

DOWNLOAD PDF DEPARTMENT OF MILITARY AFFAIRS FINANCIAL-COMPLIANCE AUDIT FOR THE TWO FISCAL YEARS ENDED .

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Page S-2 Introduction Introduction We performed the financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, The objectives of the audit were to: 1.

Call the Fraud Hotline at 1 statewide or in Helena. Financial-compliance audit staff member hold degrees with an emphasis in accounting. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, Copies of the Single Audit Report can be obtained by contacting: Legislative Auditor Tom Ilumhaisen. This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, Adjutant General Karen Revions. MT e-mail: The prior audit report contained three recommendations which the department implemented. This report contains six recommendations to the department concerning following required bid procedures, noncompliance with federal grant requirements, unallowable costs charged to federal programs, lack of controls over authorizing transactions. Federal Special Revenue Fund misstatements, and untimely payment of claims. Recommendation 1 We recommend the department: Comply with bidding requirements in accordance with state law. Recommendation 4 We recommend the department; A. Require individuals approving claims to use their own name or initials, B. Review transactions to ensure they are properly documented. Department Response: Concur See page B Introduction Introduction We performed the financial-compliance audit of the Department of Military Affairs for the two fiscal years ended June 30, The objectives of the audit were to: Determine if the department complied with applicable state and federal laws and regulations. These recommendations address areas where the department can improve compliance and internal controls over federal awards and state accounting procedures. Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management. In accordance with section 5-1 Background The department was created under the Executive Reorganization Act of 1991. The department consists of the following programs and authorized full-time equivalent positions FTE for fiscal year 2006 An additional full-time personnel are paid through the federal payroll system. The Army National Guard provides administration, construction, maintenance, and support for military facilities and training areas throughout the state. The division also receives, records, and disburses federal funds to eligible government entities. The program provides an opportunity for eligible high school age youth to enhance their life skills, increase their educational levels, and increase their employment potential. The division provides information on benefits. That report contained three recommendations, which the department implemented. The department also receives federal funds to implement Homeland Security grant programs in the state. The following report sections address areas where the department can improve both compliance and internal control over activity related to these federal awards. We reviewed 22 claims related to construction and operations and maintenance activity for fiscal year 2006 The department did not conduct a competitive bid for the materials. We also noted that the same individual authorized the purchase, signed for receipt of the materials, and approved the invoice for payment. Lack of segregation of duties increases risk of asset misappropriation. Unless otherwise specified, federal regulations require the department to follow state procurement policy for the expenditure of federal funds. In addition, a proper system of internal controls should provide for a segregation of duties between authorizing, receiving, invoice approval, and custody of assets. The program manager said that he is authorized to approve expenditures. Page 5 Findings and Recommendations We also examined the design phase of a recent project and found the department did not follow proper procedures in advertising for and the selecting of an architect. Information in the department's files indicated the project cost to be approximately \$1,000,000. Comply with bidding requirements in accordance with state law. Ensure appropriate segregation of duties exist for asset acquisition.

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Checking for Debarred and Suspended Parties For some contracts the department did not ensure that contractors being paid with federal funds are not suspended or debarred. Federal regulations require the department to ensure that all contractors receiving awards must certify that their organization and its principals are not suspended or debarred. Federal regulations also forbid the department from making any award subgrant or contract to any party which is suspended or debarred. Federal regulations provide that certification may be accomplished by: We verified the contractors were not suspended or debarred. Personnel stated they do not ensure key have required certification in all cases. As noted above all contracted entities receiving federal money should be certifying that they are not suspended or debarred. Recommendation 2 We recommend the department ensure they receive certification that contractors are not debarred or suspended in accordance with federal regulations. Unallowable Salary Charge We found the department charged \$J of salary expense to a grant period that was closed. We also found that the charges were not allowable even if they had been incurred prior to the grant being closed. A supervisor approved the charges to the grant without verifying that the salary expense was for services related to the grant and incurred within the funding period. We determined these costs were not allowable under the provisions of the grant. The grant coordinator said the charges were overlooked when the claim was approved- Page 7 Findings and Recommendations The department should ensure that but costs charged to federal programs are allowable according to the terms of the award. Internal Control Over Transactions The department does not have effective controls over authorization and verifying validity of transactions charged to the Homeland Security grant. We identified a transaction charged to the Homeland Security Program that appeared to be an unallowable charge. While discussing this transaction with department personnel, we were told by the supervisor who approved the transaction that an unknown individual changed the transaction coding before it was processed on the accounting system. We determined the charge was allowable but not coded correctly to provide management with accurate information for program oversight. A supervisor said that personnel were not reviewing financial records to see if transactions posted as intended. This practice makes it difficult for management to assign responsibility for the approval of claims or to contact the appropriate individual to resolve other questions that may arise. Because of the issues discussed here Page 5 Findings and Recommendations and above in Recommendation 3. Recommendation 4 We recommend the department: Require individuals approving claims to sign their own name or initials. Review transactions to ensure they post as intended. State Accounting Issues The following sections discuss areas where the department can improve processing financial information in accordance with state law or accounting policy. State accounting policy provides guidance for recording receivables, deferring revenue, and accruing expenditures as appropriate to ensure a proper ending fund balance in the FSRF. In July 1. Accounting errors in fiscal year caused federal revenues and June 30, Therefore, the July 1. Errors occurring in fiscal year caused federal revenues and June 30. Department personnel said they did not complete an analysis to property record activity before each fiscal year-end. The department should complete an analysis of fund balance and federal revenue and expenditures in order to process required transactions to ensure compliance with state accounting policy. Delays in Making Payments Division personnel receive and approve claims and note the transaction coding on the claim before sending it to the Centralized Services Division CSD for payment. Section 10, MCA, requires the department to pay claims within 30 days. We noted 40 payments where the delays between the receipt of an invoice and the actual payment exceeded 30 days. Delays ranged from 34 days to 60 days. Thirty-five of the 40 late payments were to government entities which are exempted from the 30-day requirement under section 10. We reviewed documentation indicating the delays are at the division level. Department personnel attributed the delays to workloads and staff turnover. We noted delays occurring from receipt of the claim until it was coded and from the time it was coded until it was sent to CSD. The department is not in compliance with state law and its own policy. The department could analyze workloads and improve claim processing times by establishing procedures. Recommendation 5 We recommend the department pay claims in accordance with state law and department policy. Our responsibility is to express an opinion on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards

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generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. As described in note 1. For fiscal year ending June 30, 2012. Respectfully submitted, James Gillett, CPA, S 3 2: S60