LEGISLATIVE
AUDIT
COMMISSION

Review of
Department of Military Affairs

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REVIEW: #4580
DEPARTMENT OF MILITARY AFFAIRS
TWO YEARS ENDED JUNE 30, 2022

RECOMMENDATIONS – 18

IMPLEMENTED/PARTIALLY IMPLEMENTED – 18

REPEATED RECOMMENDATIONS – 11

PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 18

This review summarizes the auditors' report of Department of Military Affairs for the two years ended June 30, 2022 filed with the Legislative Audit Commission on September 14, 2023. The auditors conducted a compliance examination in accordance with state law and Government Auditing Standards.

Introduction

The Department of Military Affairs (Department) manages the daily operations of the Illinois National Guard and its related activities, and serves as the liaison between the federal and state government on all military matters. The Department is comprised of the Illinois Army National Guard and the Illinois Air National Guard. The Guard's federal mission includes providing highly-trained, well-equipped personnel and units capable of rapid deployment when called upon by the President in time of war or national emergency. The State mission of the Guard is to provide disciplined forces for domestic emergencies or as otherwise required by State laws.

The Governor appoints the Adjutant General. The Adjutant General is the head officer of the Department of Military Affairs. The Adjutant General reports directly to the Governor, who acts as the Commander-in-Chief of the military forces of the State of Illinois. The Adjutant General is responsible for planning, developing, and executing plans and programs that relate to organization, training, equipment, and mobilization of the Illinois National Guard for State emergencies and national defense. In addition, the Adjutant General supervises all military property, equipment and installations of the Illinois National Guard.

Major General Richard Neely was the Adjutant General for the audit period. He retired effective May 4, 2024, and the current Adjutant General, Major General Rodney Boyd, assumed command the same day. The Department also organizes and operates Lincoln's Challenge, with the assistance of federal funding, for at-risk youth ages 16 through 19.

Appropriations and Expenditures

Appropriations ($ thousands)	FY21 Approp	FY21 Expend	FY22 Approp	FY22 Expend
GENERAL FUNDS				
Care and Preservation of Historic Artifacts	10	10	10	10
Deposit to State Active-Duty Fund	5000	5000	0	0
Deposit to Military Family Relief Fund	0	0	800	800
Federal Support Agreement Revolving Fund	850	850	850	850
Lincoln's ChalleNGe	2765.2	1899.1	2165.2	1850
Operational Expenses	14581.2	12759.1	15181.2	14654.6
State Officers' Candidate School	1.5	0	1.5	0
TOTAL GENERAL FUNDS	**23207.9**	**20518.2**	**19007.9**	**18164.6**
OTHER STATE FUNDS				
State Military Justice Fund	100.0	0.0	100.0	0.0
Support of Youth Prgorams	1,000.0	50.8	1,000.0	280.0
Families of Nat'l Guard Members Grants	5,000.0	745.5	5,000.0	330.0
TOTAL OTHER STATE FUNDS	**6,100.0**	**796.3**	**6,100.0**	**610.0**
FEDERAL FUNDS				
Army National Facilities Operations & Main.	17,200.0	11,974.1	17,200.0	9,740.3
Army/Air Reimburseable Positions	14,610.7	10,069.4	14,610.7	8,893.6
Lincoln's ChalleNGe	8,600.0	4,104.3	8,600.0	4,789.2
TOTAL FEDERAL FUNDS	**40,410.7**	**26,147.8**	**40,410.7**	**23,423.1**
TOTAL	**69,718.6**	**47,462.3**	**65,518.6**	**42,197.7**

Accountants' Findings and Recommendations

Condensed below are the 18 findings and recommendations included in the audit report. Of these, 11 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by the Department of Military Affairs, via electronic mail received September 14, 2023.

1. **The auditors recommend the Department take actions to strengthen its internal controls over the recording and reporting of its state property and equipment transactions to ensure property records accurately reflect equipment on-hand in accordance with State regulations, and equipment items are properly inventoried and tagged. Further, they recommend the Department implement a corrective action plan to complete a full inventory to identify and correct its accumulated property and equipment errors.**

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<u>FINDING:</u> *(Property Control Weaknesses) – First reported 2004, last reported 2022*

The Department of Military Affairs (Department) did not maintain sufficient controls over its property and related fiscal records.

During testing, auditors 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 Comptroller (Comptroller). As of June 30, 2021, and 2022, the Department reported total property of $462.1 million and $472.6 million, respectively. Due to the lack of detailed documentation, the following compliance examination procedures could not be performed:

- The State property listing provided by the Department in response to audit requests could not be reconciled with the ending balances reported in the Form C-15 Reports for the fourth quarters ended June 30, 2021 and June 30, 2022 and to the balances reported in the annual inventory certifications submitted to the Department of Central Management Services (CMS).

- Annual additions, deletions and net transfers report provided by the Department could not be agreed to activity reports in the quarterly Form C- 15 Reports submitted to the Comptroller.

- Property additions per the Form C-15 Reports could not be reconciled to the Comptroller's records reflected on the Object Expense/Expenditures by Quarter Report (SA02).

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

Due to these conditions, auditors 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 § 205.36) to test the Department's equipment.

The State Property Control Act (Act) (30 ILCS 605/4) requires the Department to be accountable for the supervision, control, and inventory of all property under its jurisdiction and control. In addition, the State Records Act (5 ILCS 160/9) requires the Department to establish and maintain a program for agency records management, which should include effective controls over the maintenance of records. The Statewide Accounting Management System (SAMS) Manual (Procedure 07.30.20) states the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handles that data properly. SAMS (Procedure 07.30.20) also requires the Department to reconcile their records to the SAMS system on a monthly basis, and this reconciliation must be completed within 60 days of the month end.

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 the following tests:

List to Floor and Floor to List Testing:

- Thirteen of 60 (22%) equipment items were not found in the Department's property listing.
- One of 60 (2%) equipment items was transferred to a different location, but transfer was not recorded in the property listing.
- One of 60 (2%) equipment items had an incorrect tag.
- Two of 60 (3%) equipment items were not clearly marked with the Department's inventory decal or tag to indicate it was the property of the State of Illinois.

Additions Testing:

- Thirty-eight of 60 (63%) equipment items, totaling $689,471, were recorded in the Department's property records more than 90 days after acquisition, ranging from 42 to 1,408 days late.
- Seven of 60 (12%) equipment items were not accurately recorded. Specifically, two items, totaling $11,609, were recorded without freight or installation charges, while five items, totaling $65,358, were not recorded at original cost when purchased by the Department.
- Four of 60 (7%) equipment items, totaling $172,020, were recorded twice in the Department's records.
- One of 60 (2%) equipment items, totaling $5,696, was recorded 120 days prior to the equipment receipt date.

Deletions Testing:

- Fourteen of 60 (23%) equipment items, totaling $67,926, were removed from Department records more than 90 days after disposal, ranging from 105 to 172 days after disposal.

Form C-15:

- Two of 8 (25%) Form C-15 Reports were not submitted timely. The reports were submitted between one and ten days late.

Voucher Testing:

- One of eight (13%) State property expenditure vouchers tested, totaling $152,613, were purchases of furniture and equipment with individual unit prices of $1,000 and more, but were not found on the Department's property control records. In addition, purchases of new furniture of $500 or more were not supported by a properly completed State Property Surplus - New Furniture Affidavit, filed to the administrator of CMS prior to purchase.

- Twenty-seven of 29 (93%) permanent improvement vouchers tested, totaling $7,381,530, were remodeling, renovation, and site improvement expenditures, but were not added to the Department's property records.

The Act (30 ILCS 605/4 and 6.02) requires the Department be accountable for the supervision, control, and inventory of all items under its jurisdiction and control. The Act (30 ILCS 605/7a) also requires agencies that desire to purchase new furniture of $500 or more to first check with the administrator of CMS if any of the surplus furniture under the administrator's control can be used in place of new furniture.

The SAMS Manual (Procedure 29.10.10) requires the Department to maintain current property records, including the cost, acquisition date, location, description of asset, date of disposition, and authorization of disposition. Additionally, the Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.210) requires all equipment, regardless of value, be clearly marked with the Department's inventory decal to indicate it is property of the State of Illinois. Additionally, equipment with a value that is greater than $1,000 and equipment that is subject to theft with a value less than $1,000 must be marked with a unique identification number to be assigned by the agency holding the property. Further, the Code (44 Ill. Admin. Code 5010.400) requires the Department to adjust property records within 90 days of acquisition, change, or deletion of equipment.

Annual Real Property Utilization Report:

- The Department did not properly file its Annual Real Property Utilization Report with CMS. Specifically, the Department did not include a list of improvements to real property during the previous years.

The Act (30 ILCS 605/7.1(b)) states that all responsible officers shall submit an Annual Real Property Utilization Report to CMS, or annual update of such report, on forms required by CMS, by July 31 each year. The report shall include a list of any improvements to real properties during previous year.

<u>Quarterly Transfers from the Capital Development Board (CDB)</u>

- For nine of nine (100%) CDB projects tested, totaling $12,816,993 as of June 30, 2022, the Department failed to record transfers-in from CDB to the Department's property records.

The Act (30 ILCS 605/4 and 6.02) requires the Department be accountable for the supervision, control, and inventory of all items under its jurisdiction and control. Additionally, the Code (44 Ill. Admin. Code 5010.400) requires the Department to adjust property records within 90 days of acquisition, change, or deletion of equipment. Further, the State Records Act (5 ILCS 160/9) requires the Department to establish and maintain a program for agency records management, which should include effective controls over maintenance of records.

Historical Artifacts

List to Floor and Floor to List Testing:

- Three of 25 (12%) historical artifacts tested were not found in the locations indicated on the Department's artifacts listing.
- One of 25 (4%) historical artifacts tested was not found in the Department's artifacts listing.
- One of 25 (4%) historical artifacts tested was not tagged.

The Military Code of Illinois (20 ILCS 1805/25) requires the Adjutant General to have charge of and carefully preserve the colors, flags, guidons, and military trophies of war belonging to the State. Good internal controls over historical artifacts include maintaining accurate records of the location of items with historical and cultural value.

This finding was first reported during the period ended June 30, 2004. In the subsequent years, the Department has been unsuccessful in implementing appropriate corrective action or procedures.

Department management indicated, as they did during the prior examination period, contributing factors for the issues noted were the result of manpower deficiencies, staff not knowing correct procedures, lack of communication between Department personnel, and omission errors.

Failure to maintain accurate property and equipment records and file reports represents noncompliance with State laws and regulations and increases the potential for fraud and theft of State property.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has migrated from the Legacy AIS property accounting system to the ERP property management system and is actively tracking the equipment items to ensure property records are accurate. Also, the Department will strengthen its controls to ensure property reports are timely submitted.

UPDATED RESPONSE:
Partially Implemented.
The Department is conducting a full inventory to identify and correct accumulated property and equipment errors which were generated during the migration from the legacy AIS property accounting system to the ERP property management system.

2. The auditors recommend the Department implement controls and develop policies and procedures to ensure compliance with the Act and internal auditing standards.

FINDING: *(Noncompliance with Fiscal Control and Internal Auditing Act and International Standards for the Professional Practice of Internal Auditing) – First reported 2012, last reported 2022*

The Department of Military Affairs (Department) failed to fully comply with the Fiscal Control and Internal Auditing Act (Act) and International Standards for the Professional Practice of Internal Auditing (internal auditing standards).

During the review of the Department's internal audit activities for Fiscal Years 2021 and 2022, auditors noted the following:

- The Department did not have a two-year audit plan for the Fiscal Year ended June 30, 2021.

- Audits of the Department's major systems of internal accounting and administrative controls were not completed during Fiscal Years 2021 and 2022, thus there were no internal audit reports completed and issued during the two fiscal years ended June 30, 2022.

  The Act (30 ILCS 10/2003(a)) requires the internal auditing program to include: (1) a two-year plan, identifying audits scheduled for the pending fiscal year, approved by the chief executive officer before the beginning of the fiscal year; (2) audits of major systems of internal accounting and administrative control to be performed at least once every two years and must include testing of the obligation, expenditure, receipt and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and grants received or made by the designated State agency to determine that grants are monitored, administered, and accounted for in accordance with applicable laws and regulations; and (3) reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.

- The Chief Internal Auditor did not submit a written report to the Adjutant General detailing how the audit plan was carried out, the significant findings, and the extent to which recommended changes were implemented for Fiscal Years 2021 and 2022.

  The Act (30 ILCS 10/2003(a)) requires by September 30 of each year the chief internal auditor to submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.

- The Department failed to perform internal assessments for Fiscal Years 2021 and 2022.

  The internal auditing standards (Sections No. 1310 to 1312) require the quality assurance and improvement program to include both internal and external assessments. Internal assessments must include ongoing monitoring of the performance of the internal audit activity, and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

- The Department failed to evaluate the design, implementation, and effectiveness of the Department's ethics-related objectives, programs, and activities.

  The internal auditing standards (Section 2110.A1) require the internal audit activity to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

This finding was first reported during the period ended June 30, 2012. In the subsequent years, the Department has been unsuccessful in implementing all required internal audit procedures.

Department management indicated competing priorities and numerous training requirements, along with the familiarization of specific State requirements and mandates, resulted in the deficiencies noted.

Failure to properly prepare and approve a two-year audit plan, failure to submit a written report to the Adjutant General, failure to conduct required internal audits and internal assessments, and the failure to evaluate the design, implementation, and effectiveness of the Department's ethics-related objectives, programs, and activities inhibit the Department's ability to monitor the effectiveness of its system of internal controls and results in noncompliance with the Act and internal auditing standards.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has amended the audit plan to include a more comprehensive review of the Department. The Chief Internal Auditor has also completed over 100 hours of training in order to gain a thorough understanding of the compliance requirements applicable to the Department.

UPDATED RESPONSE:
Implemented.
The Department has approved and signed the amended audit plan for Fiscal Years 2021-2022. Additionally, the internal audit charter has been updated to ensure a more concise annual report is provided in a timely manner.

3. The auditors recommend the Department implement procedures to maintain accurate records of its commodities inventory, perform periodic inventory counts, and reconcile its inventory records as required.

FINDING: *(Inadequate Internal Control over Commodities) – First reported 2012, last reported 2022*

The Department of Military Affairs (Department) did not exercise adequate internal control over its commodities inventories.

The Department uses a web-based database for ordering commodities inventory. The database allows Readiness Centers' (armories) Managers throughout the State to email orders to the Storekeeper and the Department to maintain an items- on-hand count. During the testing, auditors noted the following:

- In Fiscal Year 2021, the Department performed an inventory count with differences noted. There was no reconciliation performed to the Department account.

- In Fiscal Year 2022, the Department did not perform periodic inventory counts at all.

- The Department was unable to provide a complete listing of commodities on hand as of June 30, 2021 and June 30, 2022. Throughout the testing, auditors noted commodities that were not tracked in the Department's database. The Department reported commodities on hand as of June 30, 2021 and June 30, 2022 amounting to $85,480 and $102,036, respectively, and total commodities expenditures reported during Fiscal Year 2021 and Fiscal Year 2022 totaled $574,709 and $762,519, respectively.

Due to these conditions, auditors 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 § 205.36) to test the Department's year end commodities inventories balances.

The Statewide Accounting Management System (SAMS) Manual (Procedure 02.50.20) requires detailed subsidiary records to be maintained for significant categories of inventories, which must periodically be reconciled to control accounts. The SAMS Manual (Procedure 03.60.20) also requires the Department to perform an annual physical count of inventory on hand and to reconcile the results to inventory records to ensure the completeness and accuracy of those records. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance State property is safeguarded against loss or misappropriation and assets are properly recorded and accounted for to maintain accountability over the State's resources.

This finding was first reported during the period ended June 30, 2012. In the subsequent years, the Department has been unsuccessful in implementing appropriate corrective action.

During the prior examination, Department management indicated their commodities database was not developed to reflect historical data and the Storekeeper was not familiar with an option for pulling a monthly record and keeping it on file for audit purposes. During the current examination, Department management indicated the exceptions noted were due to employees' lack of familiarity with the requirements and competing requirements of the Department.

Failure to maintain accurate, complete and timely inventory records could result in shortages, overstocking, theft, or waste of commodities. Moreover, without the Department providing complete and adequate documentation to enable testing, we were unable to complete the procedures and provide useful and relevant feedback to the General Assembly regarding the Department's commodities.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has implemented a monthly inventory data collection and a backup records retention program to maintain an acceptable just-in-time inventory.

UPDATED RESPONSE:
Implemented.
The Department has developed and implemented a monthly inventory data collection and a backup records retention program in order to maintain an acceptable just-in-time inventory.

4. The auditors recommend the Department ensure accurate financial information is submitted to the Office of Comptroller. Further, they recommend the Department review and revise, as necessary, its current system to gather, compile, document, and review the financial information to be reported in the GAAP Reporting Package forms.

FINDING: *(Weaknesses in Preparation of GAAP Reporting Forms) – First reported 2020, last reported 2022*

The Department of Military Affairs (Department) did not correctly report federal grant financial information in the year-end Generally Accepted Accounting Principles (GAAP) Reporting Packages to the Office of Comptroller and in the Schedule of Expenditures of Federal Awards (SEFA).

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The Department reported federal activity in six funds during fiscal years 2021 and 2022. While performing Agreed-Upon Procedures over the fiscal year 2022 SCO-563, 567 and 568 GAAP forms, auditors noted the Department inaccurately reported or could not support financial information on Forms SCO-563, 567, 568 and the SEFA:

- SCO-567 Form
  - Fund 1336 current year expenditures were understated by approximately $3 thousand in National Guard ChalleNGe Program (Assistance Listing No. 12.404).

- SCO-568 Form
  - Fund 333 current year expenditures were understated by approximately $3 thousand in National Guard ChalleNGe Program (Assistance Listing No. 12.404).

  - Fund 333 current year expenditures includes expenditures of approximately $23 thousand for a federal program (Assistance Listing No. 12.000) which is not included in the Assistance Listing. In addition, the specific program title and assistance listing number could not be found in the grant agreement.

- The Department agreed to Form SCO-563 changes based on Office of Comptroller review. The Department did not verify if the amounts were accurate, and support was not provided to substantiate the amounts reported.

  - Fund 333 current year expenditures amounts were adjusted resulting in overstatement of $891 thousand in National Guard Military O&M Projects (Assistance Listing No. 12.401) and overstatement of $866 thousand in National Guard ChalleNGe Program (Assistance Listing No. 12.404).

  - Fund 333 current year liabilities amounts were adjusted resulting in understatement of $177 thousand in National Guard Military O&M Projects (Assistance Listing No. 12.401).

  - Fund 333 current year receipts amounts were adjusted resulting in overstatement of $212 thousand in National Guard Military O&M Projects (Assistance Listing No. 12.401), and overstatement of $235 thousand in National Guard ChalleNGe Program (Assistance Listing No. 12.404).

  - Fund 333 current year receivables amounts were adjusted resulting in understatement of $9 thousand in National Guard Military O&M Projects (Assistance Listing No. 12.401) and understatement of $235 thousand National Guard ChalleNGe Program (Assistance Listing No. 12.404).

- The Department prepared its SEFA with the following errors:

- Federal expenditures for Military Construction, National Guard (Assistance Listing No. 12.400) were understated by approximately $3.6 million.

- Federal expenditures for National Guard Military O&M Projects (Assistance Listing No. 12.401) were understated by approximately $3.3 million.

- Federal expenditures for National Guard ChalleNGe Program (Assistance Listing No. 12.404) were understated by approximately $194 thousand.

- Federal expenditures for Equitable Sharing Program (Assistance Listing No. 16.922) were understated by approximately $11 thousand.

Management has ultimate responsibility for the Department's internal control over financial reporting, which should include an adequate system of review designed to ensure the completeness and accuracy of the Department's financial reporting. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that the accounting and recording of financial data permits for the preparation of reliable financial reports. The State Records Act (5 ILCS 160/9) requires the Department to establish and maintain a program for agency records management, which should include effective controls over maintenance of records.

Department management indicated exceptions were due to data entry error and a lack of training on the preparation of GAAP packages. The Department worked closely with the Office of Comptroller to prepare a number of end-of-year reports. Those consultations relied heavily on the Office of Comptroller's records, rather than the Department's records due to the deadline for submission of said reports. These factors caused the deficiencies noted.

Failure to submit correct and properly supported information to the Office of Comptroller decreases the accuracy of federal financial information used for the Statewide SEFA.

DEPARTMENT RESPONSE:

The Department agrees with the finding. Under the guidance of the Deputy Fiscal Officer, the internal procedures and methods have been revised to accurately report the GAAP Reporting Package forms. The Deputy Fiscal Officer conducted an in-depth review of historical records back 5 years to ensure the figures reported are accurate and current. The Department is confident the records reflect accurate figures. This in-depth review will allow for timely completion of GAAP Reporting in compliance with 30 ILCS 10/3001 and 5 ILCS 160/9.

UPDATED RESPONSE:

Implemented.

The Department conducted an in-depth review to ensure the financial information reported in the GAAP Reporting Package forms is accurate, which will also for timely completion.

5. The auditors recommend the Department design and maintain internal controls to provide assurance its data entry of key attributes into the ERP System is complete and accurate. They also recommend the Department strengthen its internal controls to ensure bills are processed within 30 days of receipt, vouchers are approved for payment of interest due to vendors, expenditures are properly documented and posted to the correct fiscal year, and vendors are not paid twice for the same charge.

FINDING: *(Voucher Processing Internal Controls Not Operating Effectively) – First reported 2018, last reported 2022*

The Department of Military Affairs' (Department) internal controls over its voucher processing function were not operating effectively during the examination period.

Due to their ability to rely upon the processing integrity of the Enterprise Resource Planning (ERP) System operated by the Department of Innovation and Technology (DoIT), auditors were able to limit the voucher testing at the Department to determine whether certain key attributes were properly entered by the Department's staff into the ERP System. In order to determine the operating effectiveness of the Department's internal controls related to voucher processing and subsequent payment of interest, auditors selected a sample of key attributes (attributes) to determine if the attributes were properly entered into the State's ERP System based on supporting documentation. The attributes tested were 1) vendor information, 2) expenditure amount, 3) object(s) of expenditure, and 4) the later of the receipt date of the proper bill or the receipt date of the goods and/or services.

The auditors testing noted 7 of 140 (5%) attributes were not properly entered into the ERP System. Therefore, the Department's internal controls over voucher processing **were not operating effectively.**

The Statewide Accounting Management System (SAMS) Manual (Procedure 17.20.20) requires the Department to, after receipt of goods or services, verify the goods or services received met the stated specifications and prepare a voucher for submission to the Office of Comptroller to pay the vendor, including providing vendor information, the amount expended, and object(s) of expenditure. Further, the Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.30) requires the Department maintain records which reflect the date goods were received and accepted, the date services were rendered, and the proper bill date. Finally, the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance expenditures are properly recorded and accounted for to maintain accountability over the State's resources.

Due to this condition, auditors qualified their opinion because they determined the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Even given the limitations noted above, auditors conducted an analysis of the Department's expenditures data for Fiscal Years 2021 and 2022 to determine compliance with the State Prompt Payment Act (Act) (30 ILCS 540) and the Code (74 Ill. Admin. Code 900). The auditors noted the following noncompliance:

- The Department owed 8 vendors interest totaling $3,474 in Fiscal Years 2021 and 2022; however, the Department had not approved these vouchers for payment to the vendors.

  The Act (30 ILCS 540/3-2) requires agencies to pay vendors who had not been paid within 90 days of receipt of a proper bill or invoice interest.

- The Department did not timely approve 8,081 of 25,199 (32%) vouchers processed during the examination period, totaling $23,208,611. Auditors noted these vouchers were submitted by the Department to the Office of Comptroller between 1 and 376 days late.

  The Code (74 Ill. Admin. Code 900.70) requires the Department to timely review each vendor's invoice and approve proper bills within 30 days after receipt.

- Two of 139 (1%) vouchers tested, totaling $3,586, included toll charges, supplies and equipment expenditures totaling $3,169 that were recognized as expenses in the wrong fiscal year.

  The State Finance Act (30 ILCS 105/25) requires all appropriations to be available for expenditure for the fiscal year or for a lesser period if the Act making that appropriation so specifies.

- For three of 139 (2%) vouchers tested, totaling $139,618, the Department failed to maintain supporting documentation showing the dates invoices were received.

  The Code (74 Ill. Admin. Code 900.30) requires the Department to maintain written or electronic records reflecting the date on which the goods were received and accepted, or the services were rendered, the proper bill was received, and approval was given. In addition, the State Records Act (5 ILCS 160/8) requires the head of the Department preserve records containing adequate and proper documentation of the essential transactions of the Department designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

- Two of 25 (8%) travel vouchers tested, totaling $58,832, were found to be duplicate payments made to vendors.

  Prudent business practices require controls to be in place to ensure that vendors are only paid once for services rendered. In addition, the FCIAA (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation. The Department's system of internal controls should include procedures to prevent duplicate payments to vendors.

This finding was first reported during the period ended June 30, 2018. In the subsequent years, the Department has been unsuccessful in implementing corrective action.

Department personnel stated, as they did during the prior examination period, exceptions noted were the result of manpower deficiencies, staff not knowing correct procedures, lack of communication between Department personnel, and omission errors.

Failure to properly enter the key attributes into the State's ERP System when processing a voucher for payment hinders the reliability and usefulness of data extracted from the ERP System, which can result in improper interest calculations and expenditures. Also, failure to timely process proper bills, approve vouchers for payment of interest due, paying expenditures from the incorrect fiscal year appropriation, and failure to maintain adequate documentation represent noncompliance with the Code and the Act. Finally, failure of the Department to implement controls to avoid duplicate payments will result in overpayment to vendors and inefficient use of State funds.

DEPARTMENT RESPONSE:

The Department agrees with the finding. The Department requires the use of a date stamp in order to document receipt and approval of vouchers prior to payment submission. Additionally, a revised method of document organization has facilitated the complete and accurate data entry of key attributes into the ERP System. This will also indicate the use of Non-Appropriated Funds and prior year funding authority, ensure prompt payment of bills, allow for tracking of interest due, facilitate appropriate fiscal year expenditure posting and prevent duplicate payments.

UPDATED RESPONSE:

Implemented.

The Department has revised its protocols for the handling and entry of voucher receipts, which has facilitated the complete and accurate data entry of key attributes into ERP. The use of ERP will indicate the use of Non-Appropriated Funds and prior year funding authority, ensure the prompt payment of bills, allow for tracking of interest due facilitate appropriate fiscal year expenditure posting and prevent duplicate payments.

6. The auditors recommend the Department comply with the Act and provide the Auditor General with requested documentation without delay.

FINDING: *(Failure to Provide Records of Compliance with Statutory Mandates) - New*

The Department of Military Affairs (Department) did not provide adequate documentation or support for testing compliance with multiple statutory mandates.

During testing of the Military Code of Illinois (20 ILCS 1805/43), the Department could not provide support to verify the termination of officers' commissions for 10 of 40 (25%) officers tested. Therefore, they were unable to determine whether the Department complied with the statute.

The Military Code of Illinois (20 ILCS 1805/43) states that when an officer is absent without leave from four consecutive unit training assemblies or the annual training period such officer's commission shall be terminated.

The auditors also requested a response and information on the Department's compliance with other sections of the Military Code of Illinois. However, the Department did not provide responses to the auditors' requests. Therefore, they were unable to determine if the Department was in compliance with the following statutory mandates:

- Military Code of Illinois (20 ILCS 1805/42 thru 1805/42)
- Military Code of Illinois (20 ILCS 1805/48 thru 1805/50)
- Military Code of Illinois (20 ILCS 1805/54 thru 1805/56)

The Illinois State Auditing Act (Act) (30 ILCS 5/3-12) requires the Department to promptly comply with, and aid and assist the Auditor General in the exercise of his powers and duties under the Act. Further, the Act requires the Department to make available to the Auditor General any record or information requested that is within the scope of the audit without delay.

Department management indicated the issues noted were due to competing priorities of federal employees.

Failure to provide the Auditor General with the requested information represents noncompliance with the Act and prevents the Department from demonstrating compliance with State law.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The United States Property and Fiscal Officer the Human Resources Departments for the Illinois National Guard are attempting to make information available for review by the Department of Military Affairs.

UPDATED RESPONSE:
Partially Implemented.

The Department is working in concert with the United States Property and Fiscal Officer and the Human Resources Departments for the Illinois National Guard (ILNG) to launch the ILNG's new Activate, Respond, Recover, and Operate (ARRO) software. This software offers real-time personnel, time and equipment tracking for faster, more efficient response, recovery, and reimbursement. This tracking system will make requested information available for review by the Department.

7. The auditors recommend the Department strengthen controls to review all lease transactions, determine whether current lease agreements are properly classified under GASB 87, and ensure timely and proper filing of contracts and related documents. Further, they recommend the Department calculate and pay lease expenditures in accordance with the lease agreement.

FINDING: *(Inadequate Controls over the Identification of Leases under Statement No. 87 of the Governmental Accounting Standards Board) - New*

The Department of Military Affairs (Department) did not have adequate controls in place to support the implementation of Statement No. 87 of the Governmental Accounting Standards Board (GASB 87).

The auditors requested the Department provide a population of leases within the scope of GASB 87. In response to this request, the Department provided all copies of agreements identified during the examination period. In reviewing the documents provided, they noted agreements that fell within the scope of GASB 87; however, the Department was unable to provide a population consisting solely of agreements that fell within the scope of GASB 87.

Due to these conditions, auditors 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 § 205.36) to test the Department's GASB 87 leases.

***Even given the population limitations noted above which hindered the auditor's ability to conclude whether selected samples were representative of the population as a whole*,** they performed testing on a sample of GASB 87 leases.

During the testing of the Department as a lessee, auditors noted the following:

- Eight leases (totaling $2,179,416) were not included in the Department's Capital Asset Summary (SCO-538) as right-to-use assets. In addition, the Accounting for Leases-Lessee form (SCO-560) for these leases were not completed properly. Specifically,

  - Eight SCO-560 forms did not include information regarding total economic useful life and remaining life at lease start date.
  - Six SCO-560 forms included incorrect noncancelable lease periods.
  - Four SCO-560 forms included incorrect total number of payments over lease life.
  - Three SCO-560 forms included incorrect periods after optional termination date.
  - One SCO-560 form included incorrect total fixed payments amount.

- Seven leases (totaling $1,186,980) were not paid in accordance with the lease term, resulting in a net understatement of contractual expenditures by $12,750.

During the testing of the Department as a lessor, auditors noted that for one lease (totaling $90,036), the Accounting for Leases-Lessor form (SCO-561) was not timely filed with the Office of Comptroller. The form SCO-561 was filed 259 days late. As a result, the lease receivable asset and deferred inflows of resources were not properly entered into the Department's record.

GASB 87 defines a lease as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction." GASB 87 became effective for the State of Illinois government agencies on July 1, 2021, with all existing leases revalued and recognized as of this date, except for existing sales-type or direct financing leases. This definition of a lease is not limited to contracts which may be termed as a lease, as leases meeting GASB 87's lease definition may be embedded within other agreements or contracts.
The State Records Act (5 ILCS 160/9) requires the Department to establish and maintain a program for agency records management, which should include effective controls over maintenance of records. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recoded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Statewide Accounting Management System (SAMS) Manual (Procedure 27.20.60 and Procedure 27.20.61) requires the Department to properly complete SCO-560 and SCO-561 forms that falls within the scope of GASB 87. The SAMS Manual (Procedure 27.20.38) also requires the Department to report all leases and the related depreciation in SCO-538.

Department management indicated the conditions were caused by employee error and oversight.

Failure to maintain adequate controls over implementation of GASB 87 leases may result in incorrect accounting and reporting of contracts and obligations. Without the Department providing complete and adequate documentation to enable testing, auditors were unable to provide useful and relevant feedback to the General Assembly regarding the Department's GASB 87 leases.

<u>DEPARTMENT RESPONSE:</u>
The Department agrees with the finding. The Department's internal controls are being strengthened and reviewed to comply with the lease standard, as well as to reduce employee oversight and errors.

<u>UPDATED RESPONSE:</u>
Implemented.
The Department has strengthened its controls to comply with lease standards. All lease agreements are properly classified, and future requests to provide leases and/or agreements, will be clarified prior to the Department providing the requested documentation.

8. The auditors recommend the Department ensure interagency agreement records are properly tracked and maintained. They also recommend the Department ensure all interagency agreements are properly executed prior to the start of the services.

<u>FINDING:</u> *(Inadequate Controls over Interagency Agreements) – First reported 2018, last reported 2022*

The Department of Military Affairs (Department) did not maintain adequate controls over its interagency agreements.
The Department provided a listing of interagency agreements for Fiscal Year 2021. However, it could not provide a listing for Fiscal Year 2022. In addition, the Department provided copies of what the Department considered to be interagency agreements in effect during the examination period. However, upon reviewing these agreements, auditors noted that not all of the agreements were actually interagency agreements.

Due to these conditions, the auditors 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 § 205.36) to test the Department's interagency agreements.

Even given the population limitations noted above which hindered the auditor's ability to conclude whether selected samples were representative of the population as a whole**,** auditors reviewed the Department's interagency agreements and noted 2 of 8 (25%) interagency agreements tested were executed 3 to 19 days after the start dates of the agreements.

The State Records Act (5 ILCS 160/9) requires the Department to establish and maintain a program for agency records management, which should include effective controls over maintenance of records. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are used efficiently and effectively and in compliance with applicable laws.

Department management indicated exceptions noted were due to employee turnover.

Failure to fully execute interagency agreements prior to the commencement of services or terms leaves the Department vulnerable to unnecessary liabilities and potential legal issues. In addition, without the Department providing complete and adequate documentation to enable testing, auditors were unable to provide useful and relevant feedback to the General Assembly regarding the Department's interagency agreements.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department is reviewing the internal controls and procedures over maintenance of interagency agreement records in order to facilitate the proper tracking and maintenance of the records and ensure all interagency agreements are properly executed prior to the start of the services.

UPDATED RESPONSE:
Implemented.
The Department properly tracks and maintains all interagency agreements. The Department will ensure to clarify the inclusive dates of all future requests to provide agreement records.

9. The auditors recommend Department management establish a continuous fraud prevention and detection program. They specifically recommend the Department implement a formal, written policy regarding the evaluation of fraud risk and a system of controls to help prevent and detect potentially fraudulent activity within its organization. The auditors also recommend the Department ensure the fraud program includes evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over the financial reporting process.

FINDING: *(Failure to Develop a Formal Fraud Risk Assessment Program) – First reported 2016, last reported 2022*

The Department of Military Affairs (Department) did not have a formal, adequate fraud risk assessment program in place.

The Department relied on current internal controls and various other informal activities that had been implemented to prevent and detect fraud, but did not have a formal, comprehensive, written fraud risk assessment policy in place.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation. Additionally, it is management's responsibility to prevent and detect fraud.

This finding was first reported during the period ended June 30, 2016. In the subsequent years, the Department has been unsuccessful in implementing all required fraud risk assessment procedures.

During the previous examination, Department management indicated a formal fraud risk assessment program was unable to be developed due to competing priorities. During the current year examination, Department management indicated a formal fraud risk assessment program is still being developed.

The Department managed expenditures of $56 million and $54 million in fiscal year 2021 and fiscal year 2022, respectively. Without an adequate program to identify and address the specific risks associated with fraud, fraudulent activities may go undetected and could result in misstatements in the Department's financial reporting to the State or misappropriation of Department assets.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has developed a fraud risk assessment. A formal written policy to prevent and detect potential fraud is currently in development.

UPDATED RESPONSE:
Implemented.
The Department has developed a formal, written policy to prevent and detect potential fraud. The policy will be included in the next update of the Employee Handbook. The policy includes a fraud risk assessment tool to be used department-wide.

10. The auditors recommend the Department strengthen its internal controls to ensure compliance with State laws and regulations applicable to the operation of its automobiles.

FINDING: *(Noncompliance with Vehicle Requirements) – First reported 2020, last reported 2022*

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The Department of Military Affairs (Department) did not follow State laws and regulations regarding the operation of its automobiles. As of June 30, 2022, the Department had 46 vehicles.

During testing, auditors noted the following:

- The Department's Vehicle Use Policy was submitted to the Department of Central Management Services (CMS); however, auditors noted the Department's policy was not included on CMS's website. Hence, the Department failed to ensure the policy was posted on CMS's website as required by the State Vehicle Use Act. The State Vehicle Use Act (Act) (30 ILCS 617/10(b)) requires the Department to draft and submit a Vehicle Use Policy to the Division of Vehicles within CMS to be included on the official CMS website.

- During testing of the vehicle maintenance records for eight vehicles, two (25%) did not have the annual inspection. In addition, three (38%) vehicles did not receive adequate tire rotations during the fiscal years tested. The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5040.400) requires the Department to ensure all State-owned or leased vehicles undergo regular service and/or repair in order to maintain the vehicles in a road worthy, safe, operating condition. The Code (44 Ill Admin, Code 5040.410) requires the Department ensure all State-owned vehicles are inspected by CMS or an authorized vendor at least once per year or as required by law.

- During testing of vehicle accident reports, auditors noted one of three (33%) vehicle accidents tested was reported 44 days late. The Code (44 Ill. Admin. Code 5040.520) requires a driver of any vehicle that is involved in an accident of any type within the scope or course of the employment to report such accident to the appropriate law enforcement agency and to CMS Auto Liability Unit by completing the Illinois Motorist Report (Form SR-1). In all cases, the completed Form SR-1 must be received by CMS no later than seven calendar days following the accident or the driver and agency risk forfeiture of coverage under the State's auto liability plan.

Department management indicated the exceptions were due to employee error and inconsistent controls in place.

Failure to put the Vehicle Use Policy on the CMS website is noncompliance with the Act. Failure to perform regular maintenance and have annual inspections performed on State vehicles could result in more significant expenditures related to the repair or replacement of the vehicles. Further, failure to report automobile accidents to CMS in a timely manner may cause the Department to be denied coverage and result in additional liabilities for the Department and results in noncompliance with the Code.

<u>DEPARTMENT RESPONSE:</u>

The Department agrees with the finding. The Department has communicated with CMS to verify the Vehicle Use Policy is properly posted on the CMS website. The newly appointed Vehicle Coordinator has implemented quarterly inspections of all Department vehicles and will provide CMS with the updated policy, once approved.

UPDATED RESPONSE:
Implemented.
The Department has communicated with CMS to verify the Vehicle Use Policy is properly posted on the CMS website. The Vehicle Coordinator has implemented routine inspections of all Department vehicles and will properly document vehicles which are not available for scheduled routine inspection.

11. The auditors recommend the Department strengthen its internal controls in monitoring employees to ensure all employees complete the required trainings in a timely manner.

FINDING: *(Trainings Not Completed Within the Required Timeframe) - New*

The Department of Military Affairs (Department) employees did not complete all mandatory trainings within the required timeframe.

During the sample testing of 40 employees in determining the Department's compliance with various training requirements, auditors noted the following:

- Two (5%) employees did not complete the annual cybersecurity training timely during calendar year 2020. These employees completed the training 4 and 7 days late. Additionally, one employee did not complete the annual cybersecurity training for calendar year 2020. Further, 3 of 8 (38%) new hires completed the initial cybersecurity training 6 to 27 days late.

  The Data Security on State Computers Act (20 ILCS 450/25) requires every employee to annually undergo the online cybersecurity training established by the Department which includes detecting phishing scams, preventing spyware infections and identity theft, and preventing and responding to data breaches.

- Three (8%) employees did not complete the annual ethics training timely during calendar year 2020. These employees completed the training 4 to 8 days late. Additionally, 1 of 8 (13%) new hires completed the initial ethics training 27 days late.

  The State Officials and Employees Act (Act) (5 ILCS 430/5-10(a)) requires each officer, member, and employee to complete an ethics training annually. The Act (5 ILCS 430/5-10(c)) requires new employees entering a position requiring ethics training to complete an initial ethics training course within 30 days after commencement of employment.

- Two (5%) employees did not complete the annual sexual harassment training timely during calendar year 2020. These employees completed the training 7 to 20 days late. Additionally, 2 of 8 (25%) new hires completed the initial sexual harassment training 6 to 27 days late.

  The Illinois Human Rights Act (775 ILCS 5/2-105(B)(5)(c)) requires the Department to provide training on sexual harassment prevention and the Department's sexual harassment policy as a component of all ongoing or new employee training programs.

Department management indicated the lack of workforce resources and enforcement deficiencies resulted in the exceptions.

Failure to complete trainings within the required timeframe may lead to employees being unaware of specific requirements for State employees and Department and State policies regarding cybersecurity, ethics, and sexual harassment. As a result, there is a risk the Department could be exposed to legal and financial risks due to noncompliance.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has strengthened tracking procedures of training requirements for all employees. Additionally, the training instructions provided to all employees has been updated to more clearly illustrate the correct website to conduct and receive appropriate credit for the current training requirements.

UPDATED RESPONSE:
Implemented.
The Department has developed a department-wide training tracker and effectively communicates with employees and supervisors. The Personnel Office updated the training instructions provided to all employees, in order to more clearly illustrate how to complete the training.

12. The auditors recommend the Department ensure required reconciliations are performed and reviewed timely as well as documented properly.

FINDING: *(Inadequate Controls over Monthly Reconciliations) – First reported 2014, last reported 2022*

The Department of Military Affairs (Department) did not perform timely reconciliation of its monthly appropriation balance.

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

- Five of 24 (21%) reconciliations of the Comptroller's Monthly Obligation Activity Report (SC15) or the monthly Agency Contract Report (SC14) were completed 41 to 376 days late.

- One of 56 (2%) reconciliations of the monthly Cash Report (SB05) was completed 84 days late.

The Statewide Accounting Management System (SAMS) Manual (Procedure 07.30.20) states the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handled that data properly. Agency reconciliation is the primary control that ensures these requirements are being satisfied. This reconciliation must be completed within 60 days of the month end.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, transfers of assets, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

This finding was first reported during the period ended June 30, 2014. In the subsequent years, the Department has been unsuccessful in implementing adequate corrective action.

During the prior examination period, Department management indicated the issues noted on reconciliations were due to human error and lack of awareness of all reconciliation requirements. During the current examination period, Department personnel stated exceptions were due to human error and failure to properly document the dates when reconciliations were performed.

Failure to perform timely reconciliation between the Department's records and the Comptroller's records represents noncompliance with SAMS and could result in incomplete or inaccurate financial information.

DEPARTMENT RESPONSE:

The Department agrees with the finding. The Department has gained a thorough understanding of all reconciliations that are required. The review and submission of these reports will be documented and retained within the Department. The Chief Internal Auditor conducts a sample review of the required reconciliation reports on a semi-annual basis. If discrepancies were noted, corrections were made appropriately.

UPDATED RESPONSE:
Implemented.
The Department performs all required reconciliations monthly. A prior audit finding correction created a timing discrepancy on the SC14 and SC15 reports. Additionally, the timing discrepancy of the SB05 is based on the submission date of a correction, not the initial reconciliation. The Department has ensured all discrepancies, corrections and changes are properly identified with original documentation and submission dates.

13. The auditors recommend the Department strengthen procedures to ensure timely reporting of required reports with CMS and DHR.

FINDING: *(Noncompliance with the Civil Administrative Code of Illinois and African American Employment Plan Act) - New*

The Department of Military Affairs (Department) failed to fully comply with the requirements of the Civil Administrative Code of Illinois (Code) and African American Employment Plan Act (Act).

During testing, auditors noted the Department did not submit the 2021 annual report on the State Hispanic Employment Plan, the State Asian-American Employment Plan, the African American Employment Plan, and the Native American Employment Plan to the Department of Central Management Services (CMS) and the Department of Human Rights (DHR) on forms prescribed by these Departments.

The Code (20 ILCS 405/405-125) and the Act (20 ILCS 30/20) require the Department to report annually to CMS and DHR, in a format prescribed by CMS, all of the Department's activities in implementing the State Hispanic Employment Plan, the State Asian-American Employment Plan, the Native American Employment Plan, and the African American Employment Plan.

Department management indicated the above conditions were caused by employee error and oversight.

Failure to adequately report on forms prescribed by CMS and DHR denies valuable information related to the Department's workforce to members of the General Assembly and State government officials charged with the goal of improving the employment of these diverse groups within the State government.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department is revising the current Standard Operation Procedures for retention and submission of all required reports of the Civil Administrative Code and the African American Employment Plan Act to the CMS and DHR in a timely manner.

UPDATED RESPONSE:
Implemented.
The Department has designated a specific position for the retention and submission of all required reports of the Civil Administrative Code and the African American Employment Plan Act to CMS and DHR in a timely manner.

14. The auditors recommend the Department strengthen procedures to ensure timely performance of employee evaluations, accurate calculation of accrued benefit time, and timely completion and proper retention of I-9 forms.

FINDING: *(Inadequate Controls over Employee Records) - New*

The Department of Military Affairs (Department) did not maintain adequate controls over employee records.

During the testing of employee files for Fiscal Years 2021 and 2022, the auditors noted the following:

Performance Evaluation

- Four of 40 (10%) employees did not have performance evaluations. Specifically, one employee's performance evaluation was not completed during Fiscal Year 2021, two employees' performance evaluations were not completed during Fiscal Year 2022, and one employee did not have performance evaluations completed for both Fiscal Years 2021 and 2022.

- One of 40 (3%) employees' performance evaluation did not have employee signatures for both Fiscal Years 2021 and 2022. In addition, the performance evaluation for Fiscal Year 2021 was approved by the Department's Head 365 days after the evaluation date.

- One of 40 (3%) employees did not have a performance evaluation timely completed at the end of the third- and sixth-month's probationary periods. The employee's third month evaluation was completed 99 days late and the sixth month evaluation was completed 28 days late.

The Illinois Administrative Code (80 Ill. Adm. Code 302.270) requires performance records include an evaluation of employee performance prepared by each agency on prescribed forms. Additionally, the performance evaluations are to be completed at the end of the third month of the probationary period and 15 days before the conclusion of the probationary period for employees serving a six-month probationary period; three and half months of the probationary period for employees serving a four-month probationary period; and no less than annually for certified employees.

Leave Accrual

- Two of 33 (6%) employees tested did not have a complete monthly Statement of Balances, Earnings and Hours on file for both Fiscal Years 2021 and 2022. As a result, auditors were unable to verify if personal, vacation, and sick time accruals were properly calculated.

- Three of 33 (9%) employees' vacation time accruals had mathematical errors resulting in misstatements of employees' leave balances from being understated by 2.25 hours to overstated by 45.50 hours.

- One of 33 (3%) employees' sick time accrual had mathematical errors resulting in the employee's balance being overstated by 2 hours.

Good internal controls over time and attendance include ensuring accrued benefit time is properly calculated. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems of internal fiscal and administrative controls to provide assurance that accrued benefit time is properly calculated.

Employment Eligibility Verification (I-9) forms

- Two of 40 (5%) employees' I-9 forms could not be located and provided for inspection. Both employees are active employees with hire dates of January 2020 and November 2012. Upon notification by the auditors, the Department's personnel completed the I-9 forms.

According to the instructions for Form I-9 published by the Department of Homeland Security (OMB No. 1615-0047), employers must complete and sign Section 2 within three business days of the employee's first day of employment attesting they physically examined the document(s) presented by the employee, the document(s) reasonably appear to be genuine and relate to the employee named, the employee is authorized to work in the United States, and the information entered in Section 2 is complete, true and correct. The employer is responsible for ensuring that all parts of Form I-9 are properly completed.

Department management indicated the above conditions were caused by employee error and oversight.

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees, and serve as a foundation for salary adjustments, promotion, demotion, discharge, layoff, recall, and reinstatement decisions. Failure to ensure accrued leave balances are properly calculated can result in employees using benefit time they do not have and reduces the overall reliability of Statewide financial reporting of the compensated absences liability. Further, failure to maintain Form I-9 within personnel files results in noncompliance with Federal regulations.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has strengthened procedures and developed a new Standard Operating Procedure for filing and retention of I-9 Forms along with the tracking and timely completion of employee evaluations. The prior discrepancies related to employee leave accrual errors have been corrected with the implementation of the new eTime employee time and attendance program, effective as of Fiscal Year 2022.

UPDATED RESPONSE:
Partially Implemented.
The Department is in the process of coming online with Human Capital Management (HCM), which will track employee evaluations and retain employee I-9 forms. The implementation of eTime in fiscal year 2022 has corrected the discrepancies related to employee benefit time accrual errors.

15. The auditors recommend the Department prepare its annual Report in accordance with the requirements of the State Employment Records Act. In addition, they recommend the Department file corrected reports within 30 days after the release of this examination with both the Governor and the Secretary of State, as required by the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)).

FINDING: *(Inaccurate Agency Workforce Reports) - New*

The Department of Military Affairs (Department) did not include complete and accurate information on its Agency Workforce Report (Report) submissions to the Office of the Governor and the Office of the Secretary of State during the examination period.

During testing, auditors noted the Department inaccurately calculated totals and percentage totals in both Reports filed during the examination period. Further, the Department did not report totals or percentage totals on its 2021 Report for females.

The State Employment Records Act (5 ILCS 410/15) requires the Agency Workforce Report to collect and maintain the total number of persons employed by the Department who are part of the State workforce, and the number and statistical percentage of women, minorities, and persons with physical disabilities employed within the agency workforce.

Department management indicated exceptions were due to employee error and oversight. Failure to include complete and accurate information on each annual Report could deter efforts by State officials, administrators, and residents to achieve a more diversified State workforce.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The Department has implemented a review procedure in the submission of its Agency Workforce Report within the Annual Report in order to ensure completeness and accuracy of the information provided.

UPDATED RESPONSE:
Implemented.
The Department has developed a thorough review procedure to ensure the accuracy and completeness of the Agency Workforce numbers in the Annual Report. The Department has adjusted the Annual Report compilation date to accommodate the new detailed review process to ensure timely submission.

16. The auditors recommend the Department work with the Department of Innovation and Technology to transition and fully utilize the PSCD - Accounts Receivable, Material Management, and Warehouse Management modules of the ERP System.

FINDING: *(Failure to Fully Utilize the State's Enterprise Resource Planning System) - New*

The Department of Military Affairs (Department) did not utilize all capabilities of the State's Enterprise Resource Planning (ERP) System, which resulted in unnecessary inefficiency.

The State's implementation of an ERP System centralized the finance, procurement, grants management, and asset management processes by replacing outdated manual systems and technologies. The ERP System can enhance transparency of data, reduce processing time, and improve the timeliness of financial reporting. During the examination period, the ERP System's processing integrity was sufficient to enable reliance upon the ERP System's processing of transactions.

For commodities and property inventories, the ERP System has several functionalities which reduce the number of manual transactions and processing time, such as the "shopping cart" feature that creates a purchase order, tracks receipt of the goods or service along with the vendor's related invoice, helps generate the voucher fields necessary for the processing of payment to the vendor, records inventory and property transactions, and enables financial reporting to the Office of Comptroller.

During the examination, auditors noted the following:

- The Department billed entities for various services; however, the Department did not fully utilize the Public Sector Collection & Disbursements (PSCD) - Accounts Receivable ERP module. The PSCD maintains transactions related to accounts receivable. The Department's accounts receivable amounted to approximately $1.7 million and $1 million as of June 30, 2021 and June 30, 2022, respectively.

- The Department purchased commodities and supplies from vendors; however, the Department did not fully utilize the Material Management and Warehouse Management ERP modules. The Material Management records transactions related to the purchase of commodities and supplies. Warehouse Management maintains, tracks and processes movement of goods and inventory.

Government Auditing Standards (§ 1.02) states the concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, and ethically within the context of the statutory boundaries of the specific government program.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws. Good internal controls over compliance include ensuring the full capabilities of the ERP are used to efficiently process, record, and report transactions.

Department management indicated the deficiencies noted were due to unfamiliarity with the full capabilities of the ERP and competing priorities for the responsible personnel.

Failure to fully utilize the State's ERP System could result in outdated systems not being supported, untimely financial information and the lack of full transparency and result in the inefficient usage of State resources.

DEPARTMENT RESPONSE:

The Department agrees with the finding. The Department has completed additional training of the ERP System in order to gain a better understanding and use of the Accounts Receivable, Material Management, and Warehouse Management modules for efficient processing, recording, and reporting of transactions.

UPDATED RESPONSE:

Partially Implemented.

After additional training of the ERP System to better comprehend the use of the Material Management and Warehouse Management modules, the Department has created a position whose primary function will be to maintain the workflow of commodities and supplies from vendors through these modules.

17. The auditors recommend the Department conduct periodic reviews of users' rights to ensure only authorized individuals have access to its application and data.

FINDING: *Inadequate Compute Security Controls) – First reported 2020, last reported 2022*

The Department of Military Affairs (Department) had not established adequate computer security controls.

The Department utilizes various applications offered by the Department of Innovation and Technology (DoIT) to process its financial transactions (including inventory and payroll) and maintain its asset records. These applications include the Enterprise Resource Planning (ERP) System, Central Time and Attendance System (CTAS), eTime, and Central Payroll System (CPS).

The auditors obtained various security reports and user listing reports for these applications to determine if access was appropriate. During the testing, they noted user access rights for CTAS and eTime were not periodically reviewed.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and to maintain accountability over the State's resources.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section requires the implementation of internal controls over access.

Department management indicated the issues noted were due to competing priorities and lack of employee familiarity with the requirements.

Failure to implement adequate security controls increases the risk of unauthorized individuals gaining access to computing resources.

DEPARTMENT RESPONSE:

The Department agrees with the finding. The Department has recently hired an IT Coordinator who performs a periodic review of all user access rights within the Department.

UPDATED RESPONSE:

Implemented.

The Department has hired an individual to service the Executive I (IT Coordinator) role, who conducts periodic reviews of all user access rights within the Department.

18. The Department has the ultimate responsibility for ensuring confidential information is protected from accidental or unauthorized disclosure. Specifically, the auditors recommend the Department:

- **Perform an assessment to identify and classify data to ensure adequate protection of confidential or personal information most susceptible to attack.**
- **Evaluate identified risks and implement appropriate controls to reduce the risk.**
- **Establish and communicate the Department's security program (formal and comprehensive policies, procedures and processes) to manage and monitor the regulatory, legal, environmental and operational requirements.**

FINDING: *(Weaknesses in Cybersecurity Programs and Practices) – First reported 2020, last reported 2022*

The Department of Military Affairs (Department) had not implemented adequate internal controls related to its cybersecurity programs and practices.

As a result of the Department's function to maintain military personnel records and active-duty service reports, the Department maintains computer systems which contain large volumes of confidential or personal information such as names, addresses, and Social Security numbers.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During the examination of the Department's cybersecurity program and practices, auditors noted the Department:

- Had not classified its data to identify and ensure adequate protection of information (i.e., confidential or personal information) most susceptible to attack.
- Had not evaluated and implemented appropriate controls to reduce the risk of attack.
- Had not developed a formal, comprehensive, adequate, and communicated security program (policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental and operational requirements.

The *Framework for Improving Critical Infrastructure Cybersecurity* and *the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology require entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data, and continued business mission.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and maintain accountability over the State's resources.

Department management indicated the issues noted were due to a lack of information technology (IT) staff.

DEPARTMENT RESPONSE:
The Department agrees with the finding. The IT Coordinator is developing an agency-wide data classification and protection policy. The policy will also include a schedule for review of classified data to assess the Department's risk of attack. All employees complete the cybersecurity training program, annually. The Department's Personnel Officer maintains the record of training. The Department has adopted the security programs of both the Federal and State information management networks, as applicable. The adopted programs have been tailored to meet the Department's uses and needs.

UPDATED RESPONSE:
Implemented.
The Executive I (IT Coordinator) has developed an agency-wide data classification and protection policy. The policy includes a schedule for review of classified date to assess the Department's risk of attack. All employees complete the cybersecurity training program, on an annual basis. The Department's Personnel Officer maintains the record of training. The Department has adopted the security programs of both the Federal and State information management networks, as applicable. The adopted programs have been tailored to meet the Department's uses and needs.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the state that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts…." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to state property in order to protect against further loss of or damage to state property, to prevent or minimize serious disruption in critical state services that affect health, safety, or collection of substantial state revenues, or to ensure the integrity of state records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than five business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file a statement with the Procurement Policy Board and the Auditor General to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

In the first quarter of FY21, the Department had 2 emergency purchases.

- In the first one, the agency received federal funds that had to be spent prior to September 30 and by the time the funding was received, there was not enough time for an IFB to be conducted. So, the agency solicited UTVs using the small purchase sourcing method, but the same vendor bid on all UTVs and the total came in over the threshold. The UTVs were for 6 national guard facilities for use in snow removal and maintenance of grounds. The total amount of federal funds used was estimated at $150,000 to Tile In Styles.
- In the second one, the Sycamore Readiness Center was built in 1938 and had the original lighting system, which did not meet the minimum lighting standards of the Illuminating Engineering Society of North America for workplaces. An IFB was done and awarded, but the vendor was unable to perform to the specifications of the contract and it was terminated for default. The new vendor is a registered small business and licensed and insured to do electrical work in the Chicago area. The total amount of federal funds used was estimated at $110,000 to Adam’s Trade and Services Inc.

In the second quarter of FY21, the Department had one emergency purchase. It was for meals for approximately 400 State Active-Duty members being activated in response to the Governor’s Directive for the upcoming November election and possible civil unrest (2020). The vendor could provide the number of meals needed and the rate was less than several other vendors contacted. The total amount of federal funds used was $92,503 to Tasty Catering.

In the third quarter of FY21, the Department had 2 emergency purchases.

- In the first one, meals were provided for approximately 250 soldiers activated due to the threat to public safety. The total amount of federal funds used was $40,351.20 to Nelson’s Catering Inc.

- The second one was due to a car accident that damaged the parameter fence at the Peoria National Guard base. The total amount of state funds used was estimated at $30,078.62 to Hohulin Fence Company.

In the first quarter of FY22, the Department had 2 emergency purchases.

- The first one was due to a sewer line break at the Sycamore Readiness Center. The total amount of federal funds used was estimated at $49,036 to T & J Plumbing, Inc.
- In the second one, after the IFB was done and awarded, the vendor was unable to perform the contract as written. The second low bidder was chosen to meet anti-terrorism and force protection needs for store-front recruiting offices throughout the state. The total amount of federal funds used was estimated at $2,000,000 to Executive Wood Products.

Headquarters Designations

The State Finance Act requires all state agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each state agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of May 24, 2022, the Department had 7 employees assigned to locations others than official headquarters.