (CDB) transfers-in did not have the planning costs and architectural and engineering costs, totaling \$72 thousand, added to property records or capitalized. In addition, the Department did not properly capitalize 3 of 11 (27%) CDB transfers-in.
- The Department did not timely record 27 of 40 (68%) equipment additions, totaling \$33 thousand.
- Eleven of 30 (37%) equipment items selected for testing, totaling \$11 thousand, could not be found or were not properly reported in the property records.
- The Department's property records included unused and obsolete items including 3 cell phones, totaling \$280, and 23 EDP equipments items, totaling \$30 thousand.
- The Fiscal Year 2013 and Fiscal Year 2014 Annual Certification of Property and Discrepancy Reports were not filed with the Department of Central Management Services (DCMS).
- The Fiscal Year 2013 Real Property Utilization Report was not submitted timely. (Finding 1, Pages 9-12).
This finding has been repeated since 2004.

We recommended the Department strengthen controls over property and equipment. Specifically, the Department should implement procedures to ensure all equipment transactions are recorded timely and accurately. Also, the Department should include a supervisory review process in its procedures to ensure clerical, technical, and other errors are promptly detected and corrected. Further, the Department should implement procedures to ensure the Annual Certification of Property and Discrepancy Report and Real Property Utilization Report are filed with DCMS and supporting documentation is maintained to create an adequate audit trail. Lastly, the Department should review its procedures for the capitalization of permanent improvements and CDB transfers-in.

Department officials agree with auditors

Department officials concur with the recommendation and will implement a corrective action plan. *(For the previous Department response, see Digest Footnote #1.)*

NEED TO IMPROVE CONTROLS OVER REVENUES, REFUNDS, RECEIVABLES, AND LOCALLY HELD FUNDS

The Department did not maintain proper segregation of duties over the collection and processing of receipts and did not properly process and report revenues, refunds, receivables, and locally held funds. In Fiscal Year 2014 and Fiscal Year 2013, the Department collected cash receipts of \$24.2 million and \$25.6 million, respectively, including refunds of \$1 thousand and \$39 thousand, respectively. Also, the Department maintained one locally held fund with a cash balance of \$1 thousand at June 30, 2014 and \$3 thousand at June 30, 2013.

Some of the conditions noted during our testing follow:

Inadequate segregation of duties

- The Department did not maintain proper segregation of duties over receipt collection and processing. One employee is responsible for: 1) opening checks or receiving checks from other divisions within the Department, 2) logging in the checks, and 3) creating the receipt deposit transmittal (RDT) form to deposit funds in the State Treasury.

RDTs not reviewed or timely submitted

- All 60 RDTs tested, totaling \$3.6 million, did not include documentation of Department review prior to being transmitted to the Illinois Office of the Comptroller (IOC).
- Nineteen of 60 (32%) RDTs tested, totaling \$98 thousand, did not include documentation of the date the check was received; therefore, timeliness of the deposit could not be determined. In addition, 4 of 60 (7%) RDTs tested, totaling \$897, were not submitted to the IOC timely.

RDTs posted to incorrect receipt codes

- Four of 60 (7%) RDTs tested, totaling \$2,977, were posted to an incorrect receipt code and 2 of 4 (50%) should have been recorded on an Expenditure Adjustment Transmittal (EAT) form.

Receipts posted to incorrect receipt codes

- Receipts were processed to incorrect receipt codes totaling \$467 thousand in Fiscal Year 2013 and \$754 thousand in Fiscal Year 2014.

Inaccurate accounts receivable reporting

- Receivables were inaccurately reported on 5 of 8 (63%) Quarterly Summary of Accounts Receivable – Accounts Receivable Activity (Form C-97) reports. (Finding 2, Pages 13-15).

We recommended the Department ensure proper segregation of duties is in place over the receipt process, perform

supervisory review over all reporting and transaction processing, and maintain documentation to support the work and review performed.

Department officials agree with auditors

Department officials agree with the recommendation and stated they will implement a corrective action plan.

NEED TO IMPROVE FINANCIAL REPORTING TO THE STATE COMPTROLLER

The Department did not correctly report federal grant financial information in the year-end General Accepted Accounting Principles (GAAP) reporting packages to the Illinois Office of the Comptroller (IOC) and in the Schedule of Expenditures of Federal Awards (SEFA).

Inaccurate financial information

The Department inaccurately reported or could not support financial information on the GAAP forms and SEFA. In addition, no review was completed on the information. (Finding 5, pages 21-22).

We recommended the Department comply with the Statewide Accounting Management Systems (SAMS) requirements to ensure accurate financial information is submitted to the IOC. Further, the Department should review and revise, as necessary, its current system used to gather, compile, document and review the financial information to be reported in the Comptroller GAAP Reporting Package forms.

Department officials agree with auditors

Department officials agree with the recommendation and stated they will implement a corrective action plan.

LACK OF DOCUMENTATION FOR LINCOLN'S CHALLENGE CADETS

The Department's Lincoln's Challenge Academy (LCA) did not maintain documentation to support compliance with the National Guard Challenge Program Cooperative Agreement and LCA policies. We noted the following:

Application files not reviewed

Files did not contain required documentation

- Twenty-three of 40 (58%) Cadet application files tested did not contain all required reviews.
- Twenty of 55 (36%) pre-challenge phase Cadet files tested did not have documentation to support the Cadet was a high school drop-out and all 55 files did not include documentation that the Cadet was unemployed or underemployed.
- Forty-nine of 49 (100%) of Residential Phase Cadet files tested did not include all required core component scores. In addition, scores were not entered into the reporting system. Further, the Cadets files did not contain submission of a Waiver of Performance to the National Guard Bureau. (Finding

8, pages 27-29). **This finding has been repeated since 2012.**

We recommended the Department comply with the National Guard Challenge Program Cooperative Agreement by ensuring Cadets meet all required criteria for entry into the LCA program and maintain documentation to substantiate Cadet qualifications and compliance during each phase of the LCA.

Department officials agree with auditors

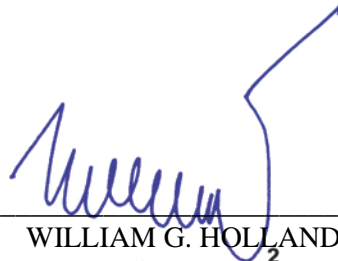
Department officials agree with the recommendation and will implement a corrective action plan. *(For the previous Department response, see Digest Footnote #2.)*

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will follow up on the finding during the next examination.

AUDITOR'S OPINION

We conducted a compliance examination of the Department as required by the Illinois State Auditing Act. We have not audited any financial statements of the Department for the purpose of expressing an opinion because the Department does not, nor is it required to, prepare financial statements.



WILLIAM G. HOLLAND
Auditor General

WGH: mfp

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were Crowe Horwath LLP.

DIGEST FOOTNOTES

#1 – PROPERTY CONTROL WEAKNESSES

2012 - Department officials agreed with the recommendation and stated they would work to implement tighter controls.

**#2 – LACK OF DOCUMENTATION FOR LINCOLN'S
CHALLENGE CADETS**

2012 - Department officials agreed with the recommendation and stated corrective procedures had been put in place. Further, the admission process is under review and the admission checklists will be adjusted.