

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Military Affairs
Two Years Ended June 30, 2004

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4243
DEPARTMENT OF MILITARY AFFAIRS
TWO YEARS ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 11

NOT ACCEPTED - 1
ACCEPTED - 9
IMPLEMENTED - 1

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 5

This review summarizes the auditors' reports on the Department of Military Affairs for the two years ended June 30, 2004, filed with the Legislative Audit Commission March 10, 2005. The auditors performed a compliance examination in accordance with State law and *Governmental Auditing Standards*.

The Department of Military Affairs (Department) acts as the channel of communication between the federal government and the State on all matters pertaining to the State Military. The Department is comprised of the Illinois Army National Guard and the Illinois Air National Guard. The Illinois National Guard has approximately 12,600 members. The Guard's federal mission includes maintaining properly trained and equipped units available for prompt mobilization for war or as otherwise needed. The State mission of the Guard is to provide trained and disciplined forces for domestic emergencies or as otherwise required by State law.

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 installations, property, and equipment of the Illinois National Guard.

Brigadier General Randal E. Thomas, the current Adjutant General, was appointed to the position in June 2003. Major General David Harris was the adjutant general during the first year of the audit period. The Army National Guard maintains 53 armories, one State Headquarters facility, two outdoor weapons ranges, three training areas, two State warehouses, one federal warehouse, two federal maintenance facilities, and 43 vehicle storage/maintenance buildings in 47 communities throughout the State. The Air National Guard maintains two flying bases at two major civilian airports and one on an active U.S. Air Force Base. During the audit period, the Adjutant General opened two state-of-the-art

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museum facilities and relocated its museum and artifact collection into a renovated, climate-controlled structure on the grounds of Camp Lincoln. The State's collection of historical battle flags was also moved to a climate-controlled storage facility at Camp Lincoln. The Department also organizes and operates Lincoln's Challenge for at-risk youth ages 16 through 18.

The average number of full-time employees was:

2004 - 244; 2003 - 244; 2002 - 272.

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for the two-year period under review. The General Assembly appropriated \$42,280,072 to the Department in FY04. Of the appropriation, \$15.1 million was from the General Revenue Fund; \$17.8 million from the Federal Support Agreement Revolving Fund; \$0.3 million from the Illinois National Guard Armory Construction Fund; \$1.5 million from the Military Affairs Trust Fund; and \$7.5 million from the Illinois Military Family Relief Fund. Appropriations from the General Revenue Fund provide funding for: (1) the Office of the Adjutant General, which supervises the activities of the Illinois Army National Guard units and the Illinois Air National Guard units; and (2) the Facilities Division, which operates and maintains all State property of the Department including the 53 armories. Expenditures from the General Revenue Fund were \$12.7 million in FY04 compared to \$13.3 million in FY03, a decrease of 4.6%.

Overall expenditures from all funds were \$28,724,125 in FY04 compared to \$27,040,409 in FY03, an increase of almost \$1.7 million, or 6.2%. Reasons for some fluctuations between FY03 and FY04 are as follows:

- \$1.4 million in expenditures from the new Illinois Military Family Relief Fund in FY04;
- \$528,000 for stipend payment to Lincoln Challenge cadets in FY04. The stipend was reduced in FY03 because the Chicago Public Schools did not renew a grant to the program; and
- \$918,300 decrease in personal services and related lines in FY04 due to a greater volume than normal of hiring lags.

Lapse period expenditures were \$1.7 million, or 6%, in FY04.

Cash Receipts

Appearing in Appendix B is a summary of cash receipts of the Department during the period under review. Total cash receipts decreased from \$14,724,373 in FY03 to \$14,562,359 in FY04. The vast majority of cash receipts are in the Federal Support Agreement Revolving Fund for the Lincoln Challenge program, Army/Air Federal

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Reimbursements and Cooperative Funding Agreement-Army. The decrease is related to a federal fiscal year receipt not received in State fiscal year 2004.

Property and Equipment

Appearing in Appendix C is a summary of property and equipment transactions of the Illinois Department of Military Affairs during the period under review. The balance increased from \$129,090,066 as of July 1, 2002, to \$150,316,343 as of June 30, 2004. The schedule was derived from Department records and could not be reconciled to the Agency Report of State Property submitted to the Office of the Comptroller (see finding #2).

Accountants' Findings and Recommendations

Condensed below are the 11 findings and recommendations presented in the audit report. There were two repeated recommendations. The following recommendations are classified on the basis of information provided by Colonel Fletcher A. Crews, Military Executive, CMO, Department of Military Affairs, via electronic mail and received on February 1, 2006.

Not Accepted

- 1. Only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur. Further, the Department should seek an explanation from the Department of Central Management Services as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Department's budget.**

Findings: The Department made payments for efficiency initiative billings from improper line item appropriations. The Department received billings totaling \$1,222,507 from CMS for savings from efficiency initiatives as follows:

- Procurement Efficiency \$ 420,200
- Information Technology 16,029
- Vehicle Fleet Management 13,698
- Facilities Management Consolidation 772,580

The only guidance received was the first three bills should be taken from GRF funds (\$433,822) versus Other Funds (\$16,105). The billing for facilities management consolidation for \$772,580 indicated savings for 17 vacant positions that had been funded in the Department's budget. However, the Department reported that most of the 17 vacant

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positions had been filled, and eventually paid only \$365,625 toward the \$1.2 million billings. However, the auditors found that:

- \$2,167 relative to the procurement efficiency initiative was taken from a specific appropriation for rehabilitation and minor construction at armories and camps.
- \$8,311 relative to the procurement efficiency initiative was taken from a specific appropriation for expenses related to the care and preservation of historic artifacts.
- \$369 relative to the procurement efficiency initiative was taken from specific appropriations for Lincoln's Challenge.

Response: Not Accepted. The Department only made payments for efficiency initiative billings from line item appropriations where savings were anticipated to occur.

The Department was notified the savings were anticipated from procurement, information technology, vehicle fleet management, and facilities management consolidation. Further, these savings were anticipated from specific areas such as contractual services, commodities, equipment, travel, electronic data processing, telecommunications, operation of auto, and permanent improvements. The Department then allocated the forecasted savings based upon actual FY02 expenditures in the specific savings areas in relation to total expenditures for each appropriated line item.

For example, the Department anticipated savings from the appropriation "for expenses related to the care and preservation of historic artifacts" due to it having FY02 expenditures for contractual services, commodities, and equipment. This line did not have any expenditures for the other identified savings areas. This line incurred FY02 actual expenditures for the other identified savings areas. This line incurred FY02 actual expenditures of \$5,936.25 for contractual services, \$9,816.76 for commodities, and \$125,296.12 for equipment.

Therefore, the Department allocated .0864% ($\$5,936.25 / \$6,869,531.49$) of projected contractual savings of \$324,146 ($.0864\% * \$324,146 = \280) to this line item appropriation. The same logic applied for the commodities and equipment lines; commodities: $\$9,816.76 / \$399,653.71 = 2.4563\% * \$24,397 = \$599$ and equipment $\$125,296.12 / \$236,899.95 = 52.88\% * \$14,054 = \$7,432$. As a result, the total savings from this line was anticipated to be \$8,311 ($\$280 + \$599 + \$7,432$). The Department made payments from this line for the \$8,311. The other payments made for anticipated savings for procurement, information technology, and vehicle fleet management were calculated in the same manner.

The facility management savings were based upon actual personal services savings. These savings resulted from the personnel action management process designed, implemented and managed by representatives of the Governor's Office.

Auditor's Comment: Documentation provided by the Department to auditors references a methodology for savings that was developed in response to a May 2, 2003 communication with the Governor's Office of Management and Budget (GOMB).

Not Accepted – concluded

GOMB provided the Department with dollar savings figures from the Governor's procurement (\$420,207), IT (\$32,270) and operation of automobile (\$25,200) initiatives. GOMB requested a breakout of the fund and line items where these reductions could occur. A May 5, 2003 internal Department communication indicated that when it contacted GOMB for details on the initiatives, its GOMB budget analyst indicated that she did not have any details and that the Department was to meet the specified savings amounts. It can also be noted that the Department failed to follow direction GOMB on this matter. For instance, GOMB did not identify any procurement savings attributable to Lump Sum appropriation lines and suggested the Department utilize only \$16,920 from non-GRF sources and 8 Lump Sum line item appropriations.

However, this all occurred prior to the passage of Public Act 93-0025, which placed the responsibility for determining efficiency amounts and efficiency billings with CMS. The House Amendment, which ultimately created the Public Act, was filed May 31, 2003 and the Public Act was effective June 20, 2003.

The September 2003 CMS billing invoices for the three initiatives **were for different amounts** than those communicated to the Department by GOMB in early May 2003. The CMS billings again directed the Department to pay 96% of the total billings (\$433,822 of \$449,927) in September 2003 from GRF funds. The Department, using the methodology developed for the GOMB directive in May 2003, only made payments to CMS from those GRF appropriations.

Further, while the Department notes that it examined FY02 expenditure patterns, these may not have been the most appropriate tool. For instance:

- The \$8,311 paid for part of the procurement billing from the lump sum appropriation "for expenses related to the care and preservation of historic artifacts" was 52% of the total appropriation (\$16,000) in FY04 for this activity.
- The \$2,167 paid for part of the procurement billing that was paid from an appropriation "for rehabilitation and minor construction at armories and camps" was the **only** FY04 payment made by the Department from this appropriation prior to the lapse period.

Department officials noted that the payments were made from the specific appropriations because the Department had procurement expenditures from those appropriations in the past. However, without specific guidance from CMS regarding the nature and type of procurement saving initiatives, it is unclear whether these were the appropriate lines from which to make procurement savings payments.

Finally, the **entire** amount the Department paid for the May 2004 facilities management consolidation billing was from a Personal Services line item appropriation (line item 1120). However, the Department did not recognize any commensurate savings in related line items, such as retirement and group insurance.

Accepted or Implemented

2. **Establish a corrective action plan to address controls to ensure an accurate property listing and reporting for the Department. File the Quarterly Fixed Asset Reports timely, properly report transfers-in and maintain adequate documentation for the Fixed Asset Reports as required by SAMS. Reconcile the fixed asset records and reports to the Agency Report of State Property (C-15) on a quarterly basis to ensure completeness and accuracy of the fixed asset records. (Repeated-2002)**

Findings: The Department did not maintain sufficient controls over the accuracy and reporting of its property. The auditors noted the following:

- The Department did not adequately reconcile its various reports of fixed assets to the Agency Report of State Property (C-15). One quarter showed a \$538,000 difference.
- The Department had approximately a \$7.7 to \$8.4 million difference between the C-15 and the Capital Asset Summary form. The discrepancies were attributed to cumulative errors and discrepancies in the C-15 by the Department.
- The C-15s were not submitted by the reporting deadline for five of eight reports.
- Six of eight C-15s contained inaccurate information for equipment additions and deletions.
- Seven of eight C-15s submitted did not properly report transfers-in from the CDB.
- Supporting documentation for the amounts reported was not maintained for any of the eight C-15s submitted.

Response: Accepted. The employee responsible for property accountability and reporting for the audit period is no longer employed by the Department. The Department will establish a corrective action plan. The Department is in the process of obtaining an appropriately qualified staff resource to handle these responsibilities. Every effort will be made to accurately complete required reports and file them by their due dates. The C-15 will be prepared based upon the fixed asset records.

Updated Response: The Department has received approval to replace the SPO (purchasing officer), applications have been received, reviewed and we are in the process of establishing interviews. The filling of this position will greatly assist in correcting deficiencies.

3. **Comply with the State Property Control Act and the Illinois Administrative Code by ensuring all equipment under the Department's jurisdiction is recorded accurately and timely on property records.**

Findings: The property listing for the Department was inaccurate. The auditors noted the following:

Accepted or Implemented - continued

- Five out of 75 items tested were suspended on the property listing because the purchase prices were not listed with the items. A total of 133 items were included as suspended items.
- Seven out of 75 items totaling \$3,029 could not be located during property testing. Five other items were not listed on the Department property records.

Response: Accepted. The employee responsible for property accountability and reporting for the audit period is no longer employed by the Department. The Department is in the process of obtaining an appropriately qualified staff resource to handle these responsibilities. The Department will then be able to comply with the State Property Control Act and the Illinois Administrative Code.

4. Ensure that there is proper segregation of duties or appropriate compensating controls in conjunction with the Illinois Military Museum.

Findings: The Museum Curator has stewardship responsibilities for the historical artifacts and the equipment located at the Illinois Military Museum. The Curator is responsible for requesting, purchasing and maintaining the equipment at the museum. The Curator is also the receiving officer for historical artifacts including input, change and deletion capabilities regarding the historical artifacts inventory.

Response: Accepted. Available resources will be reviewed to determine a corrective action that addresses the finding.

5. Publish emergency purchases in the Illinois Procurement Bulletin and file emergency purchase affidavits within 10 days as required by the Illinois Procurement Code.

Findings: The Department did not publish their emergency purchases in the Illinois Procurement Bulletin and did not timely file one emergency purchase affidavit with the Auditor General as required.

Response: Accepted. The employee responsible for procurement for the audit period is no longer employed by the Department. The Department is in the process of obtaining an appropriately qualified staff resource to handle these responsibilities. This resource will be notified of the Illinois Procurement Code requirements.

Updated Response: The Department has received approval to replace the SPO, applications have been received, reviewed and we are in the process of establishing interviews. The filling of this position will greatly assist in correcting deficiencies.

- 6. Implement adequate controls to ensure that applicants do not receive duplicate grants and that applications are complete and in accordance with adopted rules. Seek reimbursement of the duplicate grants awarded.**

Findings: The Department did not have adequate controls in place to monitor the Illinois Military Family Relief grants. The auditors tested a sample of 25 grant applications and noted the following:

- Four out of 25 grants tested were duplicate applications for the same active duty order, totaling \$4,000 in duplicate payments. Thirteen out of 2,571 grant applicants were awarded duplicate payments, totaling \$8,000.
- Two out of 25 individuals did not have Defense Enrollment Eligibility Reporting System (DEERS) information filled out on the forms.

Response: Accepted. Internal controls have been implemented so duplicate grants are not issued. The Department is pursuing collection of the overpayments.

- 7. Approve or deny all invoices within 30 days of receipt in order to comply with the State law and avoid paying interest to vendors. If necessary to comply with the 30-day deadline, streamline approval process. (Repeated-2002)**

Findings: The Department did not have adequate controls to ensure that vouchers were approved or denied within 30 days and required interest was paid. The auditors noted the following:

- Ten of 301 vouchers tested were not approved with 30 days of receipts of a proper bill. The vouchers were approved from three to 91 days late.
- The Department does not have procedures to monitor the date of payment by the Comptroller's Office and pay interest accrued on vouchers not paid within 60 days of receipt. The Department did not pay vendors interest charges totaling \$949 for five of 301 vouchers tested in the sample.

Response: Accepted. The Department is now receiving a monthly report identifying vouchers possibly requiring interest payment. This report is being reviewed and acted upon as needed.

- 8. Establish appropriate controls and procedures to comply with the State Officers and Employees Money Disposition Act and make timely deposits into the State Treasury.**

Findings: The Department did not timely deposit receipts and refunds. The auditors noted that 11 of 50 receipts tested and two of 15 refunds tested totaling \$142,202 and \$449, respectively, were deposited from one to 101 days late.

Response: Accepted. The Department has implemented new procedures to comply with the State Officers and Employees Money Disposition Act.

Accepted or Implemented - concluded

9. Implement controls to ensure that only authorized individuals are signing for withdrawals from the locally held account.

Findings: During the auditors' testing, it was noted that an employee without signature authority on the bank authorization cards for the Lincoln's Challenge Stipend Fund had signed for a stipend payment withdrawal from the account. The employee had been signing for withdrawals since shortly after the employee's hire date of December 2001.

Response: Accepted. Only authorized signers will be signing for withdrawals from the locally held account.

Updated Response: The Department took immediate corrective action to resolve/correct this finding.

10. File the Annual Real Property Utilization Report by October 30th of each year as required by the State Property Control Act.

Findings: The Department failed to file the Annual Real Property Utilization Report with CMS for FY03.

Response: Accepted. The employee responsible for property accountability and reporting for the audit period is no longer employed by the Department. The Department is in the process of obtaining an appropriately qualified staff resource to handle these responsibilities. The Department will then be able to comply with the State Property Control Act.

11. Adopt adequate controls to ensure that the report on loaned historical artifacts is filed annually as required by statute or seek legislative remedy to the statutory requirement.

Findings: The Department failed to file a report with the Office of the Governor listing each historical artifact loaned during the previous fiscal year. The Department had 11 loan agreements made during the audit period to other agencies. For the 11 agreements, there were 51 individual artifacts on loan.

Response: Accepted. The Department will adopt adequate controls to ensure the annual artifacts loaned report is filed with the Office of the Governor as required.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle 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 for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The 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.

During FY03 and FY04 the Department filed eight affidavits for emergency purchases. Six affidavits for repairs totaled \$626,282.12. Another affidavit estimating \$50,000 for repairs at the Paris Armory was not followed-up with a letter stating actual costs. \$66,342.16 was the estimated cost for furniture purchased for the new Aurora Readiness Facility.

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 of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of Military Affairs indicated as of July 2004, three employees were assigned to locations other than official headquarters.