

**STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS**

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014**

Performed as Special Assistant Auditors for
The Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

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AGENCY OFFICIALS

Adjutant General	Major General Daniel Krumrei (12/21/2012 through present) Major General Dennis Celletti – acting (06/07/2012 through 12/20/2012)
Chief of Staff, Air National Guard	Brigadier General James Schroeder
Assistant Adjutant General - Army	Brigadier General Richard Hayes (06/04/2013 through present) Major General Dennis Celletti (12/21/2012 through 06/01/2013) Major General Johnny Miller (01/01/2011 through present)
Assistant Adjutant General - Air	Major General William Cobetto (04/16/2012 through present)
Military Executive	James Smith
Chief Fiscal Officer	Elena Goutsalenko (02/01/2013 through present) Connie Sabo (07/01/2012 through 09/30/2012)
Staff Judge Advocate	Colonel Robert Roth

Department headquarters is located at:

Camp Lincoln
1301 N. MacArthur Boulevard
Springfield, Illinois 62702



1301 North MacArthur Boulevard
Springfield, Illinois 62702-2399

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

Crowe Horwath LLP
Certified Public Accountants
3201 West White Oaks Drive, Suite 202
Springfield, Illinois 62704

February 3, 2015

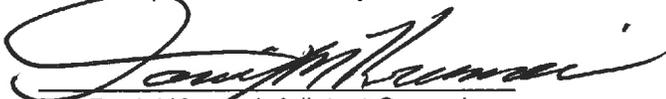
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Department of Military Affairs (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the two-year period ended June 30, 2014. Based on this evaluation, we assert that during the years ended June 30, 2013 and June 30, 2014, the Department has materially complied with the assertions below, except as identified in the schedule of findings.

- A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Department of Military Affairs


MG Daniel Krumrei, Adjutant General


Elena Goutsalenko, Chief Fiscal Officer


Robert Roth, Staff Judge Advocate

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

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COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORT

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a qualified opinion on compliance and material weaknesses over internal control.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	11	6
Repeated findings	6	2
Prior recommendations implemented or not repeated	0	2

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2014-001	9	Property control weaknesses	Material Noncompliance and Material Weakness
2014-002	13	Weaknesses in controls over revenues, refunds, receivables and locally held funds	Material Noncompliance and Material Weakness
2014-003	16	Voucher processing weaknesses	Material Noncompliance and Material Weakness
2014-004	19	Failure to comply with the Fiscal Control and Internal Auditing Act (FCIAA)	Material Noncompliance and Material Weakness

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SCHEDULE OF FINDINGS - Continued

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
		FINDINGS (STATE COMPLIANCE) - Continued	
2014-005	21	Weaknesses in preparation of GAAP reporting forms	Material Noncompliance and Material Weakness
2014-006	23	Lack of controls over monthly reconciliations	Noncompliance and Significant Deficiency
2014-007	25	Failure to comply with reporting requirements	Noncompliance and Significant Deficiency
2014-008	27	Lack of documentation for Lincoln's Challenge Cadets	Noncompliance and Significant Deficiency
2014-009	30	Lack of controls over contractual agreements	Noncompliance and Significant Deficiency
2014-010	33	Failure to maintain adequate commodities inventory records and controls	Noncompliance and Significant Deficiency
2014-011	34	Failure to comply with the Identity Protection Act	Noncompliance and Significant Deficiency

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EXIT CONFERENCE

The Department waived an exit conference in correspondence dated January 23, 2015. Responses to the recommendations were provided by the Department's Internal Auditor, James Bakunas, in correspondence dated January 27, 2015 and by the Department's Assistant Fiscal Officer, Harold Wilson, in correspondence dated February 3, 2015.

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Military Affairs' (Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2014. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

As described in items 2014-001 through 2014-005 in the accompanying schedule of findings, the Department did not comply with requirements regarding assertions C and D. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2014. However, the results of our procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2014-006 through 2014-011.

Internal Control

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Department's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-001 through 2014-005 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-006 through 2014-011 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Department's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Department's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2014 and June 30, 2013 in Schedules 1 through 10 and the Analysis of Operations Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2014 and June 30, 2013 accompanying supplementary information in Schedules 1 through 4 and 6 through 10. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2014 and June 30, 2013 accompanying supplementary information in Schedule 5 and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

We have not applied procedures to the June 30, 2012 accompanying supplementary information in Schedules 3 through 8 and in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Department management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Springfield, Illinois
February 3, 2015

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-001 **FINDING:** (Property control weaknesses)

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

We noted the following:

- The Department did not maintain detailed supporting documentation for the Agency Report of State Property (Form C-15) filed quarterly with the Illinois Office of the Comptroller (IOC). As of June 30, 2014 and 2013, the Department reported total property of \$327 million and \$304 million, respectively. Due to the lack of detailed documentation, the following compliance examination procedures could not be performed:
 - Completeness of overall property records could not be determined because property additions and deletions populations were not tested due to the lack of records. Annual addition and deletion reports provided by the Department in response to audit requests could not be agreed to activity reported in the quarterly Form C-15 reports submitted to the IOC.
 - Construction in progress (CIP) activity, during the examination period, could not be determined because the Department did not track its CIP projects and maintain the support. The Department did not properly include Capital Development Board (CDB) turnover information as CIP on Form C-15. For 2 of 8 (25%) quarters tested, it appears approximately \$2.9 million in additions should have been reported.
 - Property additions during the examination period could not be reconciled to IOC records of property expenditures.
 - As a result of the above, quarterly Form C-15 reports were not tested for accuracy and the Schedule of Changes in State Property, a compliance schedule included in the examination report, was not examined.

Department personnel indicated they were unaware of the importance to maintain supporting documentation for Form C-15 reports to provide an adequate audit trail and misinterpreted the CDB turnover reports.

- Three of 9 (33%) permanent improvements tested (i.e., wall expansion, asbestos removal, and an exercise conditioning course), totaling \$149 thousand, were not added to the Department's property records and, as a result, were not properly capitalized and reported on the Capital Asset Summary (Form SCO-538) in accordance with the Statewide Accounting and Management System (SAMS) Procedure 27.20.38. The Department stated the vouchers were not submitted to the Department's Facility Property Control personnel by the Fiscal Office due to oversight; therefore, the improvements were not added to property records.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-001 **FINDING:** (Property control weaknesses) – Continued

- CDB manages certain projects for the State and provides the Department with a CDB Agency Turnover Report to transfer the project cost to the Department when a project is substantially complete. The Department is responsible for adding the capital asset to its property records. During Fiscal Year 2013 and 2014 there were 55 CDB transfers-in to the Department. Six of 11 (55%) CDB transfers-in tested included planning costs and architectural and engineering costs, totaling \$72 thousand, not added to property control records or capitalized. SAMS Procedure 11.50.30 requires architectural and engineering fees (detail object code 6628) and planning (detail object code 6650) to be capitalized, unless incurred prior to the Department's decision to proceed with a project. The Department could not provide documentation to support the exclusion of planning and architectural and engineering costs. The Department stated they were unaware of the requirement to capitalize planning, architectural and engineering costs.
- Three of 11 (27%) CDB transfers-in tested were capitalized at a percentage of the total transfer-in amount, or \$360 thousand, rather than the total transfer-in amount of \$398 thousand. SAMS Procedure 03.30.30 states an agency is responsible for recording capital assets turned over from CDB on its books and records. SAMS Procedure 11.50.30 requires architectural and engineering fees (detail object code 6628) and planning (detail object code 6650) to be capitalized, unless incurred prior to the Department's decision to proceed with a project. The Department did not maintain documentation to support its methodology or the calculation of capitalization percentages. Department personnel stated the reason the transfers were capitalized at a percentage was due to a portion of expenditures related to planning, architectural and engineering costs that were not capitalized, and they were unaware of the requirement to capitalize planning, architectural and engineering costs.
- The Department did not timely record 27 of 40 (68%) equipment additions tested, totaling \$33 thousand. The items were recorded in property records from 3 to 307 days late. The Illinois Administrative Code (Code) (44 Ill. Adm. Code 5010.400) requires agencies to adjust property records within 30 days of acquisition, change or deletion of equipment items. The Department stated the delay in adding the items to property records was due to the delays in receiving invoices in the Department's Facility Property Control division from the facilities.
- Eleven of 30 (37%) items, totaling \$11 thousand, selected from property records and traced to the reported location, could not be found or were not properly reported in the Department's records. Specifically, we noted the following:
 - Three items, totaling \$555, could not be located.
 - Three items, totaling \$1,744, were transferred to another Agency but were included in the Department's records as of June 30, 2014. Two items were transferred during the examination period (January 2013 and June 2014) and the third item was transferred in 2001.
 - Three items, totaling \$8,247, were not in the location noted in the Department's property records. The Department provided support verifying two of the items had been moved to a different location. The Department indicated the third item had been moved to a federal location, but no documentation was available to support the item's existence.
 - Two items, totaling \$929, were not properly tagged with a State equipment number.

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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-001 **FINDING:** (Property control weaknesses) – Continued

The Department attributed the errors to items being moved without notifying the Department's Facilities Property Control personnel.

- The Department did not properly allocate freight charges to 9 of 40 (23%) property additions tested, totaling \$3,248. The freight charges were either not added to the property records or were not allocated to the correct items. SAMS Procedure 03.30.20 states "included in the cost of equipment in addition to the net invoice cost are freight charges". Department personnel stated freight was not properly allocated due to oversight.
- Two of 30 (7%) property items, totaling \$417, selected from the floor and traced to property records, were not recorded in the property listing in the same location as found on the floor. The Department attributed the errors to items being moved or relocated without notifying the Department's Facilities Property Control personnel.
- Two of 34 (6%) equipment vouchers tested included property items that did not trace to the property listing. The Department stated: One item was received late in the fiscal year and was not added to property records or tagged as of June 30, 2014; and the second item was not added to property records due to oversight.
- The Department's property listing included unused and obsolete items, including:
 - Three cell phones, between 10 to 14 years old, totaling \$280.
 - Twenty-three EDP equipment items, between 7 to 64 years old, totaling \$30 thousand.

The Department attributed the inclusion of obsolete items on the listing to employee oversight.

- The Fiscal Year 2013 and Fiscal Year 2014 Annual Certification of Property and Discrepancy Reports were not filed with the Department of Central Management Services (DCMS), as required by the Illinois Administrative Code (Code) (44 Ill. Adm. Code 5010.460). Management stated the 2013 report was not submitted as the Department was unsure who the report should be sent to due to turnover at DCMS. The 2014 report is currently being completed but was not filed timely due to the collection of the information from numerous locations. As of December 19, 2014, the Fiscal Year 2013 and Fiscal Year 2014 reports had not been submitted.
- The Department did not submit the Fiscal Year 2013 Real Property Utilization Report by the July 31 deadline. It was submitted on August 1, 2013, 1 day late. In addition, the Fiscal Year 2012 and 2013 Real Property Utilization Reports did not include the legal descriptions as required. The State Property Control Act (30 ILCS 605/7.1(b)) requires the Annual Real Property Utilization Report to be submitted by July 31 of each fiscal year and include a legal description of all real property owned by the State under the control of the responsible officer. Department management stated the late submission was due to employee oversight. In addition, legal descriptions were not submitted as the employee who completes the report did not know where the legal descriptions were maintained, and therefore, did not submit them.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-001 **FINDING:** (Property control weaknesses) – Continued

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, Section 6.02 of the Act requires each responsible officer to maintain a permanent record of all items of property under his or her jurisdiction and control and Section 6.03 requires the records to include information necessary for its proper identification. The Act (30 ILCS 605/7.3) further instructs responsible officers to periodically report all transferable property to the Administrator (DCMS). A system of strong internal controls requires a supervisory review process to ensure checks and balances are in place to detect and correct clerical, technical, and other errors. Lastly, the State Records Act (5 ILCS 160/9) requires agencies to establish and maintain a program for agency records management, which should include effective controls over maintenance of records.

Failure to exercise adequate control over equipment increases the potential for fraud and possible loss or theft of State property, is noncompliance with the Act, the Code and SAMS, and resulted in inaccurate property and fixed asset reporting. (Finding Code No. 2014-001, 12-2, 10-1, 08-2, 06-2, 04-3)

RECOMMENDATION:

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

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-002 **FINDING:** (Weaknesses in controls over revenues, refunds, receivables and locally held funds)

The Department of Military Affairs (Department) did not maintain proper segregation of duties over the collection and processing of receipts and did not properly process and report revenues, refunds, receivables and locally held funds.

As of June 30, 2014 and 2013, the Department collected cash receipts of \$24.2 million and \$25.6 million, respectively, including refunds of \$1 thousand and \$39 thousand, respectively. The Department maintained one locally held fund with a cash balance of \$1 thousand at June 30, 2014 and \$3 thousand at June 30, 2013. The Department also recorded receivables in three funds during the compliance examination period, with balances as of June 30, 2014 and 2013, of \$2.9 million and \$338 thousand, respectively.

During our testing, the following conditions were noted:

- The Department did not maintain proper segregation of duties over receipt collection and processing. One employee is responsible for: 1) opening checks or receiving checks from other divisions within the Department, 2) logging in the checks, and 3) creating the receipt deposit transmittal (RDT) form to deposit the funds in the State Treasury. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies 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.” Management has ultimate responsibility for the Department's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the Department's financial reporting.
- Sixty of 60 (100%) RDTs tested, totaling \$3.6 million, did not include documentation of Department review prior to being transmitted to the Illinois Office of the Comptroller (IOC). The State Records Act (5 ILCS 160/9) requires agencies to establish and maintain a program for agency records management, which should include effective controls over maintenance of records.
- Nineteen of 60 (32%) RDTs tested, totaling \$98 thousand, did not include documentation of the date the check was received; therefore, timeliness of the deposit could not be determined. The State Officers and Employees Money Disposition Act (30 ILCS 230/2) requires the Department to keep proper books detailing an itemized account of all moneys received for or on behalf of the State of Illinois. The detail is required to include the date of receipt, the payor, purpose and amount, and the date and manner of disbursement. In addition, unless a different time of payment is expressly provided by law or by rules or regulations promulgated under 30 ILCS 230/2(b), the Department is required to “pay into the State Treasury the gross amount of money received on the day of actual physical receipt with respect to any single item of receipt exceeding \$10,000, within 24 hours of actual physical receipt with respect to an accumulation of receipts of \$10,000 or more, or within 48 hours of actual physical receipt with respect to an accumulation of receipts exceeding \$500 but less than \$10,000, disregarding holidays, Saturdays and Sundays.”

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CURRENT FINDINGS
(STATE COMPLIANCE)

2014-002 **FINDING:** (Weaknesses in controls over revenues, refunds, receivables and locally held funds) – Continued

- Four of 60 (7%) RDTs tested, totaling \$2,977, were posted to an incorrect receipt code. In addition, 2 of the 4 (50%) should have been recorded on an Expenditure Adjustment Transmittal (EAT) form. The Statewide Accounting Management System (SAMS) Procedure 25.20.10 requires an RDT be completed when submitting receipts to IOC for ordering money into a fund and states the RDT must include the proper receipt account code from the SAMS receipt chart of accounts. In addition, SAMS Procedure 25.20.20 states an expenditure adjustment transmittal form is to be used when submitting cash refunds (excluding salary refunds) to the Comptroller for ordering of monies into the State Treasury.
- During receipt analytical procedures, we noted additional receipts processed to incorrect receipt codes. Fiscal Year 2013 transfers totaling \$467 thousand from the General Revenue Fund to the Federal Support Agreement Revolving Fund were incorrectly recorded as Reimbursement/Jury Duty Recoveries. Fiscal Year 2014 transfers totaling \$754 thousand from the General Revenue Fund were incorrectly recorded as Reimbursement/Jury Duty Recoveries in the Federal Support Agreement Revolving Fund and as Donations from Private Organizations and Individuals in the Illinois Military Family Relief Fund.
- Four of 60 (7%) RDTs tested, totaling \$897, were not submitted to the IOC in a reasonable timeframe upon receipt of the Treasurer's Draft. They were submitted between 10 and 14 calendar days after receipt of the Treasurer's Draft. In addition, 1 of 60 (2%) RDTs tested, totaling \$2,595, was deposited one day late. SAMS Procedure 25.10.30 requires the State Treasurer to remit collected funds to the agency by Treasurer's Draft and the draft to be remitted to the Comptroller to be ordered into the appropriate fund. Prudent business practice dictates this process should be performed in a timely manner.
- One of 5 (20%) EATs tested, totaling \$36 thousand, was not recorded in the Department's receipts and refunds records. SAMS Procedure 25.20.20 states an expenditure adjustment transmittal form is to be used when submitting cash refunds (excluding salary refunds) to the Comptroller for ordering of monies into the State Treasury.
- Four of 5 (80%) EATs tested, totaling \$4,812, did not include documentation of date stamped checks or deposit slips; therefore, the timeliness of the deposit could not be determined.
- One of 8 (13%) Report of Receipts and Disbursements for Locally Held Funds (Form C-17) submitted to the IOC included an inaccurate amount for Cash on Hand and in Banks. The September 30, 2012 Form C-17 reported the bank balance of \$24,315, but should have reported the reconciled balance of \$10,355. SAMS Procedure 33.13.20 states Form C-17 is used to report locally held fund activity to reflect receipts and disbursements per the agency's records.
- One of 15 (7%) locally held fund transactions tested, totaling \$6,940, did not agree to the amount reported on Form C-17. Form C-17 reflected \$7,690, overstating the amount by \$750.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

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For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-002 **FINDING:** (Weaknesses in controls over revenues, refunds, receivables and locally held funds) – Continued

- Receivables were inaccurately reported on 5 of 8 (63%) Quarterly Summary of Accounts Receivable - Accounts Receivable Activity (Form C-97) reports. An incorrect beginning balance was brought forward on the June 30, 2013 Form C-97 resulting in all proceeding Form C-97s being overstated by the same amount. Fund 333 Federal Government Revenue was overstated by \$476 resulting in the receivable being overstated by one thousand dollars after rounding for the June 30, 2013 and all Fiscal Year 2014 Form C-97s. SAMS Procedure 26.30.20 states the Quarterly Summary of Accounts Receivable Accounts Receivable Activity (Form C-97) report is used to summarize accounts receivable activity on a quarterly basis and the "Gross receivables beginning of this quarter" amount should be the same as the "Gross receivables at end of quarter" from the previous quarter Form C-97.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires agencies 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." Management has ultimate responsibility for the Department's internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the Department's financial reporting. In addition, the State Records Act (5 ILCS 160/9) requires agencies to establish and maintain a program for agency records management, which should include effective controls over maintenance of records.

Department management stated the issues related to RDTs, EATs, and quarterly reporting were due to clerical error, oversight, lack of staffing and the Department not being aware of the requirement to maintain documentation of the Department's review. The lack of segregation of duties was due to a staffing shortage.

Failure to maintain proper segregation of duties could result in theft or misappropriation of assets which would not be prevented or detected. In addition, lack of controls over the preparation and review of revenues, refunds, receivables and locally held funds led to the submission of inaccurate financial information to the IOC. (Finding Code No. 2014-002)

RECOMMENDATION:

We recommend the Department ensure proper segregation of duties is in place over the receipts process, perform supervisory review over all reporting and transaction processing, and maintain documentation to support the work and reviews performed.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-003 **FINDING:** (Voucher processing weaknesses)

The Department of Military Affairs (Department) did not exercise adequate controls over voucher processing.

During testing, we noted the following:

- Four of 9 (44%) permanent improvement vouchers tested, totaling \$67,712, included repair and maintenance costs improperly coded as permanent improvement expenditures. The Statewide Accounting Management System (SAMS) Procedure 11.50.30 states permanent improvement expenditures under \$5,000 should be coded to a contractual detail object code. SAMS Procedures 11.50.10 and 11.50.30 state replacement costs are considered “repair and maintenance” and should be coded to a contractual detail object code. Department management stated the vouchers were incorrectly coded due to employee turnover and federal employees assuming responsibilities for a vacant State position.
- Two of 60 (3%) vouchers tested for duplicate payments, totaling \$2,485, were found to be duplicate payments. One voucher duplicate was recovered through a reduction to a subsequent vendor payment during Fiscal Year 2014. The second voucher duplicate is in the process of being recovered. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies 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. The Department attributed the duplicate payments to clerical error.
- Forty-six of 60 (77%) vouchers tested were not properly approved by the Department. Multiple errors were noted on several vouchers as follows:
 - One of 60 (2%) vouchers, in the amount of \$73, was not properly approved by the Agency Head or designee on the tape balancing report. SAMS Procedure 17.20.20 states each invoice-voucher must include the agency head’s signature and date.
 - Forty-three of 60 (72%) vouchers were not approved properly by the receiving officer as follows:
 - Seventeen invoices, totaling \$518,300, were not approved or dated by the receiving officer.
 - Twenty-six invoices, totaling \$20,971, were dated when received, but were not approved by the receiving officer.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-003 **FINDING:** (Voucher processing weaknesses) – Continued

SAMS Procedure 17.20.20 effective from July 1, 2012 through December 31, 2012 required the receiving officer, upon receipt of goods or services, to verify the goods or services meet the stated specifications and to sign the vendor's invoice to certify approval prior to forwarding the vendor's invoice to the accounting department for preparation of the invoice-voucher. The revised SAMS Procedure effective January 1, 2013 required the receiving officer to verify the goods or services meet the stated specifications, but removed the wording "to sign the vendor's invoice to certify their approval". The Department stated lack of staffing resulted in clerical errors due to untrained staff completing the tasks.

- Thirteen of 60 (22%) vouchers tested were not properly approved by the head of unit as follows:
 - Five vouchers, totaling \$504,533, did not include any indication of approval by the head of unit.
 - Eight vouchers, totaling \$5,824, included a pen mark to indicate approval, but there were no initials or signature to provide documentation as to the approver.

SAMS Procedure 17.10.30 states "The primary system control associated with the vouchering process is known as pre-audit. ...All vouchers are first pre-audited at the agency level. Agency level pre-auditing is defined as an examination by the agency head or designated individual for the purpose of determining the legality and propriety of a proposed transaction or a transaction in process." The Department stated a turnover in staff resulted in vouchers being erroneously processed by new, untrained staff, unfamiliar with proper procedures.

- Three of 60 (5%) contractual vouchers tested, totaling \$3,805, included an incorrect invoice number that did not agree to the invoice number listed on the vendor's invoice. SAMS Procedure 17.20.20 states the invoice voucher should include the vendor's invoice number as one means of payment identification to the vendor. The Department stated this was a result of a clerical error.
- Two of 18 (11%) travel vouchers tested, totaling \$705, were not properly completed as follows:
 - The residence was not completed by the traveler on one voucher.
 - The location and times for the return trip home were not completed by the traveler on one voucher.

SAMS Procedure 17.20.10 requires contents for travel vouchers to include the traveler's residence, the city departed from, the time of departure, the city arrived at and the time of arrival. The Department stated the errors were due to oversight.

- One of 18 (6%) travel vouchers tested, in the amount of \$222, was not mathematically correct. The traveler incorrectly input \$18 in the item column instead of the other travel expenses amount column, causing the travel voucher to be understated by \$18. SAMS Procedure 17.20.10 documents the process for completing travel vouchers including the calculations. Strong internal controls include supervisory reviews to ensure mathematical accuracy. The Department attributed the mistake to clerical error.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-003 **FINDING:** (Voucher processing weaknesses) – Continued

- Two of 18 (11%) travel vouchers tested, totaling \$2,044, improperly claimed commuting mileage for reimbursement. The Illinois Administrative Code (Code) (80 Ill. Adm. Code 3000.220(a)) prohibits claiming commuting mileage for reimbursement when travel through the employee's headquarters occurs. The Code defines commuting mileage as the actual round trip mileage between residence and headquarters. Commuting mileage for the two vouchers totaled approximately 178 miles, or \$99 claimed for reimbursement. The Department indicated the error was the result of oversight.
- During testing of 26 automotive vouchers, we noted the following:
 - Five of 26 (19%) vouchers, totaling \$266, did not include a State license plate number or equipment number to indicate for which vehicles the items were purchased; therefore, the purchases could not be traced to vehicle records.
 - Nineteen of 26 (73%) vouchers tested, totaling \$26,636, were not signed by a Department employee to document a detailed review of the automotive purchase.
 - One of 26 (4%) vouchers tested, in the amount of \$2,941, was a purchase of weekend fuel that could not be justified.

Strong internal controls require automotive purchases to be fully documented, maintained and sufficiently reviewed. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies 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." The Department attributed the errors to turnover in the division responsible for automotive vouchers.

Inadequate internal controls over voucher review and approval led to inaccurate voucher processing, including duplicate payments of invoice vouchers. Inadequate controls can also lead to misappropriation, misuse of State funds, or payment for goods and services not received. In addition, improper coding on vouchers leads to inaccurate financial reporting. (Finding Code No. 2014-003, 12-3, 10-4)

RECOMMENDATION:

We recommend the Department implement procedures to ensure vouchers are thoroughly reviewed to detect and correct errors and to comply with SAMS requirements. In addition, documentation should be maintained to support all reviews performed. The Department should also seek reimbursement for the duplicate payment not yet recovered.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-004 **FINDING:** (Failure to comply with the Fiscal Control and Internal Auditing Act (FCIAA))

The Department of Military Affairs (Department) did not comply with the Fiscal Control and Internal Auditing Act and the Financial Reporting Standards Board Act requirements.

During the examination period, we noted the following:

- The Department did not establish a program of internal auditing until March 2014.
- The Adjutant General did not appoint a chief internal auditor.
- The Department did not identify and prioritize control deficiencies and develop or implement the controls necessary to correct the deficiencies in the absence of an internal audit program.
- The internal auditor did not directly report to or communicate with the Department's chief executive officer, the Adjutant General, during the exercise of auditing activities.
- One internal audit report was issued during the examination period and was not addressed or sent to the Adjutant General.
- The one internal audit report issued during the examination period was signed and issued by the chief internal auditor of another State agency, as the Department's internal auditor did not possess the credentials necessary to sign or issue the report.
- Internal audit staff did not perform operational audits, reviews of Department programs for economy and efficiency of operations, audits over the Department's major electronic data processing systems or new or modified systems during the period.
- Internal audit did not complete a two-year audit plan.
- The annual report from the chief internal auditor to the Adjutant General was not completed.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-004 **FINDING:** (Failure to comply with the Fiscal Control and Internal Auditing Act (FCIAA)) – Continued

The Fiscal Control and Internal Auditing Act (30 ILCS 10/) (Act) Section 2001, as amended July 1, 2010, required each designated State agency to maintain a full-time program of internal auditing. Further, the Act required the Department to appoint a chief internal auditor by August 1, 2010. Section 2002(b) states “the chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities.” Section 1002 mandates the chief executive officer of every Agency to be “responsible for effectively and efficiently managing the agency and establishing and maintaining an effective system of internal control.” Section 2003 requires the internal audit program to include operational audits, audits of electronic data processing systems, development of a two-year audit plan, and a report detailing how the audit plan for that year was carried out.

Department management stated the internal audit department was not established until late in the examination period due to budget constraints.

Failure to establish an internal audit program, including the appointment of a chief internal auditor, and not identifying and correcting control deficiencies is noncompliance with State statute and exposes the Department to significant risks. (Finding Code No. 2014-004, 12-1)

RECOMMENDATION:

We recommend the Department appoint a chief internal auditor to ensure the Department has independent oversight, the ability to issue audit reports, and become compliant with the Fiscal Control and Internal Auditing Act. In addition, the Department should implement measures to identify, prioritize and correct control deficiencies.

RESPONSE:

Department concurs and will solicit additional funds through appropriate authorities to support a full-time internal audit program. The internal audit program implemented during the examination period had funding to support staffing only.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-005 **FINDING:** (Weaknesses in preparation of GAAP reporting forms)

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 Illinois Office of the Comptroller (IOC) and in the Schedule of Expenditures of Federal Awards (SEFA).

The Department reported federal activity in four funds during Fiscal Years 2013 and 2014. While performing Agreed-Upon-Procedures over the Fiscal Year 2014 SCO-563, 567, and 568 GAAP forms, we noted the Department inaccurately reported or could not support financial information on Form SCO-563 and the SEFA as follows:

- Fund 333 current year expenditures were overstated on Form SCO-563 by approximately \$576 thousand as vouchers in transit were improperly included in CFDA #12.401 (National Guard Military Operations and Maintenance (O&M) Projects) and CFDA #12.404 (National Guard Challenge Program). Vouchers in transit should be reported as accounts payable.
- Fund 043 improperly excluded current year expenditures of \$9 thousand in CFDA #16.922 (Equitable Sharing Program) on Form SCO-563.
- Fund 333 receipts were understated by \$209 thousand on Form SCO-563 in CFDA # 12.401 due to a formula error on the spreadsheet used to calculate current year receipts.
- The Renewable Energy Research and Development (CFDA #81.087) program reported in Fund 333 was not properly identified as an American Recovery and Reinvestment Act (ARRA) Program on Form SCO-563.
- In-kind assistance totaling \$1.584 million received from the Federal Government was not reported as non-cash assistance on Form SCO-563 in Fund 333. Non-cash assistance of \$35 thousand and \$1.549 million should have been reported in CFDA #12.404 and CFDA #12.401, respectively.
- Current year expenditures were not properly reported in the SEFA as follows:
 - CFDA #12.401: Expenditures were overstated by \$10 thousand as amounts were not properly totaled in the support.
 - CFDA #12.404: Expenditures were overstated by \$122 thousand as Form SCO-568 expenditures for third-party reimbursement type transactions were not deducted in the expenditure calculation.
- The Department agreed to Form SCO-563 changes based on an IOC review as follows:
 - Fund 333 Form SCO-563 receipt amounts were improperly adjusted resulting in receipts being understated by \$113 thousand in CFDA#12.401 and overstated by \$36 thousand in CFDA #12.404.
 - Fund 043 Form SCO-563 current year expenditure amounts were improperly adjusted resulting in a \$29 thousand expenditure overstatement in CFDA #16.922.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-005 **FINDING:** (Weaknesses in preparation of GAAP reporting forms) – Continued

- The Department did not maintain sufficient controls to ensure its GAAP packages and SEFA were completed accurately as no review was completed over the amounts or other data reported.

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. Statewide Accounting Management Systems (SAMS) Procedures Manual Procedure 27.10.10 requires Department management to submit a letter representing that, to the best of their knowledge and belief, the GAAP financial reporting information is complete and accurate. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies 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 agencies to establish and maintain a program for agency records management, which should include effective controls over maintenance of records. The SAMS Manual Chapter 27 outlines the procedures for reporting accurate financial information to the IOC.

Department management stated errors were made as a result of oversight and faulty information received from other divisions within the Department. Management also stated GAAP reporting packages were prepared with limited staffing challenged by increasing workload demands.

Failure to submit correct and properly supported information to the Comptroller decreases the accuracy of federal financial information used for the Statewide SEFA. (Finding Code No. 2014-005)

RECOMMENDATION:

We recommend the Department comply with SAMS requirements to ensure accurate financial information is submitted to the Illinois Office of the Comptroller. Further, the Department should review and revise, as necessary, its current system used to gather, compile, document and review the financial information to be reported in the Comptroller GAAP Reporting Package forms.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-006 **FINDING:** (Lack of controls over monthly reconciliations)

The Department of Military Affairs (Department) did not maintain adequate controls over monthly cash receipt, cash balance, and appropriation reconciliations.

During our testing of reconciliations between Illinois Office of the Comptroller (IOC) records and Department records during Fiscal Years 2013 and 2014, we noted the following:

- Monthly Revenue Status Report (SB04) reconciliations:
 - Five of 5 (100%) reconciliations were not dated as to when the reconciliations were performed or reviewed.
 - Two of 5 (40%) reconciliations were not initialed by the employee preparing the reconciliation.
 - Four of 5 (80%) reconciliations lacked documentation of a supervisory review.
- Monthly Appropriation Status Report (SB01) reconciliations:
 - One of 6 (17%) reconciliations was not properly completed as reconciling items were not identified.
 - Six of 6 (100%) reconciliations were not dated as to when the reconciliations were performed.
 - Six of 6 (100%) reconciliations lacked documentation of a supervisory review.
- Cash Report (SB05) reconciliations:
 - One of five (20%) reconciliations was not completed; therefore, testing could not be performed.
 - Four of five (80%) reconciliations were not dated as to when the reconciliations were performed.
 - Two of five (40%) reconciliations lacked documentation of a supervisory review.
 - Two of five (40%) reconciliations lacked documentation to support the reviewer and preparer were separate individuals, as the preparer did not sign the reconciliation.

Due to the lack of adequate documentation, it could not be determined if the reconciliations were performed or reviewed timely or by the appropriate individuals.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-006 **FINDING:** (Lack of controls over monthly reconciliations) – Continued

Statewide Accounting Management System (SAMS) Procedure 25.40.20 requires the Department to perform a monthly reconciliation of receipt account balances and notify the IOC of any irreconcilable differences. SAMS Procedure 11.40.20 requires the Department to perform a monthly reconciliation of the unexpended budget authority balance per agency records to SAMS and notify the IOC of any irreconcilable differences. SAMS Procedure 09.40.30 requires the Department to perform a monthly reconciliation of cash balances on a timely basis and notify the IOC of any discrepancies to ensure early detection and correction of errors. SAMS requires the reconciliations to be conducted and differences reported to the IOC within 30 days of the end of each month. In addition, prudent business practice requires proper internal controls, such as timely supervisory reviews and segregation of duties between the preparer and supervisor, be established to ensure the accuracy and reliability of accounting data.

Department management stated staff shortages and employee turnover resulted in the reconciliation issues.

Failure to timely reconcile and review cash balance, appropriation, and cash receipt reconciliations could lead to unresolved differences between Department and Comptroller records, inaccurate financial reporting, and undetected loss or theft. (Finding Code No. 2014-006)

RECOMMENDATION:

We recommend the Department ensure cash balance, unexpended appropriation, and cash receipt reconciliations are performed and reviewed timely and the responsibility for those functions is segregated. In addition, we recommend the Department maintain documentation to support the timely completion and review of reconciliations.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-007 **FINDING:** (Failure to comply with reporting requirements)

The Department of Military Affairs (Department) did not adhere to various reporting requirements established by State law and the Administrative Code.

During our testing, we noted the following:

- Reports filed during the examination period were not reviewed prior to submission. Management has ultimate responsibility for the Department's internal control over reporting. This responsibility should include an adequate system of review to verify the completeness and accuracy of the Department's reporting. The following reports were not reviewed by the Department during the examination period:
 - Agency Report of State Property (Form C-15) – details of errors are noted at finding 2014-001.
 - Report of Receipts and Disbursements “Locally Held” Funds (Form C-17) – details of errors are noted at finding 2014-002.
 - Accounts Receivable Reports (Forms C-97, C-98, C-99) – details of errors are noted at finding 2014-002.

A system of strong internal controls requires a supervisory review process to ensure checks and balances are in place to detect and correct clerical, technical, and other errors. Department personnel stated the failure to review reports was due to personnel changes as the Fiscal Office experienced 75% turnover during the course of the examination period resulting in the loss of cumulative knowledge of over 75 years. In addition, new staff assumed responsibilities with minimum training, requiring them to prioritize responsibilities.

- During testing of the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3003) certifications, we noted the Fiscal Year 2013 certification was not completed or filed with the Illinois Office of the Auditor General and the 2014 certification was filed 47 days late. The Act requires the chief executive officer of all State agencies to perform an evaluation of the Department's internal controls conducted in accordance with guidelines established under Section 3002 of the Act and to prepare and transmit a certification regarding the Department's compliance with the requirements of the Act to the Auditor General by May 1 of each fiscal year. Department management stated noncompliance with the Act was due to turnover in the Fiscal Office.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-007 **FINDING:** (Failure to comply with reporting requirements) – Continued

- The Department did not comply with the Illinois Military Family Relief Administrative Code reporting requirements. The Illinois Administrative Code (95 Ill. Adm. Code 200.90) requires the Adjutant General to provide the Governor, Lieutenant Governor and Illinois Office of the Comptroller (IOC) a monthly report detailing the funds requested and processed and to provide the Governor, Lieutenant Governor and the IOC a monthly report detailing the amounts disbursed and donated to the Illinois Military Family Relief Fund (Fund) for each fiscal year. During testing of the Fund, we noted the following for 3 of 3 (100%) months selected for testing:
 - The Department did not maintain documentation to support the submission of monthly reports detailing the funds requested and processed to the IOC.
 - The Department did not maintain documentation to support the submission of reports detailing the amounts disbursed and donated into the Fund to the Governor and the Lieutenant Governor.

Department management stated the reports were not submitted as they were unaware of the requirements.

Failure to timely and accurately report to other State agencies, as required, lessens governmental oversight and accountability and represents noncompliance with State law and the Illinois Administrative Code. (Finding Code No. 2014-007)

RECOMMENDATION:

We recommend the Department timely complete and file all required reports to ensure compliance with State statutes and the Illinois Administrative Code. The Department should also implement a review process prior to the submission of all reports. Lastly, we recommend management establish a process to annually review internal controls within the Department to identify internal control deficiencies and to timely submit certification to the Office of the Auditor General to be in compliance with the Act.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-008 **FINDING:** (Lack of documentation for Lincoln's Challenge Cadets)

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

The Lincoln's Challenge program is a youth intervention program designed to improve life coping skills and future employability of high school dropouts between the ages of 16 and 19 through participation in a life skills program based upon a military training model. The program includes a 22 week Residential Phase and a 12 month Post-Residential Phase. During the Residential Phase, the Challenge curriculum is based on "Eight Core" objectives including academics, physical fitness, leadership/followership, responsible citizenship, job skills, service to the community, health and hygiene, and life-coping skills. The program youth, or Cadets, also attend academic classes enabling them to complete General Educational Development (GED) testing. Following the Residential Phase, Cadets participate in a 12 month Post-Residential Phase, at which time they are matched with a Mentor. The Mentor and the Challenge Case Manager assist Cadets in becoming productive and active citizens within their respective communities. During testing of LCA, we noted the following:

- Twenty-three of 40 (58%) Cadet application files reviewed did not contain documentation of review by the Medical, Counseling or Registrar Departments. Of the 23 applications lacking documentation of all required reviews, we noted 3 (8%) applications were not initialed by medical and counseling staff noting their approval, 19 (48%) applications were initialed by either medical or counseling staff, but not both, and 7 (18%) application files did not include documentation of a program acceptance letter noting the Registrar Department's approval.
- Twenty of 55 (36%) pre-challenge phase Cadet files tested did not include documentation to support the Cadet was a high school drop-out.
- Fifty-five of 55 (100%) pre-challenge phase Cadet files tested did not include documentation to support the Cadet was unemployed or underemployed.
- Five of 55 (9%) pre-challenge phase Cadet files tested did not include evidence of the Department's review of the Cadet's performance prior to admission to the Residential Phase.
- For 18 of 18 (100%) weeks tested during the Residential Phase, the Department did not maintain documentation to support Cadets were assessed for successful completion of the eight core components before a certificate of completion was awarded.
- Forty-nine of 49 (100%) Residential Phase Cadet files tested did not include evidence documenting the Cadet received a pre-TABE (Tests of the Adult Basic Education) Complete Battery over all eight core components. Academic score components were maintained, but no scores for the remaining seven components were available. In addition, the academic component scores, which should have been recorded on the assessment forms required by the federal agreement, were recorded as summary level information on a spreadsheet.
- Forty-nine of 49 (100%) Residential Phase Cadet files tested did not include documentation the pre-TABE Complete Battery scores were entered into the data management and reporting system.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-008 **FINDING:** (Lack of documentation for Lincoln's Challenge Cadets) – Continued

- Forty-nine of 49 (100%) Residential Phase Cadet files tested did not include evidence documenting the Cadet received a post-TABE Complete Battery over all eight core components. Academic score components were maintained, but no scores for the remaining seven components were available. In addition, the academic component scores, which should have been recorded on the assessment forms required by the federal agreement, were recorded as summary level information on a spreadsheet.
- Forty-nine of 49 (100%) Residential Phase Cadet files tested did not include documentation the post-TABE Complete Battery scores were entered into the data management and reporting system.
- Forty-nine of 49 (100%) Residential Phase Cadet files tested did not include documentation as to whether the Cadet's testing performance was reviewed for potential submission of a Waiver of Performance to the National Guard Bureau.

The LCA Standard Operating Procedures, Chapter 4, section 4(c)(2) states prior to acceptance, a review of the application will be made by the Medical, Counseling and Registrar Departments to ensure the Cadet meets basic requirements to complete the program. Those submitting complete applications and meeting entrance criteria will receive an Acceptance Letter from the Registrar, stating the time, place and uniform for in-processing day.

The National Guard Challenge Program Cooperative Agreement (Agreement), Article II, Section 201e requires Cadets to be a high school dropout, an individual who is no longer attending any school and who has not received a secondary school diploma or certificate from a program of equivalency for such diploma, and unemployed or underemployed.

The Agreement, Attachment 1, Section 1-15a7 states at the end of the two-week Acclimation Period, LCA Program Staff will assess each Cadet's performance and ability to continue in the Residential Phase. Attachment 1, Section 1-24a states a certificate of completion will be awarded to Cadets who successfully complete each core component task to the specified standards in the Core Component Performance Measurement Guide. The Agreement, Attachment 1, Section 1-20 states TABE Testing will be performed for all subjects to serve as the standard for determining academic grade level progress. The Pre-TABE will be administered and scores recorded in the management information system not later than Week 4 of the Residential Phase. Section 1-20 also states Post-TABE testing will be administered and results entered into the management information system any time after classroom requirements for GED studies have been met and prior to graduation from the Residential Phase. Attachment 1, Section 1-24f states any Cadet who fails to successfully meet all performance standards for more than one Core Component and for whom the Director believes is otherwise fully qualified, the Director must request a waiver from the National Guard Bureau.

The State Records Act (5 ILCS 160/9) requires agencies to establish and maintain a program for agency records management, which shall include effective controls over maintenance of records.

Department personnel stated the lack of documentation was due to vacant positions and difficulty obtaining information from school districts and parents during the application process.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-008 **FINDING:** (Lack of documentation for Lincoln's Challenge Cadets) – Continued

Failure to maintain records to substantiate Cadet qualifications, LCA staff reviews of Cadets, and Cadets' TABE Complete Battery testing is noncompliance with the Agreement and could result in the Department improperly enrolling Cadets who do not meet the standards for enrollment in LCA, advancing ineligible Cadets to the next phase of the program, or graduating cadets who did not successfully meet all the requirements of the program. (Finding Code No. 2014-008, 12-5)

RECOMMENDATION:

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

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-009 **FINDING:** (Lack of controls over contractual agreements)

The Department of Military Affairs (Department) did not ensure contractual agreements were properly completed and approved.

Our sample testing disclosed the following conditions:

- Four of 19 (21%) contracts tested did not contain all required contract content requirements:
 - Two contracts did not include the Appropriation Contingency Clause. One of the contracts was a professional and artistic contract totaling \$79,965.
 - One contract was not signed by the contracting party.
 - One contract did not contain the Rights to Audit Records Clause, Bribery Clause Certification, Education Loan Certification, Debt Delinquency Certification, Prohibited Bidders and Contractors Certification, State Board of Elections Certification, Vendor's Federal Taxpayer Identification Number, and the Illinois Use Tax Certification.
 - Three contracts did not contain the Legal Status Disclosure Certification. One of the contracts was a professional and artistic contract totaling \$79,965.
- Nine of 19 (47%) contract files tested did not include a properly completed contract obligation document (COD) and five files contained multiple errors:
 - One COD did not list the proper legal status.
 - One COD did not list the proper transaction code.
 - One COD did not list the master contract number within the description.
 - The procurement reference number on five CODs did not agree with the reference number on the contract and the Illinois Procurement Bulletin.
 - The procurement award code on six CODs did not agree with the award code listed on the contract and the Illinois Procurement Bulletin.
 - The procurement publication date on six CODs did not agree with the publication date on the contract and the Illinois Procurement Bulletin.
- Two of 19 (11%) contracts tested were not approved by the Department prior to the execution date of the contract.
- The Department paid \$53 thousand in State appropriated funds to a vendor, but no contract was in place in which the Department was a party. A contract, for a Department project being managed by the Capital Development Board (CDB), existed between CDB and the vendor, but did not include the Department as a party. In addition, there was no project agreement between CDB and the Department. The Illinois Office of the Comptroller instructed the Department to file a COD against the contract between CDB and the vendor to facilitate vendor payment.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-009 **FINDING:** (Lack of controls over contractual agreements) – Continued

- One of 2 (50%) real property lease agreements did not include the Bid-Rigging/Bid Rotating Certification.
- Four of 4 professional and artistic interagency agreements tested did not contain all required contract content requirements:
 - One of 4 (25%) interagency agreements tested, totaling \$31,891, did not include the Architectural, Engineering, and Land Surveying Qualifications Based Selection Act Certification.
 - One of 4 (25%) interagency agreements tested, totaling \$10,771, did not include the International Anti-Boycott Certification.
 - Four of 4 (100%) interagency agreements tested, totaling \$97,610, did not include the Bid-Rigging/Bid Rotating Certification and Legal Status Disclosure Certification. Two of the four interagency agreements were over \$20 thousand.
 - Two of 4 (50%) interagency agreements tested, totaling \$54,948, did not include the vendor's federal taxpayer identification number. One of the two interagency agreements was over \$20 thousand.
- The Department was unable to provide a complete population for interagency agreements. Throughout testing, interagency agreements were discovered that were not included in the population provided by the Department.

The Illinois Procurement Code (30 ILCS 500/20-60(b)) requires all contracts to include a clause indicating the contract is subject to termination and cancellation in any year for which the General Assembly fails to make an appropriation to make payments under the terms of the contract.

The Statewide Accounting Management System (SAMS) Procedure 15.20.20 requires contracts to include a signature of the contracting party. SAMS Procedure 15.20.50 requires contracts to be supported by documentation that includes the Rights to Audit Records Clause, Bribery Clause Certification, Educational Loan Certification, Debt Delinquency Certification, Prohibited Bidders and Contractors Certification, State Board of Elections Certification, Vendor's Federal Taxpayer Identification Number, Illinois Use Tax Certification, and the Legal Status Disclosure Certification. SAMS Procedure 15.20.30 for professional or artistic contracts and interagency agreements requires the Legal Status Disclosure Certification, Bid-Rigging/Bid Rotating Certification, the vendor's federal taxpayer identification number, the Architectural, Engineering, and Land Surveying Qualifications Based Selection Act Certification and the International Anti-Boycott Certification. SAMS Procedure 15.20.10 states the contract obligation document is used to obligate contracts, leases, purchase orders, sub-orders, and printing orders and must contain all of the data elements required by the SAMS Manual including procurement information from the Department of Central Management Services (DCMS) Illinois Procurement Bulletin, legal status, master contract number, and transaction code to note the type of obligation and processing action to be taken by the State Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-009 **FINDING:** (Lack of controls over contractual agreements) – Continued

The Illinois Procurement Code (30 ILCS 500/20-80(d)) requires all contracts subject to the Illinois Procurement Code to be reduced to writing and signed by all necessary parties before services are rendered or goods are received.

SAMS Procedure 15.20.40 requires real property lease agreements to include the Bid-Rigging/Bid Rotating Certification.

Lastly, the State Records Act (5 ILCS 160/9) requires agencies to establish and maintain a program for agency records management, which shall include effective controls over maintenance of records.

Department personnel stated human error, lack of attention to detail, and oversight resulted in the errors noted.

Lack of proper controls over contract documents could result in unenforceable contractual agreements, inaccurate recording by the Department and the State Comptroller, a lack of accountability by the Department, misappropriation of funds, and continued noncompliance. (Finding Code No. 2014-009)

RECOMMENDATION:

We recommend the Department strengthen its controls to ensure compliance with all contracting rules, regulations and statutory requirements.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations. Interagency Agreements (IAA) are exempt from the procurement code. However, the Department has already implemented a new procedure for processing IAAs where the Agency Procurement Officer reviews IAAs to ensure they include all required clauses.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-010 **FINDING:** (Failure to maintain adequate commodities inventory records and controls)

The Department of Military Affairs (Department) did not maintain adequate controls over its commodities inventory records.

The Department expended \$692 thousand and \$733 thousand on commodities during Fiscal Year 2013 and Fiscal Year 2014, respectively. The Department's inventory consists of various items such as janitorial and cleaning items, lamps and safety items. The Department maintains a listing of the types of products purchased but does not maintain commodities inventory amounts or perform formal inventory counts. In addition, there is no segregation of duties in place over purchasing and tracking of commodities inventory, as both responsibilities are performed by the same employee.

Statewide Accounting Management System (SAMS) Procedure 02.50.20 requires detailed subsidiary records be maintained for significant categories of inventories and for the inventories to be periodically reconciled to control accounts. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) (Act) requires agencies 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."

Department personnel stated there is no automated system established to monitor adequate controls over commodities inventory. Department management stated it monitors quantities on hand and ensures order amounts are reasonable; however, staffing shortages prohibit segregation of duties and manually tracking commodities inventory.

Failure to maintain accurate records of inventory on hand and lack of segregation of duties over inventory purchasing and tracking increases the potential for loss or theft of State property. (Finding Code No. 2014-010, 12-4)

RECOMMENDATION:

We recommend the Department implement procedures to maintain records of commodities inventory and perform inventory counts as required. In addition, we recommend the Department consider re-assigning employee responsibilities to ensure segregation of duties over commodities inventory.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations. We agree with the findings. The employee's responsibilities are already segregated to control just commodities inventory. The Department is in the process of finding software to help us manage stock levels.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

CURRENT FINDINGS
(STATE COMPLIANCE)

2014-011 **FINDING:** (Failure to comply with the Identity Protection Act)

The Department of Military Affairs (Department) failed to implement the provisions of the Identity Protection Act (Act) (5 ILCS 179).

The Identity Protection Act required the Department to draft and approve an identity protection policy by June 1, 2011. Per the Act, the Policy must:

- Identify the Act.
- Require all employees identified as having access to social security numbers in the course of performing their duties to be trained to protect the confidentiality of social security numbers.
- Direct that only employees required to use or handle information or documents containing social security numbers be granted access to such information or documents.
- Require social security numbers requested from an individual be placed in a manner making the social security number easily redacted if required to be released as part of a public records request.
- Require, when collecting a social security number or upon request by the individual, a statement of the purpose or purposes for which the agency is collecting and using the social security number be provided.

During our testing, we noted the Department had not established an identity protection policy.

Department officials stated the Department is including the policy in its Employee Handbook that was being compiled during the examination period and is currently in the approval process.

Failure to implement provisions of the Act results in noncompliance, does not promote the security and control of social security numbers, and increases the likelihood of identity theft. (Finding Code No. 2014-011, 12-6)

RECOMMENDATION:

We recommend the Department develop and approve an identity protection policy as required in the Identity Protection Act.

RESPONSE:

Department concurs and will implement a corrective action plan based on the auditor's recommendations. The Identity Protection Act (5 ILCS 179) has been addressed in the Employee Handbook. A section of the required computer training now addresses personally identifiable information to comply with the training requirements.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Fiscal Year 2014
 - Fiscal Year 2013
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis) – Locally Held Fund
 - Schedule of Changes in State Property (Not Examined)
 - Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
 - Analysis of Significant Lapse Period Spending
 - Analysis of Accounts Receivable
- Analysis of Operations (Not Examined):
 - Agency Functions and Planning Program (Not Examined)
 - Average Number of Employees (Not Examined)
 - Emergency Purchases (Not Examined)
 - Service Efforts and Accomplishments (Not Examined)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2014 and June 30, 2013 information in Schedules 1 through 4 and 6 through 10. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to Schedule 5 or to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on them.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2014

Fourteen Months Ended August 31, 2014

Public Act 98-0050	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Expenditures July 1 to August 31, 2014	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
<u>General Revenue Fund – 0001</u>					
<i>Office of the Adjutant General:</i>					
Personal Services	\$ 1,612,800	\$ 1,561,773	\$ 1,727	\$ 1,563,500	\$ 49,300
State Contributions to Social Security	123,400	113,817	132	113,949	9,451
Electronic Data Processing	31,800	26,115	5,608	31,723	77
State Officers' Candidate School	700	-	690	690	10
Lincoln's Challenge	2,200,000	2,199,905	-	2,199,905	95
Care/Preservation of Historical Artifacts	7,400	3,371	3,254	6,625	775
Cash Transfer to the IL Military Family Relief Fund	800,000	800,000	-	800,000	-
Ordinary & Contingent Expenses	3,686,100	2,914,710	377,125	3,291,835	394,265
<i>Total Office of the Adjutant General</i>	<u>8,462,200</u>	<u>7,619,691</u>	<u>388,536</u>	<u>8,008,227</u>	<u>453,973</u>
<i>Facilities Operations:</i>					
Personal Services	5,974,300	5,320,381	6,667	5,327,048	647,252
State Contributions to Social Security	454,000	389,094	510	389,604	64,396
<i>Total Facilities Operations</i>	<u>6,428,300</u>	<u>5,709,475</u>	<u>7,177</u>	<u>5,716,652</u>	<u>711,648</u>
Subtotal – Fund 0001	<u>14,890,500</u>	<u>13,329,166</u>	<u>395,713</u>	<u>13,724,879</u>	<u>1,165,621</u>
<u>Military Affairs Trust Fund – 0043</u>					
<i>Office of the Adjutant General:</i>					
Youth Programs and Other Programs	1,000,000	38,172	264,450	302,622	697,378
Subtotal – Fund 0043	<u>1,000,000</u>	<u>38,172</u>	<u>264,450</u>	<u>302,622</u>	<u>697,378</u>
<u>Federal Support Agreement Revolving Fund – 0333</u>					
<i>Office of the Adjutant General:</i>					
Lincoln's Challenge	6,600,000	5,466,335	390,112	5,856,447	743,553
Lincoln's Challenge Allowances	1,200,000	305,525	42,960	348,485	851,515
<i>Total Office of the Adjutant General</i>	<u>7,800,000</u>	<u>5,771,860</u>	<u>433,072</u>	<u>6,204,932</u>	<u>1,595,068</u>
<i>Facilities Operations:</i>					
Army/Air Reimbursable Positions	13,479,400	9,758,718	80,988	9,839,706	3,639,694
Expenses Related to Army National Guard Facilities Operations and Maintenance	<u>13,000,000</u>	<u>5,740,382</u>	<u>1,336,213</u>	<u>7,076,595</u>	<u>5,923,405</u>
<i>Total Facilities Operations</i>	<u>26,479,400</u>	<u>15,499,100</u>	<u>1,417,201</u>	<u>16,916,301</u>	<u>9,563,099</u>
Subtotal – Fund 0333	<u>34,279,400</u>	<u>21,270,960</u>	<u>1,850,273</u>	<u>23,121,233</u>	<u>11,158,167</u>
<u>Illinois Military Family Relief Fund – 0725</u>					
<i>Office of the Adjutant General:</i>					
Special duty due to September 11th Terrorist Attacks	5,000,000	463,000	-	463,000	4,537,000
Subtotal – Fund 0725	<u>5,000,000</u>	<u>463,000</u>	<u>-</u>	<u>463,000</u>	<u>4,537,000</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2014

Fourteen Months Ended August 31, 2014

Public Act 98-0050	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1 to August 31, 2014	Total Expenditures	Balances Lapsed
Illinois National Guard Armory Construction Fund – 0927					
<i>Facilities Operations:</i>					
Construction of IL National Guard Facilities	\$ 499,969	\$ 28,195	\$ -	\$ 28,195	\$ 471,774
Land Acquisition & Construction of Parking	91,600	-	-	-	91,600
<i>Total Facilities Operations</i>	<u>591,569</u>	<u>28,195</u>	<u>-</u>	<u>28,195</u>	<u>563,374</u>
Subtotal – Fund 0927	<u>591,569</u>	<u>28,195</u>	<u>-</u>	<u>28,195</u>	<u>563,374</u>
TOTAL – ALL APPROPRIATED FUNDS	<u>\$ 55,761,469</u>	<u>\$ 35,129,493</u>	<u>\$ 2,510,436</u>	<u>\$ 37,639,929</u>	<u>\$ 18,121,540</u>
NON-APPROPRIATED FUNDS					
Illinois National Guard State Active Duty Fund – 0730					
<i>Facilities Operations:</i>					
Illinois National Guard State Active Duty		\$ -	\$ 24,292	\$ 24,292	
Subtotal – Fund 0730		<u>-</u>	<u>24,292</u>	<u>24,292</u>	
TOTAL – ALL NON-APPROPRIATED FUNDS		<u>\$ -</u>	<u>\$ 24,292</u>	<u>\$ 24,292</u>	
GRAND TOTAL – ALL FUNDS		<u>\$ 35,129,493</u>	<u>\$ 2,534,728</u>	<u>\$ 37,664,221</u>	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and have been reconciled to Department records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013

Fourteen Months Ended August 31, 2013

Public Acts 97-0731, 98-0001	Appropriations (Net After Transfers)	Expenditures Through June 30, 2013	Lapse Period Expenditures July 1 to August 31, 2013	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
General Revenue Fund – 0001					
<i>Office of the Adjutant General:</i>					
Personal Services	\$ 1,559,200	\$ 1,346,099	\$ -	\$ 1,346,099	\$ 213,101
State Contributions to Social Security	119,300	100,456	-	100,456	18,844
Contractual Services	20,300	4,814	1,371	6,185	14,115
Travel	23,000	6,786	607	7,393	15,607
Commodities	20,100	9,588	9,806	19,394	706
Printing	3,600	385	-	385	3,215
Equipment	4,900	2,217	2,363	4,580	320
Electronic Data Processing	28,800	18,646	3,460	22,106	6,694
Telecommunications Services	31,400	14,512	2,823	17,335	14,065
Operation of Auto Equipment	37,000	3,620	344	3,964	33,036
State Officers' Candidate School	700	-	-	-	700
Lincoln's Challenge	2,200,000	2,199,955	-	2,199,955	45
Care/Preservation of Historical Artifacts	7,400	2,801	1,900	4,701	2,699
Cash Transfer to the IL Military Family Relief Fund	500,000	500,000	-	500,000	-
Cash Transfer to the IL Federal Support Agreement Rev Fund	466,500	466,500	-	466,500	-
<i>Total Office of the Adjutant General</i>	<u>5,022,200</u>	<u>4,676,379</u>	<u>22,674</u>	<u>4,699,053</u>	<u>323,147</u>
<i>Facilities Operations:</i>					
Personal Services	5,765,800	4,965,084	22,518	4,987,602	778,198
State Contributions to Social Security	441,100	366,964	1,723	368,687	72,413
Contractual Services	3,469,800	2,689,659	540,285	3,229,944	239,856
Commodities	105,200	95,225	7,250	102,475	2,725
Equipment	84,800	74,787	7,973	82,760	2,040
<i>Total Facilities Operations</i>	<u>9,866,700</u>	<u>8,191,719</u>	<u>579,749</u>	<u>8,771,468</u>	<u>1,095,232</u>
Subtotal – Fund 0001	<u>14,888,900</u>	<u>12,868,098</u>	<u>602,423</u>	<u>13,470,521</u>	<u>1,418,379</u>
Military Affairs Trust Fund – 0043					
<i>Office of the Adjutant General:</i>					
Youth Programs and Other Programs	1,000,000	12,343	-	12,343	987,657
Subtotal – Fund 0043	<u>1,000,000</u>	<u>12,343</u>	<u>-</u>	<u>12,343</u>	<u>987,657</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2013

Fourteen Months Ended August 31, 2013

Public Acts 97-0731, 98-0001	Appropriations (Net After Transfers)	Expenditures Through June 30, 2013	Lapse Period Expenditures July 1 to August 31, 2013	Total Expenditures	Balances Lapsed
Federal Support Agreement Revolving Fund – 0333					
<i>Office of the Adjutant General:</i>					
Lincoln's Challenge	\$ 6,600,000	\$ 5,701,806	\$ 522,681	\$ 6,224,487	\$ 375,513
Lincoln's Challenge Allowances	1,200,000	207,265	20,073	227,338	972,662
<i>Total Office of the Adjutant General</i>	<u>7,800,000</u>	<u>5,909,071</u>	<u>542,754</u>	<u>6,451,825</u>	<u>1,348,175</u>
<i>Facilities Operations:</i>					
Army/Air Reimbursable Positions	13,268,600	10,570,327	52,608	10,622,935	2,645,665
Expenses Related to Army National Guard Facilities Operations and Maintenance	13,000,000	6,173,567	907,999	7,081,566	5,918,434
<i>Total Facilities Operations</i>	<u>26,268,600</u>	<u>16,743,894</u>	<u>960,607</u>	<u>17,704,501</u>	<u>8,564,099</u>
Subtotal – Fund 0333	<u>34,068,600</u>	<u>22,652,965</u>	<u>1,503,361</u>	<u>24,156,326</u>	<u>9,912,274</u>
Illinois Military Family Relief Fund – 0725					
<i>Office of the Adjutant General:</i>					
Special duty due to September 11th Terrorist Attacks	5,000,000	878,000	6,500	884,500	4,115,500
Subtotal – Fund 0725	<u>5,000,000</u>	<u>878,000</u>	<u>6,500</u>	<u>884,500</u>	<u>4,115,500</u>
Illinois National Guard Armory Construction Fund – 0927					
<i>Facilities Operations:</i>					
Construction of IL National Guard Facilities	500,000	31	-	31	499,969
Subtotal – Fund 0927	<u>500,000</u>	<u>31</u>	<u>-</u>	<u>31</u>	<u>499,969</u>
GRAND TOTAL – ALL FUNDS	<u>\$ 55,457,500</u>	<u>\$ 36,411,437</u>	<u>\$ 2,112,284</u>	<u>\$ 38,523,721</u>	<u>\$ 16,933,779</u>

Note 1: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and have been reconciled to Department records.

Note 2: Expenditure amounts are vouchers approved for payment by the Department and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>P.A. 98-0050</u>	<u>P.A. 97-0731 P.A. 98-0001</u>	<u>P.A. 97-0063</u>
APPROPRIATED FUNDS			
<u>General Revenue Fund – 0001</u>			
Appropriations (net after transfers)	\$ 14,890,500	\$ 14,888,900	\$ 14,588,900
Expenditures			
<i>Office of the Adjutant General:</i>			
Personal Services	1,563,500	1,346,099	1,494,745
State Contributions to Social Security	113,949	100,456	111,032
Contractual Services	-	6,185	6,355
Travel	-	7,393	4,851
Commodities	-	19,394	15,064
Printing	-	385	2,136
Equipment	-	4,580	3,313
Electronic Data Processing	31,723	22,106	37,225
Telecommunications Services	-	17,335	26,870
Operation of Auto Equipment	-	3,964	30,212
State Officers' Candidate School	690	-	-
Lincoln's Challenge	2,199,905	2,199,955	2,199,881
Care/Preservation of Historical Artifacts	6,625	4,701	5,438
Cash Transfer to the IL Military Family Relief Fund	800,000	500,000	434,200
Cash Transfer to the IL Federal Support Agreement Rev Fund	-	466,500	-
Ordinary & Contingent Expenses	3,291,835	-	-
<i>Total Office of the Adjutant General</i>	<u>8,008,227</u>	<u>4,699,053</u>	<u>4,371,322</u>
<i>Facilities Operations:</i>			
Personal Services	5,327,048	4,987,602	5,220,701
State Contributions to Social Security	389,604	368,687	386,032
Contractual Services	-	3,229,944	3,029,991
Commodities	-	102,475	84,063
Equipment	-	82,760	65,380
<i>Total Facilities Operations</i>	<u>5,716,652</u>	<u>8,771,468</u>	<u>8,786,167</u>
Total Expenditures	<u>13,724,879</u>	<u>13,470,521</u>	<u>13,157,489</u>
Lapsed Balances	<u>1,165,621</u>	<u>1,418,379</u>	<u>1,431,411</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	P.A. 98-0050	P.A. 97-0731 P.A. 98-0001	P.A. 97-0063
<u>Military Affairs Trust Fund – 0043</u>			
Appropriations (net after transfers)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Expenditures			
<i>Office of the Adjutant General:</i>			
Youth Programs and Other Programs	<u>302,622</u>	<u>12,343</u>	<u>19,643</u>
Total Expenditures	<u>302,622</u>	<u>12,343</u>	<u>19,643</u>
Lapsed Balances	<u>697,378</u>	<u>987,657</u>	<u>980,357</u>
<u>Federal Support Agreement Revolving Fund – 0333</u>			
Appropriations (net after transfers)	<u>34,279,400</u>	<u>34,068,600</u>	<u>32,722,900</u>
Expenditures			
<i>Office of the Adjutant General:</i>			
Lincoln's Challenge	5,856,447	6,224,487	6,242,320
Lincoln's Challenge Allowances	<u>348,485</u>	<u>227,338</u>	<u>358,262</u>
<i>Total Office of the Adjutant General</i>	<u>6,204,932</u>	<u>6,451,825</u>	<u>6,600,582</u>
<i>Facilities Operations:</i>			
Army/Air Reimbursable Positions	9,839,706	10,622,935	9,823,786
Expenses Related to Army National Guard Facilities			
Operations and Maintenance	7,076,595	7,081,566	6,694,758
Expenses of Joint-Use Agreements			
for Operations and Maintenance	<u>-</u>	<u>-</u>	<u>671,657</u>
<i>Total Facilities Operations</i>	<u>16,916,301</u>	<u>17,704,501</u>	<u>17,190,201</u>
Total Expenditures	<u>23,121,233</u>	<u>24,156,326</u>	<u>23,790,783</u>
Lapsed Balances	<u>11,158,167</u>	<u>9,912,274</u>	<u>8,932,117</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>P.A. 98-0050</u>	<u>P.A. 97-0731 P.A. 98-0001</u>	<u>P.A. 97-0063</u>
<u>Illinois Military Family Relief Fund – 0725</u>			
Appropriations (net after transfers)	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expenditures			
<i>Office of the Adjutant General:</i>			
Special duty due to September 11th Terrorist Attacks	463,000	884,500	1,293,500
Total Expenditures	<u>463,000</u>	<u>884,500</u>	<u>1,293,500</u>
Lapsed Balances	<u>4,537,000</u>	<u>4,115,500</u>	<u>3,706,500</u>
<u>Illinois National Guard Armory Construction Fund – 0927</u>			
Appropriations (net after transfers)	591,569	500,000	-
Expenditures			
<i>Facilities Operations:</i>			
Construction of IL National Guard Facilities	28,195	31	-
Total Expenditures	<u>28,195</u>	<u>31</u>	<u>-</u>
Lapsed Balances	<u>563,374</u>	<u>499,969</u>	<u>-</u>
Total – All Appropriated Funds			
Appropriations (net after transfers)	\$ 55,761,469	\$ 55,457,500	\$ 53,311,800
Total Expenditures	<u>\$ 37,639,929</u>	<u>\$ 38,523,721</u>	<u>\$ 38,261,415</u>
Lapsed Balances	<u>\$ 18,121,540</u>	<u>\$ 16,933,779</u>	<u>\$ 15,050,385</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Years Ended June 30, 2014, 2013 and 2012

	2014	2013	2012
	P.A. 98-0050	P.A. 97-0731 P.A. 98-0001	P.A. 97-0063
NON-APPROPRIATED FUNDS			
<u>Illinois National Guard State Active Duty Fund – 0730</u>			
Expenditures			
<i>Facilities Operations:</i>			
Illinois National Guard State Active Duty	\$ 24,292	\$ -	\$ -
Total Expenditures	24,292	-	-
ALL FUNDS			
Total – All Funds			
Appropriations (net after transfers)	\$ 55,761,469	\$ 55,457,500	\$ 53,311,800
Total Expenditures	\$ 37,664,221	\$ 38,523,721	\$ 38,261,415
Lapsed Balances	\$ 18,121,540	\$ 16,933,779	\$ 15,050,385

Note 1: The comparative schedule of net appropriations, expenditures, and lapsed balances does not include the State Officers' salaries paid by the Office of the Comptroller. For the years ended June 30, 2014, 2013, and 2012, State Officers' salaries were as follows:

Officers' Salaries:			
For the Adjutant General	\$ 115,613	\$ 118,767	\$ 115,481
For the Two Chief Assistants to the Adjutant General	197,086	145,272	146,622
Total Paid	\$ 312,699	\$ 264,039	\$ 262,103

Note 2: The Fiscal Year 2012 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Department and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND FUND BALANCE (CASH BASIS) - LOCALLY HELD FUND
(expressed in thousands)

	Lincoln's Challenge Stipend Fund (Fund 1336)
Cash Balance at July 1, 2012	\$ 8
Receipts	149
Disbursements	154
Cash Balance at June 30, 2013	<u>\$ 3</u>
Cash Balance at July 1, 2013	\$ 3
Receipts	122
Disbursements	124
Cash Balance at June 30, 2014	<u>\$ 1</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SCHEDULE OF CHANGES IN STATE PROPERTY (NOT EXAMINED)

	Land and Land Improvements	Site Improvements	Equipment	Building and Building Improvements	Capital Lease Equipment	Construction in Progress	Total
Balance at July 1, 2012	\$ 12,882,912	\$ 13,655,746	\$ 7,539,226	\$265,887,567	\$ -	\$ -	\$ 299,965,451
Additions	-	122,605	824,832	22,040	-	-	969,477
Deletions	-	-	(409,541)	-	-	-	(409,541)
Net Transfers	-	351,998	152,754	2,486,349	-	-	2,991,101
Balance at June 30, 2013	<u>\$ 12,882,912</u>	<u>\$ 14,130,349</u>	<u>\$ 8,107,271</u>	<u>\$268,395,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,516,488</u>
Balance at July 1, 2013	\$ 12,882,912	\$ 14,130,349	\$ 8,107,271	\$268,395,956	\$ -	\$ -	\$ 303,516,488
Additions	-	-	747,845	1,825	-	-	749,670
Deletions	-	-	(442,337)	-	-	-	(442,337)
Net Transfers	-	1,311,554	33,308	5,565,752	-	16,211,746	23,122,360
Balance at June 30, 2014	<u>\$ 12,882,912</u>	<u>\$ 15,441,903</u>	<u>\$ 8,446,087</u>	<u>\$273,963,533</u>	<u>\$ -</u>	<u>\$ 16,211,746</u>	<u>\$ 326,946,181</u>

Note: The above schedule has been derived from Department records.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Fiscal Years Ended June 30, 2014, 2013 and 2012

General Revenue Fund - 0001	2014	2013	2012
Miscellaneous	\$ 193	\$ 1,759	\$ 190
Department of Defense	599,386	346,518	1,561,810
Prior Year Refunds	-	36,663	116
Total Cash Receipts per Department	599,579	384,940	1,562,116
Add: In-Transits at the Beginning of the Year	-	-	-
Less: In-Transits at the End of the Year	-	-	-
Total Cash Receipts per State Comptroller's Records - Fund 0001	599,579	384,940	1,562,116
Military Affairs Trust Fund - 0043			
U.S. Customs Service	26,974	53,327	60,158
Private Organizations or Individuals	40	6,721	10,087
Other Charges for Services	152	-	-
Property Rental	89,085	51,260	66,851
Total Cash Receipts per Department	116,251	111,308	137,096
Add: In-Transits at the Beginning of the Year	-	-	-
Less: In-Transits at the End of the Year	-	-	-
Total Cash Receipts per State Comptroller's Records - Fund 0043	116,251	111,308	137,096
Federal Support Agreement Revolving Fund - 0333			
Lincoln's Challenge Program	6,278,173	6,420,854	7,506,229
Department of Defense	16,261,721	18,061,712	17,249,327
State Agencies	-	-	809
Miscellaneous	-	-	40
Reimbursement/Jury Duty & Recoveries	3,246	466,525	-
Prior Year Refunds	1,222	2,675	9,111
Prior Year Warrant Voids	-	-	427
Total Cash Receipts per Department	22,544,362	24,951,766	24,765,943
Add: In-Transits at the Beginning of the Year	804,056	240,818	339,263
Less: In-Transits at the End of the Year	(702,478)	(804,056)	(240,818)
Total Cash Receipts per State Comptroller's Records - Fund 0333	22,645,940	24,388,528	24,864,388
Illinois Military Family Relief Fund - 0725			
Donations - Private Organizations or Individuals	847,684	557,399	552,704
Prior Year Refunds	-	-	261
Prior Year Warrants Voids	-	-	1,000
Other Revenues	(152)	-	-
Total Cash Receipts per Department	847,532	557,399	553,965
Add: In-Transits at the Beginning of the Year	-	-	-
Less: In-Transits at the End of the Year	-	-	-
Total Cash Receipts per State Comptroller's Records - Fund 0725	847,532	557,399	553,965

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Fiscal Years Ended June 30, 2014, 2013 and 2012

Illinois National Guard Armory Construction Fund - 0927	2014	2013	2012
Sale of Land & Structures	\$ -	\$ 163,003	\$ 18,000
Total Cash Receipts per Department	-	163,003	18,000
Add: In-Transits at the Beginning of the Year	-	-	-
Less: In-Transits at the End of the Year	-	-	-
Total Cash Receipts per State Comptroller's Records - Fund 0927	-	163,003	18,000
Grand Total - All Funds			
Total Cash Receipts per Department	\$ 24,107,724	\$ 26,168,416	\$ 27,037,120
Add: In-Transits at the Beginning of the Year	804,056	240,818	339,263
Less: In-Transits at the End of the Year	(702,478)	(804,056)	(240,818)
Total Cash Receipts per State Comptroller's Records - All Funds	\$ 24,209,302	\$ 25,605,178	\$ 27,135,565

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

The Department of Military Affairs' (Department) explanations for significant fluctuations in expenditures as presented in the Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances are detailed below. For the purpose of this analysis, a significant fluctuation is defined as a variation that equaled or exceeded \$100,000 and 20% as compared to the prior fiscal year.

VARIANCE 2013 TO 2014

GENERAL REVENUE FUND – 0001

Office of the Adjutant General – Cash Transfer to the IL Military Family Relief Fund

Increase of \$300,000 (60%) in Fiscal Year 2014 was due to an increased appropriated transfer made to the Illinois Military Family Relief Fund (Fund 0725).

Office of the Adjutant General – Cash Transfer to the IL Federal Support Agreement Revolving Fund

Decrease of \$466,500 (100%) in Fiscal Year 2014 was due to a one-time transfer of cash made during State Fiscal Year 2013 to the Federal Support Agreement Revolving Fund (Fund 0333) to support payroll costs.

Office of the Adjutant General – Ordinary & Contingent Expenses

Increase of \$3,291,835 (100%) in Fiscal Year 2014 was due to all operational lines (Contractual through Operations of Auto, except EDP) that were combined into one lump sum appropriation.

Office of the Adjutant General – Contractual Services

Decrease of \$3,229,944 (100%) in Fiscal Year 2014 was due to all operational lines (Contractual through Operations of Auto, except EDP) that were combined into one lump sum appropriation.

Office of the Adjutant General – Commodities

Decrease of \$102,475 (100%) in Fiscal Year 2014 was due to all operational lines (Contractual through Operations of Auto, except EDP) that were combined into one lump sum appropriation.

MILITARY AFFAIRS TRUST FUND – 0043

Office of the Adjutant General – Youth Programs and Other Programs

Increase of \$290,279 (2,352%) in Fiscal Year 2014 was due to facility utility payments made from Fund 0043 as the balance in the fund was determined to be significantly high. Utilities were not paid from Fund 0043 in Fiscal Year 2013.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES - Continued

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Office of the Adjutant General – Lincoln's Challenge Allowances

Increase of \$121,147 (53%) in Fiscal Year 2014 was due to more cadets meeting the requirements to receive a graduation allowance.

ILLINOIS MILITARY FAMILY RELIEF FUND – 0725

Office of the Adjutant General – Special duty due to September 11th Terrorist Attacks

Decrease of \$421,500 (48%) in Fiscal Year 2014 was due to fewer applications being received and awarded during State Fiscal Year 2014.

VARIANCE 2012 TO 2013

GENERAL REVENUE FUND – 0001

Office of the Adjutant General – Cash Transfer to the IL Federal Support Agreement Revolving Fund

Increase of \$466,500 (100%) in Fiscal Year 2013 was due to a one time transfer to the Federal Support Agreement Revolving Fund (Fund 0333) to support payroll costs.

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Office of the Adjutant General – Lincoln's Challenge Allowances

Decrease of \$130,924 (37%) in Fiscal Year 2013 was due to fewer cadets meeting the requirements to receive a graduation allowance.

Facilities Operations – Expenses of Joint-Use Agreements for Operations and Maintenance

Decrease of \$671,657 (100%) in Fiscal Year 2013 was due to the termination of federal reimbursement of expenditures related to the Joint-Use Armed Forces Reserve Center program during State Fiscal Year 2012; therefore there were no expenditures made from the fund in Fiscal Year 2013.

ILLINOIS MILITARY FAMILY RELIEF FUND – 0725

Office of the Adjutant General – Special duty due to September 11th Terrorist Attacks

Decrease of \$409,000 (32%) in Fiscal Year 2013 was due to Program Manager replacement at a lower salary and fewer applications being received and awarded during State Fiscal Year 2013.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

The Department of Military Affairs' (Department) explanations for significant fluctuations in receipts as presented in the Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller are detailed below. For the purpose of this analysis, a significant fluctuation is defined as a variation that equaled or exceeded \$100,000 and 20% as compared to the prior fiscal year.

VARIANCE 2013 TO 2014

GENERAL REVENUE FUND – 0001

Department of Defense

Increase of \$252,868 (73%) in Fiscal Year 2014 was due to an increase in the amount of reimbursable Air Base payroll expenditures from the Federal Government.

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Reimbursement/Jury Duty & Recoveries

Decrease of \$463,279 (99%) was due to a one time transfer from the General Revenue Fund (Fund 0001) to cover payroll in Fiscal Year 2013. The transfer was recorded to the Reimbursement/Jury Duty & Recoveries receipt code in error.

ILLINOIS MILITARY FAMILY RELIEF FUND – 0725

Donations – Private Organizations or Individuals

Increase of \$290,285 (52%) in Fiscal Year 2014 was due to an increased appropriated transfer from the General Revenue Fund. The transfer was recorded to Donations – Private Organizations or Individuals in error.

ILLINOIS NATIONAL GUARD ARMORY CONSTRUCTION FUND – 0927

Sale of Land & Structures

Decrease of \$163,003 (100%) in Fiscal Year 2014 was due to no armories being sold in Fiscal Year 2014.

VARIANCE 2012 TO 2013

GENERAL REVENUE FUND – 0001

Department of Defense

Decrease of \$1,215,292 (78%) in Fiscal Year 2013 was due to a \$159,445 decrease in reimbursable Air Base payroll expenditures and \$1.06 million in reimbursable expenditures related to a winter storm and flooding in southern Illinois.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS - Continued

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Reimbursement/Jury Duty & Recoveries

Increase of \$466,525 (100%) was due to a one time transfer from the General Revenue Fund to cover payroll. The transfer was recorded to Reimbursement/Jury Duty & Recoveries in error.

ILLINOIS NATIONAL GUARD ARMORY CONSTRUCTION FUND – 0927

Sale of Land & Structures

Increase of \$145,003 (806%) was due to four armories being sold during Fiscal Year 2013. In Fiscal Year 2012, no armories were sold, but down payments of \$18,000 were received for two armory sales completed in Fiscal Year 2013.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

The Department of Military Affairs' (Department) explanations for significant lapse period spending as presented in the Schedule of Appropriations, Expenditures, and Lapsed Balances are detailed below. For the purpose of this analysis, significant lapse period spending is defined as spending that equaled or exceeded \$100,000 and 10% of the total expenditures for the respective fiscal year.

FISCAL YEAR 2014

GENERAL REVENUE FUND – 0001

Office of the Adjutant General – Ordinary & Contingent Expenses

Spending of \$377,125 (11%) during Fiscal Year 2014 lapse period was due to invoices received late in the fiscal year for utility expenses, purchase of floor scrubbers, and repair and maintenance charges for various projects that included carpet and tile replacement, conference room renovations, and repainting interior walls.

MILITARY AFFAIRS TRUST FUND – 0043

Office of the Adjutant General – Youth and Other Programs

Spending of \$264,450 (87%) during Fiscal Year 2014 lapse period was due to a decision made late in the fiscal year to pay utility expenses for the facilities from Fund 0043 as the balance in the fund was determined to be significantly high.

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Facilities Operations – Expenses Related to Army National Guard Facilities Operations and Maintenance

Spending of \$1,336,213 (19%) during Fiscal Year 2014 lapse period was due to invoices received late in the fiscal year for utility and recycling expenses, bills for a security contract, payroll, annual cleaning and maintenance for oil water separators, and repair and maintenance charges for various projects that included repairing air conditioning and heating units and repainting interior walls.

FISCAL YEAR 2013

GENERAL REVENUE FUND – 0001

Facilities Operations – Contractual Services

Spending of \$540,285 (17%) during Fiscal Year 2013 lapse period was due to invoices received late in the fiscal year for utility expenses and repair and maintenance charges for various projects that included replacement of lockers, carpet, tile, and exit signs, and repair and upgrades of heating systems.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING - Continued

FEDERAL SUPPORT AGREEMENT REVOLVING FUND – 0333

Facilities Operations – Expenses Related to Army National Guard Facilities Operations and Maintenance

Spending of \$907,999 (13%) during Fiscal Year 2013 lapse period was due to invoices received late in the fiscal year for utility and recycling expenses, bills for a security contract, payroll, and repair and maintenance charges for various projects that included repairing air conditioning and heating units, repainting interior walls, and replacement of a water main.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF ACCOUNTS RECEIVABLE

For the Years Ended June 30, 2014 and 2013
(Expressed in Thousands)

General Revenue Fund - 0001

<u>Aging Schedule</u>	<u>2014</u>	<u>2013</u>
Current	\$ -	\$ -
1-30 days	-	-
31-90 days	-	-
91-180 days	1	-
181-1 year	-	-
Over 1 year	<u>-</u>	<u>2</u>
Accounts Receivable Gross Balance	1	2
Less: Estimated Uncollectibles	<u>-</u>	<u>-</u>
Accounts Receivable Net Balance	<u><u>\$ 1</u></u>	<u><u>\$ 2</u></u>

Note: Amounts due resultant from overpayment of salary to former employees.

The Department uses the Comptroller's offset system when necessary to collect old receivable balances.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF ACCOUNTS RECEIVABLE

For the Years Ended June 30, 2014 and 2013
(Expressed in Thousands)

Federal Support Agreement Revolving Fund - 0333

<u>Aging Schedule</u>	<u>2014</u>	<u>2013</u>
Current	\$ 2,882	\$ 336
1-30 days	-	-
31-90 days	-	-
91-180 days	-	-
181-1 year	-	-
Over 1 year	<u>-</u>	<u>-</u>
Accounts Receivable Gross Balance	2,882	336
Less: Estimated Uncollectibles	<u>-</u>	<u>-</u>
Accounts Receivable Net Balance	<u><u>\$ 2,882</u></u>	<u><u>\$ 336</u></u>

Note: These amounts are due from the United States Department of Defense for reimbursable costs in conjunction with the Master Cooperative Funding Agreement, the Master Youth Cooperative Funding Agreement and the Joint Armed Forces Reserve Center Agreement. These amounts are considered collectible.

The Department uses the Comptroller's offset system when necessary to collect old receivable balances.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

ANALYSIS OF ACCOUNTS RECEIVABLE

For the Years Ended June 30, 2014 and 2013
(Expressed in Thousands)

ILNG State Active Duty Fund - 0730

<u>Aging Schedule</u>	<u>2014</u>	<u>2013</u>
Current	\$ -	\$ -
1-30 days	-	-
31-90 days	44	-
91-180 days	-	-
181-1 year	-	-
Over 1 year	<u>-</u>	<u>-</u>
Accounts Receivable Gross Balance	44	-
Less: Estimated Uncollectibles	<u>-</u>	<u>-</u>
Accounts Receivable Net Balance	<u>\$ 44</u>	<u>\$ -</u>

Note: These amounts are due from the United States Department of Defense for reimbursable costs in conjunction with the State active Duty call-up for Winter Storm Ion in February 2014. Reimbursement for these costs is due from IEMA. These amounts are considered collectible.

There were no previous amounts due or collectible for 2013.

The Department uses the Comptroller's offset system when necessary to collect old receivable balances.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

AGENCY FUNCTIONS AND PLANNING PROGRAM

(Not Examined)

Department Functions

The Illinois Department of Military Affairs (Department), a part of the executive branch of State government, acts as the channel of communication between the federal government and the State of Illinois on all matters pertaining to the State Military. The Military Code of Illinois (20 ILCS 1805 et seq.) establishes the powers and duties of the Department and the Adjutant General.

The Department is comprised of the Illinois Army National Guard and the Illinois Air National Guard. The Illinois Army and Air National Guard have a combined authorized strength of 13,100 members (10,000 comprising the Illinois Army National Guard and 3,100 in the Illinois Air National Guard). The Army National Guard (Guard) is responsible for carrying out a dual mission, federal and State. 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 Army National Guard operates and maintains 45 readiness centers, five reserve centers, one state headquarters, 35 range complex facilities at 2 range complexes, three training areas, 24 maintenance facilities, 10 aviation support facilities, 38 warehouse & storage facilities, 13 vehicle storage buildings and four storefront recruiting offices at 54 locations in 49 communities within 38 counties throughout the state for the Illinois Army National Guard. The Illinois Air National Guard maintains bases at two civilian airports and at one active U.S. Air Force base.

The position of Adjutant General is appointed by the Governor as the head officer of the Department. 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 has a statutory responsibility to carry out the policies of the Governor, issuing orders in his name, and serving as his advisor on all matters relating to the Illinois National Guard. Also, 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, all military property, equipment and installations of the Illinois National Guard are under his jurisdiction.

The Department also organizes and operates the community-related program Lincoln's Challenge, with the assistance of federal funding in Rantoul, Illinois. Lincoln's Challenge is an approximate 22-week program designed for at-risk youth ages 16 through 19. The program is a two-phase (resident and post-resident) program that focuses on eight core objectives: academic excellence; job skills; physical fitness; leadership and followership; health, sex education, and nutrition; life coping skills; responsible citizenship; and community service.

The Department also has the power to make grants from the Illinois Military Family Relief Fund, a special fund created in the State treasury, to families of persons who are members of the Illinois National Guard or Illinois residents who are members of the reserves of the armed forces of the United States and who have been called to active duty as a result of the September 11, 2001 terrorist attacks. The Department has established eligibility criteria that are used to award the grants.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

AGENCY FUNCTIONS AND PLANNING PROGRAM - Continued

(Not Examined)

Department Planning Program

The Department is not required by the Illinois Welfare and Rehabilitation services Planning Act (20 ILCS 10/1 et seq.) to create a formal planning function, which includes the generation of goals and objectives. The Army National Guard and the Air National Guard units of the Illinois National Guard have separate federal strategic and long-range plans that support the planning process within the Department. Some of the areas addressed in the federal strategic plan includes strength management, professional and technical expertise, quality assurance/assistance, personnel programs, and state emergency response. At the end of each fiscal year, the Facilities Division produces the Capital Budget Request that summarizes the conditions of facilities/equipment and suggests corrective actions for improvement. The Capital Budget Request is tied into the budgeting process for the following fiscal year.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

AVERAGE NUMBER OF EMPLOYEES

For the Years Ended June 30,

(Not Examined)

The average number of employees employed by the Department is as follows:

Division	Fiscal Year		
	2014	2013	2012
Office of the Adjutant General	23	20	22
Facilities	194	202	203
Total average full-time employees	217	222	225

Note: The Average Number of Employees schedule includes only the Department's Offices appropriated by the Illinois General Assembly.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

EMERGENCY PURCHASES

(Not Examined)

The Department reported the following emergency purchases to the Office of the Auditor General during Fiscal Year 2014 and Fiscal Year 2013:

<u>DESCRIPTION OF EMERGENCY PURCHASE</u>	<u>AMOUNT</u>
Fiscal Year 2014	
No Fiscal Year 2014 Emergency Purchases.	
Fiscal Year 2013	
Northwest Armory Floor Tiles Asbestos Abatement	\$ 38,710
Marseilles Training Area Bobcat Toolcat	<u>40,801</u>
TOTAL ACTUAL COST	<u>\$ 79,511</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SERVICE EFFORTS AND ACCOMPLISHMENTS

(Not Examined)

Illinois National Guard

Mission Statement: To provide the State support of the Illinois National Guard.

Program Goals:

- For the Illinois National Guard to be ready and available for State service at any time.
- To provide support to the Illinois National Guard in the most cost effective manner possible.

Funds: General Revenue Fund, Military Affairs Trust Fund, Federal Support Agreement Revolving Fund, Illinois National Guard Armory Construction Fund. Statutory Authority: 20 ILCS 1805

	2014	2013	2012
<u>Input indicators:</u>			
Total expenditures – all sources (in thousands)	\$22,996	\$28,021	\$27,739
Average monthly full-time equivalents	218	222	224
<u>Output Indicators</u>			
GRF expenditures (in thousands)	\$10,725	\$10,304	\$10,523
Other funds expenditures (in thousands)	\$17,271	\$17,717	\$17,216
Number of IL National Guard personnel supported	13,102	12,966	12,862
Number of facilities supported	101	101	105
<u>Efficiency/Cost-Effectiveness</u>			
Percent of GRF Appropriations expended	90%	88%	88%
Percent of total expenditures expended from Other Funds	62%	63%	62%*

* Amount was revised from the 2012 amount shown in the June 30, 2012 Service Efforts and Accomplishments Schedule included in the Fiscal Year 2011-2012 Compliance Report as the percentage was calculated incorrectly in the prior year.

STATE OF ILLINOIS
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COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SERVICE EFFORTS AND ACCOMPLISHMENTS - Continued

(Not Examined)

Lincoln's Challenge Academy

Mission Statement: To provide residential youth corps program to help high school dropouts earn their General Education Development (GED) certificate, improve their life coping skills, and increase employability.

Program Goals:

- To prepare Lincoln's Challenge Academy attendees for success in real world situations.
- To insure 65% of the Lincoln's Challenge students obtain a GED certificate during the program.
- To provide 100% of the graduates with mentors who will evaluate the graduates' status one year after graduation.

Funds: General Revenue Fund, Federal Support Agreement Revolving Fund

	2014	2013	2012
<u>Input indicators:</u>			
Total Expenditures – all sources (in thousands)	\$ 8,405	\$ 8,652	\$ 8,800
Total Expenditures – State appropriated funds (in thousands)	\$ 8,405	\$ 8,652	\$ 8,800
<u>Output Indicators:</u>			
Number of graduates	554	604	661
<u>Outcome Indicators:</u>			
Number of graduates with GED	329	471	489
Number of graduates assigned a mentor	554	604	661
<u>Efficiency/Cost-Effectiveness</u>			
Average cost per graduate (in dollars)	\$15,172	\$14,324	\$13,314
Percentage of graduates with GED	59%	78%	74%
Percentage of graduates assigned a mentor	100%	100%	100%

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS

COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SERVICE EFFORTS AND ACCOMPLISHMENTS - Continued

(Not Examined)

Illinois Military Family Relief Fund

Mission Statement: Provide grants to single persons and families of persons who are members of the Illinois National Guard or Illinois residents who are members of the armed forces of the United States and who have been called to active duty as a result of September 11, 2001 terrorist attacks.

Program Goals:

- To provide grants to eligible military families.
- To provide a minimum grant of \$500 to eligible military families.

Funds: Illinois Military Family Relief Fund

	2014	2013	2012
<u>Input indicators:</u>			
Total Expenditures – all sources	\$ 1,263	\$ 1,385	\$ 1,728
<u>Output Indicators:</u>			
Number of grants	855	2,769	3,455
<u>Efficiency/Cost-Effectiveness</u>			
Average grant amount (in dollars)	\$ 500	\$ 500	\$ 500