

**STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS**

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2016

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

TABLE OF CONTENTS

		<u>Page</u>
Agency Officials		1
Management Assertion Letter		2
Compliance Report:		
Summary		4
Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes		6
Schedule of Findings		
Current Findings - State Compliance		10
Prior Findings Not Repeated		37
Supplementary Information for State Compliance Purposes:		
Summary		38
Fiscal Schedules and Analysis		
Schedule of Appropriations, Expenditures, and Lapsed Balances - Fiscal Year 2016	1	39
Schedule of Appropriations, Expenditures, and Lapsed Balances - Fiscal Year 2015	2	42
Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances	3	45
Comparative Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) - Locally Held Funds	4	49
Schedule of Changes in State Property (Not Examined)	5	50
Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller	6	51
Analysis of Significant Variations in Expenditures	7	53
Analysis of Significant Variations in Receipts	8	57
Analysis of Significant Lapse Period Spending	9	59
Analysis of Accounts Receivable	10	60

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

TABLE OF CONTENTS - Continued

	<u>Page</u>
Analysis of Operations (Not Examined)	
Agency Functions and Planning Program (Not Examined)	63
Budget Impasse Disclosures (Not Examined)	65
Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Not Examined)	66
Interest Costs on Fiscal Year 2016 Invoices (Not Examined)	68
Average Number of Employees (Not Examined)	69
Emergency Purchases (Not Examined)	70
Service Efforts and Accomplishments (Not Examined)	71

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

AGENCY OFFICIALS

Adjutant General	Major General Richard Hayes, Jr. (06/08/2015 through present) Major General Daniel Krumrei (07/01/2014 through 06/07/2015)
Assistant Adjutant General - Air	Major General Ronald Paul (12/04/2015 through present) Major General William Cobetto (07/01/2014 through 12/03/2015)
Assistant Adjutant General - Army	Major General Michael Zerbonia (06/08/2015 through present) Major General Richard Hayes (07/01/2014 through 06/07/2015)
Military Executive – Chief of Staff	James Smith
Chief Fiscal Officer	Elena Goutsalenko
Military Judge Advocate	Colonel Robert Roth

The Department's headquarters is located at:

Camp Lincoln
1301 N. MacArthur Boulevard
Springfield, Illinois 62702



July 14, 2017

Honorable Frank J. Mautino
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703

Auditor General Mautino:

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. 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 State of Illinois, Department of Military Affairs' compliance with the following assertions during the two-year period ended June 30, 2016. Based on this evaluation, we assert that during the years ended June 30, 2015, and June 30, 2016, the State of Illinois, Department of Military Affairs has materially complied with the assertions below.

- A. The State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs on behalf of the State or held in trust by the State of Illinois, Department of Military Affairs have been properly and legally administered, and the accounting and record keeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

State of Illinois, Department of Military Affairs

SIGNED ORIGINAL ON FILE

Major General Richard J. Hayes, Jr., ILARNG, Adjutant General

SIGNED ORIGINAL ON FILE

Elena Goutsalenko, Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

LtCol David Gorman, ILANG, Acting Staff Judge Advocate

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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.

ACCOUNTANT’S 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 modified opinion on compliance and identifies material weaknesses in internal control over compliance.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u> <u>Report</u>	<u>Prior</u> <u>Report</u>
Findings	11	11
Repeated findings	8	6
Prior recommendations implemented or not repeated	3	0

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2016-001	10	Property Control Weaknesses	Material Weakness and Material Noncompliance
2016-002	15	Noncompliance with the Fiscal Control and Internal Auditing Act	Material Weakness and Material Noncompliance
2016-003	17	Inadequate Internal Controls over Commodities	Material Weakness and Material Noncompliance
2016-004	19	Unable to Provide Adequate Records Substantiating Agreements	Material Weakness and Material Noncompliance

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

2016-005	21	Inadequate Controls over Refunds and Reimbursements	Significant Deficiency and Noncompliance
2016-006	24	Lack of Documentation for Lincoln's Challenge Cadets	Significant Deficiency and Noncompliance
2016-007	28	Inaccurate Financial Information Reported to the State Comptroller	Significant Deficiency and Noncompliance
2016-008	29	Noncompliance with Vehicle Requirements	Significant Deficiency and Noncompliance
2016-009	31	Inadequate Controls over Monthly Reconciliations	Significant Deficiency and Noncompliance
2016-010	33	Failure to File Required Reports	Significant Deficiency and Noncompliance
2016-011	35	Failure to Develop a Formal Fraud Risk Assessment Program	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

A	37	Voucher Processing Weaknesses
B	37	Lack of Controls over Contractual Agreements
C	37	Failure to Comply with the Identity Protection Act

EXIT CONFERENCE

The Department waived an exit conference in correspondence dated July 7, 2017.

The responses to the recommendations were provided by Harold Wilson, audit liaison in correspondence dated July 14, 2017.

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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Compliance

We have examined the State of Illinois, Department of Military Affairs' 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, 2016. The management of the State of Illinois, Department of Military Affairs is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Military Affairs' compliance based on our examination.

- A. The State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs on behalf of the State or held in trust by the State of Illinois, Department of Military Affairs 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 (the Audit Guide). Those standards, the Act and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the State of Illinois, Department of Military Affairs complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the State of Illinois, Department of Military Affairs complied with the specified requirements listed above. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Military Affairs' compliance with specified requirements.

As described in items 2016-001 through 2016-004 in the accompanying schedule of findings, the State of Illinois, Department of Military Affairs did not comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2016. However, the results of our procedures disclosed other instances of noncompliance with the 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 2016-005 through 2016-011.

The State of Illinois, Department of Military Affairs' responses to the findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of Military Affairs' responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control

Management of the State of Illinois, Department of Military Affairs 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 State of Illinois, Department of Military Affairs' 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 State of Illinois, Department of Military Affairs' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Military Affairs' 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 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 2016-001 through 2016-004 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, as described in the accompanying schedule of findings as items 2016-005 through 2016-011 to be significant deficiencies.

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

The State of Illinois, Department of Military Affairs' responses to the internal control findings identified in our examination are described in the accompanying schedule of findings. The State of Illinois, Department of Military Affairs' responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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, 2016, and June 30, 2015, 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, 2016, and June 30, 2015, accompanying supplementary information in

Schedules 1 through 10. However, we do not express an opinion on the accompanying supplementary information.

As reported in Finding 2016-001, we were not able to determine whether the State of Illinois, Department of Military Affairs' property records at June 30, 2016, and June 30, 2015, were complete and appropriately reported. Therefore, we were unable to conclude whether the Schedule of Changes in State Property on Schedule 5 was complete.

We have not applied procedures to the June 30, 2014, 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.

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
July 14, 2017

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-001. **FINDING** (Property Control Weaknesses)

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

During testing, the accountants noted the Department did not maintain detailed supporting documentation for its quarterly Agency Report of State Property (Form C-15) filed with the Office of the State Comptroller (Comptroller). As of June 30, 2015 and 2016, the Department reported total property of \$354 million and \$360 million, respectively. Due to the lack of detailed documentation, the following compliance examination procedures could not be performed:

- 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 Comptroller.
- Property additions during the examination period could not be reconciled to the Comptroller's records reflected on the Object Expense/Expenditures by Quarter Report (SA02).

Due to these conditions, the accountants were unable to conclude whether the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's equipment. In addition, due to these limitations the accountants were unable to conclude the Department's Schedule of Changes in State Property on page 50 was complete and appropriately reported.

Even given the population limitations noted above which hindered the ability of the accountants to conclude whether selected samples were representative of the population as a whole, the accountants performed the following tests:

Controls over State Property and Equipment

- Four of eight (50%) permanent improvements tested, totaling \$119,785, were not added to the Department's property records. In addition, one transfer from the Capital Development Board (CDB), totaling \$19,572, was not added to the Department's property records.
- Twenty-two of 60 (37%) equipment additions tested, totaling \$67,689, were added to the Department's property listing between three and 116 days late.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

- Sixteen of 60 (27%) equipment deletions tested, totaling \$7,688, were removed from the Department's property listing between one and 207 days late.
- During voucher testing, the accountants identified 40 equipment items, totaling \$22,000, which were not added to the Department's property listing.
- During voucher testing, the accountants identified three items, totaling \$6,776, which were not added to the value of an item already added to the property listing or separately added to the property listing.

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.400) requires the Department to adjust property records within 30 days of the acquisition, change, or deletion of equipment items.

- Freight costs for 19 of 60 (32%) equipment additions tested, totaling \$5,590, were not capitalized in the Department's property records. In addition, during voucher testing, freight costs for nine equipment items, totaling \$2,325, were not capitalized in the Department's property records.

The Statewide Accounting Management System (SAMS) (Procedure 03.30.20) states the cost of equipment includes the amount paid for the asset and ancillary charges, such as freight, paid to place the asset into its intended location and condition for use.

- Seven of 60 (12%) equipment items selected from the Department's property listing, totaling \$54,910, were unable to be located at the Department.
- Four of 120 (3%) equipment items selected from the Department's property listing or selected from the Department's property located at the Department, totaling \$8,719, were found in a different location than indicated in the Department's property control records.

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. The Act (30 ILCS 605/6.02) also requires the Department to maintain a permanent record of all items of property under its jurisdiction and control.

- Three of 60 (5%) items tested were not marked with the identification number indicated on the Department's property records.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

The Code (44 Ill. Admin. Code 5010.210(c)) requires the Department to mark equipment with a value of \$500 or more and equipment that is subject to theft with a value less than \$500 with a unique identification number.

- The Department did not correctly file its annual inventory certifications with the Department of Central Management Services (CMS). The Department did not include a detailed listing of equipment items over \$500 or subject to theft with its annual inventory certifications during the examination period. As a result, the accountants were unable to trace equipment items selected for testing into the reports.

The Code (44 Ill. Admin. Code 5010.460(d)) requires the Department to provide an annual listing of all equipment items (1) with an acquisition value of \$500 or more and (2) equipment subject to theft with an acquisition value of less than \$500. Further, the Code (44 Ill. Admin. Code 5010.460(f)) requires the Adjutant General, or his designee, to complete and sign both the "Certification of Inventory" and "Discrepancy Report" and forward the report with the complete inventory listing to the CMS Property Control Division.

Capital Assets

- The Department was unable to provide sufficient supporting documentation for its Fiscal Year 2016 Capital Asset Summary (Form SCO-538) submitted to the Comptroller during the annual financial reporting process. As a result, the accountants were unable to determine whether five of seven (71%) CDB transfers, totaling \$296,895, were properly reported on the Department's Fiscal Year 2016 Form SCO-538 as required by SAMS Procedure 27.20.38.
- The Department was unable to provide supporting documentation showing proper authorization for seven of seven (100%) CDB projects.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports. Further, the State Records Act (5 ILCS 160/8) requires the Adjutant General make and preserve records containing adequate and proper documentation of the essential transactions of the Department designed to furnish information to protect the legal and financial rights of the State.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

Historical Artifacts

- The Department was unable to provide signed copies of the reports sent to the Office of the Governor reporting which historical artifacts were on loan from the Illinois State Military Museum during the examination period.

The Military Code of Illinois (20 ILCS 1805/25) requires the Adjutant General to file an annual report with the Governor by September 1 listing each item loaned during previous fiscal years, the terms and conditions of each loan, and the federal or State governmental office or recognized museum to which each item has been loaned.

- One of 10 (10%) historical artifacts tested was not listed on the Department's artifacts listing.

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

Department personnel indicated the issues noted were the result of manpower deficiencies, turnover in staff, staff not knowing correct procedures, lack of communication between Department personnel, and errors of omission.

Failure to maintain accurate property and equipment records and file reports represents noncompliance with State laws and regulations and increases the potential for fraud and theft of State property. (Finding Code No. 2016-001, 2014-001, 12-2, 10-1, 08-2, 06-2, 04-3)

RECOMMENDATION

We recommend the Department take action to strengthen its internal controls over recording and reporting its State property and equipment transactions. Further, the Department should implement a corrective action plan to complete a full inventory to identify and correct its accumulated property and equipment errors.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

DEPARTMENT RESPONSE

The Department agrees with the finding. However, in light of having reported total property of \$354 million and \$360 million, as of June 30, 2015 and 2016 respectively, the overall effects of the details of the finding are minimal. Although there are glaring instances of errors made, the majority of the finding details are represented by a smaller percentage of the sample tested, with a larger percentage of the sample tested being in compliance.

ACCOUNTANT'S COMMENT

As noted in the finding above, it is critical for accountants conducting an examination to reach a conclusion that a given population is sufficiently complete and detailed to ensure all items may be sampled. It is only after this conclusion has been reached that the accountants' selection of an appropriate, representative sample of items for testing enables the accountants to reach conclusions about the population as a whole.

In the Department's case, its property records were in such poor condition that the accountants could not conclude that the property records were sufficiently precise and detailed to enable testing to reach conclusions about the population as a whole. While accountants would normally simply report this condition as a material weakness and not perform any further testing, the constitutional mission of the Auditor General to assist the General Assembly in achieving oversight of State government calls for testing of available records. Even the results of this testing (which cannot be used to reach conclusions about the population as a whole) revealed serious deficiencies in the Department's property control functions. As this finding has been repeated since 2004, we continue to recommend the Department implement a corrective action plan to complete a full inventory to identify and correct its accumulated errors and address this population issue.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-002. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Department of Military Affairs (Department) did not adhere to the internal auditing provisions of the Fiscal Control and Internal Auditing Act (Act).

During testing, the accountants noted the Department did not have a full-time program of internal auditing and the Adjutant General did not appoint a Chief Internal Auditor at the Department during the examination period.

The Act (30 ILCS 10/2001(a)) requires the Department “maintain a full-time program of internal auditing.” To accomplish this program, the Act (30 ILCS 10/2002) requires the Adjutant General appoint a Chief Internal Auditor who does not perform operational functions to a five-year term. Further, the Act (30 ILCS 10/2003(a)) requires the full-time program of internal auditing include:

- 1) a two-year internal audit plan designed to audit major systems of internal accounting and administrative controls on a periodic basis, including tests of the Department’s “obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations” and the Department’s grants received or made “to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations;”
- 2) reviews of major new electronic data processing systems and any major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability; and,
- 3) special audits of the Department as directed by the Adjutant General.

Finally, after the conclusion of each fiscal year, the Act (30 ILCS 10/2003(a)(1)) requires the Chief Internal Auditor submit a written report by September 30 to the Adjutant General “detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.”

Department personnel indicated the problems were due to lack of a qualified staff person.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

Failure to establish an internal audit program in accordance with the requirements of the Act - where the internal audit function develops a deep understanding of the Department's functions and processes, performs audits of the Department's major systems of internal accounting and administrative controls on a periodic basis, reviews major new and modifications to information systems prior to implementation, and provides timely reports - represents noncompliance with State law and weakens the Department's ability to assess its overall internal control environment. (Finding Code No. 2016-002, 2014-004, 12-1)

RECOMMENDATION

We recommend the Department establish a full-time internal audit program with a duly appointed Chief Internal Auditor in accordance with the provisions of the Act.

DEPARTMENT RESPONSE

The Department agrees with the finding that there was no Chief Internal Auditor. The Department disagrees with the assertion there was no full-time program of internal auditing during the examination period. There existed an interagency agreement that provided for an internal auditor (a position that was funded and paid during the examination period) and availability of a Chief Internal Auditor to review the work of the internal auditor position.

The Department concurs that although there was an agency audit plan in place, no material audits per the mandate were conducted; therefore no annual report was submitted to the Adjutant General by September 30 of the years reviewed. The Department was subject to internal review from the U.S. Property and Fiscal Office (USPFO) during the period reviewed in the compliance audit. USPFO Internal Review did conduct audits of Master Cooperative Agreement programs that involved review of agency administrative and fiscal operations functions.

ACCOUNTANT'S COMMENT

The interagency agreement referenced by the Department is for the "dual-use" of a designated employee to serve as an internal auditor, who splits their working hours 50/50 between the Department and the Department of Veterans' Affairs (DVA). Notably, the Agreement itself does not address the "availability of a Chief Internal Auditor to review the work of the internal auditor position" at the Department; rather, this "dual-use" internal auditor will report to the Adjutant General and the DVA Chief Internal Auditor. This is not a full-time program of internal auditing as contemplated by the provisions of the Act.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-003. **FINDING** (Inadequate Internal Controls over Commodities)

The Department of Military Affairs (Department) did not exercise adequate internal control over its commodities inventories. During testing, the accountants noted the following:

- The Department did not segregate duties within its commodities transaction cycle. The accountants noted one individual has the authority to perform all parts of the Department's current transaction cycle, including **custody** by maintaining and tracking commodities items and **authorization** by reviewing and approving the purchase of items.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal controls include establishing and maintaining appropriate segregation of duties among incompatible functions of a transaction cycle.

- The Department did not establish two parts of the transaction cycle for commodities, including **recordkeeping** by maintaining a record of current items on hand or performing formal inventory counts and **reconciliation** by preparing reconciliations to the State Comptroller's records to verify each transaction's validity, proper authorization, and entry into the Department's accounting records. The Department expended approximately \$742,668 and \$378,920 on commodities during Fiscal Year 2015 and Fiscal Year 2016, respectively, for various items such as safety items, lamps, and janitorial and cleaning supplies.

The Statewide Accounting Management System (Procedure 02.50.20) requires detailed subsidiary records be maintained for significant categories of inventories, which must periodically be reconciled to control accounts. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized efficiently, effectively, and in compliance with applicable law. Good internal controls include ensuring the Department generates, maintains, and reports reliable information that is accurate and complete. Further, the State Records Act (5 ILCS 160/8) requires the Department's Director make and preserve records containing adequate and proper documentation of the essential transactions of

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

the Department to protect both the legal and financial rights of the State and of persons directly affected by the Department's activities.

Due to these conditions, the accountants were unable to conclude the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's commodities inventories.

During the prior examination, Department personnel stated there was no automated system established to monitor adequate controls over commodities inventory. In addition, Department personnel stated it monitored quantities on hand and ensured order amounts were reasonable; however, staffing shortages prohibit segregation of duties and manually tracking commodities inventory. During the current examination, Department personnel stated the issues noted were due to not having an inventory control program to track inventory and the ordering of commodities being done by multiple sections.

Failure to limit the ability of one person to have the authority to perform all functions of a transaction increases the likelihood a loss from errors or irregularities could occur and would not be found in the normal course of employees carrying out their assigned duties. Additionally, without the Department providing complete and adequate documentation to enable testing, the accountants were unable to complete their procedures and provide useful and relevant feedback to the General Assembly regarding the Department's commodities. (Finding Code No. 2016-003, 2014-010, 12-4)

RECOMMENDATION

We recommend the Department implement procedures to maintain records of its commodities inventory, perform periodic inventory counts, and reconcile its records to the State Comptroller's records. Further, the Department should implement procedures to limit one person from having the authority to perform all of the functions associated with a transaction.

DEPARTMENT RESPONSE

The Department agrees with this finding.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-004. **FINDING** (Unable to Provide Adequate Records Substantiating Agreements)

The Department of Military Affairs (Department) was unable to provide adequate records substantiating the population of interagency agreements during the examination period.

During testing, the accountants requested the Department provide the population of interagency agreements in effect during the examination period to test compliance with specific provisions from, and the Department's general administration of, its agreements. In response to our request, the Department provided a listing of interagency agreements during the examination period. The auditors noted the following problems with the Department's population:

- One agreement provided for one entity was not the agreement related to that entity included on the original listing provided by the Department.
- One agreement included on the original listing provided by the Department was not an interagency agreement and was processed as an expenditure through a master contract.
- One agreement was provided in which the Department received funds from another entity. This agreement was not included on the original listing provided.
- One agreement was provided in which the Department agreed to share an employee with another entity. This agreement was not included on the original listing provided.
- In addition accountants noted there were no agreements on the original listing provided that did not have a monetary effect. Due to the nature of the Department, accountants expected to see some agreements without monetary effect.

Due to these conditions, the accountants were unable to conclude the Department's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.35) to test the Department's compliance with its interagency agreements.

Even given the population limitations noted above which hindered the ability of the accountants to conclude whether the selected sample was representative of the population as a whole, the accountants selected a sample of 5 interagency agreements from the listing provided by the Department and performed testing.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

During testing, the accountants noted two images in a PowerPoint presentation, which contained two individuals in each image, where a Release Form for Media Recording was unable to be provided to the accountants by the Department.

The interagency agreement required the Department ensure all military and civilian personnel who are filmed or whose image, likeness, or recording appears in the training to sign the Release Form for Media Recording.

The State Records Act (5 ILCS 160/8) requires the Adjutant General make and preserve records containing adequate and proper documentation of the essential transactions of the Department to protect both the legal and financial rights of the State and of persons directly affected by the Department's activities. Good internal controls include ensuring the Department implements procedures to comply with all provisions of interagency agreements.

Department personnel indicated the lack of a comprehensive listing of interagency agreements was due to the ability of multiple divisions to enter into agreements and no established procedure for routing them through a specific division or individual. The Department also indicated turnover in Department personnel caused the oversight in either the Release form for media recording not being completed or filed in an unknown location.

Without the Department providing complete and adequate documentation to enable testing, the accountants were unable to complete their procedures and provide useful and relevant feedback to the General Assembly regarding the Department's interagency agreements. Further, failure to comply with the tested interagency agreement could subject the Department to litigation risks. (Finding Code No. 2016-004)

RECOMMENDATION

We recommend the Department strengthen its controls to ensure all types of interagency agreements are considered when compiling a population of agreements. Further, the Department should implement controls to comply with all provisions of interagency agreements they enter into.

DEPARTMENT RESPONSE

The Department agrees with the finding. This finding is resultant from current changes in key personnel and departmental realignment. The Department has currently stabilized with the key vacancies being filled and a new procurement directorate being established.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-005. **FINDING** (Inadequate Controls over Refunds and Reimbursements)

The Department of Military Affairs (Department) did not maintain adequate controls over refunds and reimbursements.

During testing, the accountants noted the following:

- During two of eight quarters (25%) tested, the auditors identified an amount due from the federal government (accounts receivable) for a reimbursement of \$183,000 for expenditures originally paid from the General Revenue Fund (GRF). While the Department recorded the amount due and subsequent cash collection in its GRF Quarterly Summary of Accounts Receivable Activity reports (Form C-97s) filed with the Office of the State Comptroller, the Department actually deposited the cash reimbursement received into the Federal Support Agreement Revolving Fund (FSARF).

The State Officers and Employees Money Disposition Act (Act) (30 ILCS 230/2(a)) requires the Department to deposit all moneys received into the GRF unless a State law required the deposit of the receipt into a separate fund in the State Treasury.

- One of eight (13%) Form C-97s tested was inaccurate and did not agree to support provided by the Department. The accountants noted the Department overstated its “collections within 180 days” reported on the first quarter’s Form C-97 in Fiscal Year 2016 by \$822,000.

The Statewide Accounting Management System (SAMS) (Procedure 26.20.10) requires the Department to record and maintain detailed information related to each receivable. In addition, SAMS Procedure 26.30.10 requires the Department to report accurate receivable information to the Office of the Comptroller quarterly. The information should include receivable activity by fund and major revenue source, aging of receivables by fund and major revenue source, external collection activity of accounts over 180 days past due by an agency, and collection activity for accounts over 180 days past due and over \$15,000.

- The Department did not properly classify seven of seven (100%) refunds tested, totaling \$9,343, during the examination period. The accountants noted these refunds should have been processed using an Expenditure Adjustment Transmittal Form (Form C-64) as opposed to the Receipts Deposit Transmittal Form (Form C-63) used by the Department.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

The State Comptroller Act (15 ILCS 405/10.14) requires an appropriation credit be provided when any warrant, or portion thereof, is returned to the State Treasury which was either erroneous or an overpayment, provided the original appropriation the warrant was paid from has not lapsed. SAMS (Procedure 25.20.20) requires the Department submit a Form C-64 to the State Comptroller to process these types of non-payroll cash refunds.

Department personnel indicated the reimbursements were deposited into the FSARF to increase the cash balance of the fund and facilitate more rapid payment of expenditures from that fund. The Department also indicated the remaining errors were due to significant turnover in key personnel and staff error.

Failure to ensure cash refunds and reimbursements are deposited timely into the correct fund using the proper processing documentation resulted in noncompliance with various State laws and regulations. Further, failure to properly report accounts receivable activity to the Office of the State Comptroller reduces the reliability of Statewide financial reporting and represents noncompliance with SAMS. Additionally, these control deficiencies represent conditions where errors or other irregularities could occur and not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding Code No. 2016-005, 2014-002)

RECOMMENDATION

We recommend the Department ensure cash refunds and reimbursements are deposited timely into the correct fund using the proper processing documentation. Further, the Department should implement controls to ensure accounts receivable reports are complete and accurate and take action to correct its deposit error between the GRF and the FSARF.

DEPARTMENT RESPONSE

The Department agrees with this finding. There did exist an extraordinary circumstance as a result of the State of Illinois budget impasse. Our departmental budget submission for FY16 contained a request for a cash infusion from General Revenue Fund into the Federal Support Agreement Revolving Fund (GRF to FSARF). This requested cash infusion was needed to increase the cash availability for timely payment of liabilities from FSARF, as noted in another finding liability payments were not timely. A decision was made to take receipts due from the federal government to the State of Illinois, under the Federal Support Agreement, and deposit said receipts into the FSARF to increase the cash balance to enable more timely payments of liabilities incurred under the federal support agreement. Every intention exists to transfer those receipts, deposited into the FSARF due to

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

GRF, into the GRF upon receipt of the requested cash infusion upon the end of the budget impasse.

As for the refund and reimbursement inaccuracies sighted in the finding, 87% of the quarterly C-97 reports were correct and accurate. Although 100% of the refunds tested were improperly processed by using the Form C-64, the refunds were indeed processed for redeposit by erroneously using the wrong form.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-006. **FINDING** (Lack of Documentation for Lincoln’s Challenge Cadets)

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

LCA is a youth intervention program designed to improve life coping skills and future employability of high school dropouts between the ages of 16 to 19 through participation in a life skills program based upon a military training model. The program includes a 22-week Pre-challenge/Residential Phase and a 12-month Post-Residential Phase. During the Pre-challenge/Residential Phase, the Challenge curriculum focuses on “eight core” objectives including academics, physical fitness, leadership/followership, responsible citizenship, job skills, community service, health and hygiene, and life-coping skills. Participants, called cadets, also attend academic classes enabling them to complete their General Educational Development (GED) test. Following the Residential Phase, cadets participate in a 12-month Post-Residential Phase, at which time they are matched with mentors. The mentors and Challenge Case Managers assist cadets in becoming productive and active citizens within their respective communities.

During testing at LCA, the accountants noted the following:

- Forty-three of 48 (90%) Residential Phase cadet files tested did not include documentation the Pre-TABE Complete Battery scores were timely entered into the data management and reporting system.
- Thirty-seven of 48 (77%) Residential Phase cadet files tested did not include documentation the Post-TABE Complete Battery scores were timely entered into the data management and reporting system.

The Agreement (Attachment 1, Section 1-20a(3)) requires the Department to administer and record:

1. Pre-TABE scores in the management information system not later than Week 4 of the Residential Phase; and,
 2. Post-TABE scores into the management information system any time after the classroom requirements for GED studies have been met, but prior to graduation from the Residential Phase.
- Seventeen of 60 (28%) Pre-Challenge Phase cadet files tested did not include documentation to support the cadet was unemployed or underemployed.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

- Two of 60 (3%) Pre-Challenge Phase cadet files tested did not include documentation to support the cadet was physically and mentally capable for participating in the Residential Phase.

The Agreement (Article II, Section 201e) requires the Department ensure cadets are high school dropouts, unemployed or underemployed, free from the use of illegal drugs or substances, and physically and mentally capable to participate in the Program with a reasonable accommodation for disabilities.

- Nine of 60 (15%) Pre-Challenge Phase cadet files tested did not include evidence of a review of the cadet's performance during the Acclimation Period.

The Agreement (Attachment 1, Section 1-15a(7)) requires the Department's LCA Program staff to assess each cadet's performance and ability to continue in the Residential Phase.

During the prior examination, Department personnel indicated the errors were due to vacant positions and difficulty obtaining information from school districts and parents during the application process. During the current examination, Department personnel indicated the errors were due to the current cadet database not having the capabilities to record all the required information and old applications being used.

Failure to properly record student scores and document a cadet's employment status, physical and mental capacity for participating in LCA programs, and performance represents noncompliance with the Agreement and could result in ineligible cadets participating in or advancing through the program. (Finding Code No. 2016-006, 2014-008, 12-5)

RECOMMENDATION

We recommend the Department comply with the Agreement by:

- 1) ensuring cadets meet all required criteria for entry into LCA;
- 2) timely entering each cadet's pre-TABE and post-TABE scores; and,
- 3) maintaining documentation to substantiate cadet qualifications during each phase at LCA.

DEPARTMENT RESPONSE

In regards to bullet points one and two, the Department disagrees. The Cooperative Agreement requires staff to record the Pre-TABE and Post-TABE scores in the management information system no later than Week 4 and prior to graduation. This was completed in accordance with set guidelines. There is no requirement for documentation reflecting TABE scores be located in the cadets' paper file. However, these scores are kept by the Lead Instructor. Additionally, as

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

per the 2016 audit corrective action plan, the Lead Instructor will maintain a printed, dated copy of the TABE entries into the data management system to verify that the scores were entered by the dates managed by National Guard Bureau.

In regards to bullet point three, the Department agrees. This issue was an oversight of an old application form being used. However, 72% of the sample was correct.

In regards to bullet point four, the Department disagrees. Challenge Candidates are screened repeatedly for physical and mental capability. First, when their applications arrive by the Counseling and Medical Departments, daily during Acclimation by their cadre and during a physical provided by the Challenge. It was noted during one cycle, that the medical provider had neglected to check the box for physical and mental capabilities. A review process by our Medical Department has been in place to review the documents at the time of the physical to ensure no boxes are left unmarked. Furthermore, 97% of the sample was correct.

In regards to bullet point five, the Department disagrees. During the Acclimation Phase, cadets are assessed daily for their ability to move forward into the challenge phase of the program. Cadre complete Daily Observation Report Checklists for their teams, marking all cadets with a P, O, N1, or N2 rating. Should a cadet receive an N1 or N2 rating indicating noncompliance with the Academy standards, an additional individual Daily Observation Report is completed addressing that day's behavior issue and placed in the cadet's file. The Daily Observation Report checklists are kept within the Cadre Department. According to the sample, 85% of the sample was correct.

ACCOUNTANT'S COMMENTS

In regards to bullet points one and two, the accountants were not provided documentation the scores were timely entered into the data management and reporting system. Although the Department stated in their response they disagree with these bullet points, the Department has agreed per their 2016 audit corrective action plan to maintain a printed, dated copy of the TABE entries into the data management and reporting system to verify that the scores were entered by the dates managed by the National Guard Bureau.

In regards to bullet points four and five, the accountants are not disputing the Department's assertion that the Department has a process to ensure the cadet was physically and mentally capable for participation in the Residential Phase and a process to review the cadet's performance during the Acclimation Period. The accountant's noted during our testing procedures that the Department could not

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

provide evidentiary documentation to support the reviews were performed for certain cadets in our sample. As a result, the finding reflects the percentage of the sample found to be incorrect and not the percentage found to be correct.

Further, the Department's deficiencies in documenting compliance with requirements of the National Guard Challenge Program Cooperative Agreement are long standing. This finding has been repeated since 2012. Similar findings appear in our 2008, 2002, and 1994 reports.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-007. **FINDING** (Inaccurate Financial Information Reported to the State Comptroller)

The Department of Military Affairs (Department) did not file complete and accurate financial information with the Office of the State Comptroller, which was used in preparing the State's Schedule of Expenditures of Federal Awards (SEFA).

During testing, the accountants noted the Federal Support Agreement Revolving Fund's current year expenditures for National Guard Military Operations and Maintenance Projects (CFDA #12.401) were overstated on the Department's Grant/Contract Analysis Form (Form SCO-563) and the SEFA by approximately \$100,000.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports. Further, the Statewide Accounting Management System (SAMS) (Procedure 27.20.63) states the Form SCO-563 provides information needed to prepare the State's SEFA in accordance with the federal Single Audit Act of 1984 (as amended).

During the previous examination, Department personnel indicated the errors were made as a result of (1) oversight, (2) faulty information received from other areas within the Department, (3) limited staff, and (4) increased workloads. During the current examination, Department personnel indicated this error was due to a typographical error when computing the adjusted expenditures for the first quarter of the year. The actual amount was \$121,000 but was entered as \$21,000.

Failure to submit complete and accurate financial information to the Office of the State Comptroller decreases the accuracy of the State's SEFA. (Finding Code No. 2016-007, 2014-005)

RECOMMENDATION

We recommend the Department ensure accurate financial information is submitted to the Office of the State Comptroller to help in preparing a complete and accurate SEFA.

DEPARTMENT RESPONSE

The Department agrees with the finding. This was a simple error of entry.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-008. **FINDING** (Noncompliance with Vehicle Requirements)

The Department of Military Affairs (Department) did not follow State law and adopted regulations regarding its operation of automobiles. As of June 30, 2016, the Department had 44 vehicles.

During testing, the accountants noted the following:

- One (100%) motor vehicle collision was not promptly reported to the appropriate parties. The accountants noted this incident's *Illinois Motorist Report* (Form SR-1) was submitted three days late to the Auto Liability Unit at the Department of Central Management Services (CMS).

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5040.520(i)) requires the Agency to submit the Form SR-1 to the Auto Liability Unit at CMS within seven calendar days following the incident, or risk forfeiture of coverage under the State's liability plan.

- The Department did not submit its Vehicle Use Policy to the Division of Vehicles at CMS for inclusion on CMS's website. **This requirement became law on January 1, 2013.**

The State Vehicle Use Act (Act) (30 ILCS 617/10(b)) requires the Department to draft and submit a vehicle use policy to the Division of Vehicles at CMS for inclusion on CMS's website.

- The Department did not ensure its vehicles were properly maintained during the examination period. The auditors reviewed the maintenance records for five vehicles, noting the following:
 - Three (60%) vehicles tested did not have routine oil changes performed on a timely basis;
 - Four (80%) vehicles tested did not undergo an annual inspection by CMS or an authorized vendor; and,
 - Three (60%) vehicles tested did not receive tire rotations at the required interval.

The Code (44 Ill. Admin. Code 5040.400) requires the Department to ensure its owned or leased vehicles undergo regular service and/or repair to maintain the vehicle in a road worthy, safe operating condition and in an appropriate cosmetic condition. Further, the Code (44 Ill. Admin. Code 5040.410(a))

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

requires the Department to ensure its vehicles undergo an annual inspection performed by CMS or an authorized vendor and that vehicles are maintained in accordance with schedules acceptable to CMS.

Department personnel indicated the late accident report was due to the Department's Vehicle Coordinator being on vacation. In addition, Department personnel indicated the Vehicle Use Policy was not submitted and the vehicle maintenance was not performed due to oversight and changes in employee responsibilities.

Failure to submit accident reports in a timely manner could lead to unclear facts and make it more difficult to follow up on any possible liability to the Department or the State. Failure to timely complete and submit the Form SR-1 to CMS represents noncompliance with the Code and risks the Department forfeiting coverage under the State's liability plan. In addition, failure to submit the Vehicle Use Policy represents noncompliance with the Act. Further, failure to properly monitor vehicle maintenance could result in the State incurring added costs through additional repairs to, and shorted useful lives of, vehicles. (Finding Code No. 2016-008)

RECOMMENDATION

We recommend the Department strengthen its internal controls over monitoring its fleet to ensure vehicles receive timely maintenance. Further, the Department should ensure its Vehicle Use Policy and accident reports are timely filed with CMS as required by State law.

DEPARTMENT RESPONSE

The Department agrees with this finding.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-009. **FINDING** (Inadequate Controls over Monthly Reconciliations)

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

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

Monthly Appropriation Status Report (SB01) Reconciliations

- The Department failed to include Fiscal Year 2016 General Revenue Fund (GRF) payroll expenditures, totaling \$10,900,188, in its expenditure records. This resulted in the Department failing to accurately reconcile 14 of 28 (50%) months.
- Two of 28 (7%) Fiscal Year 2015 expenditure reconciliations were not dated as to when the reconciliations were performed. As a result, the accountants were unable to determine whether the reconciliations were performed timely.
- The accountants were unable to reconcile the Department's Fiscal Year 2015 expenditure records to the Comptroller's final SB01, dated August 31, 2015, resulting in a difference of \$3,595.
- The Department did not adjust its expenditure records to accurately reflect all of its transactions. The accountants found transactions, totaling \$796,210, which were not accurately recorded in the Department's expenditure records.

Monthly Cash Report (SB05) Reconciliations

- Thirteen of 72 (18%) cash report reconciliations were not dated as to when the reconciliations were performed. As a result, the accountants were unable to determine whether the reconciliations were performed timely.

The Statewide Accounting Management System (SAMS) (Procedure 07.30.20) notes "the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handled that data properly. Agency reconciliation is the primary control that insures these requirements are being satisfied." As such, SAMS (Procedures 11.40.20 and 09.40.30) establish processes for a monthly reconciliation of the Comptroller's SB01 and SB05 reports.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that expenditures and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control includes ensuring reconciliations are performed timely, reconciling items are identified, unreconciled differences are promptly reported to the State Comptroller, and the date of the reconciliation is retained.

Department officials indicated the errors were due to genuine mistakes and the way GRF payroll expenditures were reflected in the Accounting Information System.

Failure to properly reconcile the Department's records to the Comptroller's records in a timely manner represents noncompliance with SAMS and could result in incomplete or inaccurate financial information. (Finding Code No. 2016-009, 2014-006)

RECOMMENDATION

We recommend the Department ensure required reconciliations to the Comptroller's records are performed, reviewed, and any differences are appropriately handled timely. In addition, the Department should maintain documentation to support when its reconciliations were prepared and reviewed.

DEPARTMENT RESPONSE

The Department agrees with the finding. The Department completed all reconciliations regardless of the lack a date of completion not being annotated on the reconciliation directly. Each required reconciliation was completed and was provided for review, without exception. Between 82% and 93% of the reconciliations were dated properly.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-010. **FINDING** (Failure to File Required Reports)

The Department of Military Affairs (Department) did not comply with reporting requirements within the Illinois Administrative Code (Code).

During testing, the accountants noted the following:

- The Department was unable to provide 18 of the 24 (75%) required monthly reports from the Adjutant General to the Governor, Lieutenant Governor, and Comptroller during the examination period concerning funds requested and processed from the Illinois Military Family Relief Fund, as required by the Code (95 Ill. Admin. Code 200.90(a)).
- The Department was unable to provide 18 of the 24 (75%) required monthly reports from the Adjutant General to the Governor, Lieutenant Governor, and Comptroller during the examination period detailing the amounts disbursed and donated to the Illinois Military Family Relief Fund, as required by the Code (95 Ill. Admin. Code 200.90(b)).

Good internal controls over compliance includes implementing internal fiscal and administrative controls to provide assurance required financial reports are timely prepared and submitted, as required by the Code. Further, the State Records Act (5 ILCS 160/8) requires the Department make and preserve adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Department designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Department personnel indicated the errors were due to personnel not maintaining proof of submission.

Failure to prepare reports and maintain proper documentation of submission to the Governor, Lieutenant Governor, and Comptroller lessens governmental oversight and accountability and represents noncompliance with the Code. (Finding Code No. 2016-010, 2014-007)

RECOMMENDATION

We recommend the Department prepare and submit the monthly reports required by the Code. Further, the Department should retain documentation of each report and its submission to the Governor, Lieutenant Governor, and Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

DEPARTMENT RESPONSE

The Department agrees with the finding. The non-submission of the reports is not the issue at hand, the inability to provide proof that the reports were submitted is the issue. The Department agrees that more adequate controls will help to ensure that proof of submission of the subject reports be retained for future reference.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

2016-011. **FINDING** (Failure to Develop a Formal Fraud Risk Assessment Program)

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

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

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

Department personnel indicated there is no explicit wording mandating a formal, adequate fraud risk assessment program and adequate controls are in place to address and mitigate the risk of fraud.

The Department managed expenditures of \$32 and \$37 million of State funds during Fiscal Year 2016 and Fiscal Year 2015, respectively. Without an adequate program to identify and address the specific risks associated with fraud, fraudulent activities may go undetected and could result in misstatements in the Department's financial information or misappropriation of Department assets. (Finding Code No. 2016-011)

RECOMMENDATION

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

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2016

DEPARTMENT RESPONSE

The Department disagrees with this finding. Department personnel believe there are adequate controls and processing in place to address and mitigate the risk of fraud. Furthermore, it is the agency's contention that with the internal audit plan that was in place for FY16 and other periodic reviews by external auditing entities, such as the Federal Internal Review Division under the U.S. Property and Fiscal Officer, there are adequate fraud risk assessment activities to constitute an actual functioning program.

ACCOUNTANT'S COMMENT

The Department was unable to provide evidence fraud risks were discussed and evaluated by management and controls were implemented for any risks identified. Without a formal, written fraud risk assessment program in place, employees and management may be unclear of the process to report noted fraud risks identified throughout the Department's operations. In addition, the Department stated they relied on external auditing entities as part of their internal control process. External entities would constitute a post audit function which is not a substitute for appropriate internal controls facilitating prevention and timely detection of fraud by the Department.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2016

A. **FINDING** (Voucher Processing Weaknesses)

During the previous examination, the Department of Military Affairs (Department) did not exercise adequate controls over voucher processing. (Finding Code No. 2014-003, 12-3, 10-4)

During the current examination, the accountant's sample testing indicated the Department improved its controls over voucher processing except in the area of timely approving vouchers. Therefore, this matter has been reported in the Department's *Report on Immaterial Findings*.

B. **FINDING** (Lack of Controls over Contractual Agreements)

During the previous examination, the Department of Military Affairs (Department) did not ensure contractual agreements were properly completed and approved. (Finding Code No. 2014-009)

During the current examination, the accountant's testing indicated the Department made significant improvements in the area of contractual agreements. However, some errors were noted and have therefore been reported in the Department's *Report on Immaterial Findings*.

C. **FINDING** (Failure to Comply with the Identity Protection Act)

During the previous examination, the Department of Military Affairs (Department) failed to implement the provisions of the Identity Protection Act within the required timeframe. (Finding Code No. 2014-011, 12-6)

During the current examination, the accountant's testing indicated the Department complied with the Identity Protection Act and implemented an Identity Protection Policy.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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 2016
 - Schedule of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2015
 - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
 - Comparative Schedule of Receipts, Disbursements, and Fund Balance (Cash Basis) - Locally Held Funds
 - 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)
 - Budget Impasse Disclosures (Not Examined)
 - Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Not Examined)
 - Interest Costs on Fiscal Year 2016 Invoices (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, 2016, and June 30, 2015, accompanying supplementary information in Schedules 1 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 the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
 COMPLIANCE EXAMINATION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

Public Act 099-0409, Public Act 099-0524, and Court Ordered Expenditures	Expenditure Authority (Net after Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
FISCAL YEAR 2016					
APPROPRIATED FUNDS					
General Revenue Fund - 0001					
<i>Office of the Adjutant General:</i>					
Personal Services		\$ 1,619,219	\$ 2,610	\$ 1,621,829	
State Contributions to Social Security		119,581	195	119,776	
Contractual Services		16,398	2,678	19,076	
Lincoln's Challenge		<u>2,762,973</u>		<u>2,762,973</u>	
<i>Total Office of the Adjutant General:</i>		<u>\$ 4,518,171</u>	<u>\$ 5,483</u>	<u>\$ 4,523,654</u>	
<i>Facilities Operations:</i>					
Personal Services		\$ 5,922,393	\$ 3,526	\$ 5,925,919	
State Contributions to Social Security		431,106	270	431,376	
Contractual Services		23,231	-	23,231	
<i>Total Facilities Operations:</i>		<u>\$ 6,376,730</u>	<u>\$ 3,796</u>	<u>\$ 6,380,526</u>	
Total, Fund 0001		<u>\$ 10,894,901</u>	<u>\$ 9,279</u>	<u>\$ 10,904,180</u>	
Military Affairs Trust Fund - 0043					
<i>Office of the Adjutant General:</i>					
Youth Programs and Other Programs	\$ 1,000,000	-	\$ 11,915	\$ 11,915	\$ 988,085
Total, Fund 0043	<u>\$ 1,000,000</u>	<u>-</u>	<u>\$ 11,915</u>	<u>\$ 11,915</u>	<u>\$ 988,085</u>

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
 COMPLIANCE EXAMINATION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

Public Act 099-0409, Public Act 099-0524, and Court Ordered Expenditures	Expenditure Authority (Net after Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
FISCAL YEAR 2016					
Federal Support Agreement Revolving Fund - 0333					
<i>Office of the Adjutant General:</i>					
Lincoln's Challenge	\$ 8,600,000	\$ 3,304,239	\$ 402,720	\$ 3,706,959	\$ 4,893,041
Lincoln's Challenge Allowances	1,200,000	351,266	63,994	415,260	784,740
<i>Total Office of the Adjutant General:</i>	\$ 9,800,000	\$ 3,655,505	\$ 466,714	\$ 4,122,219	\$ 5,677,781
<i>Facilities Operations:</i>					
Army/Air Reimbursable Positions	\$ 14,610,700	\$ 9,464,677	\$ 26,491	\$ 9,491,168	\$ 5,119,532
Expenses Related to Army National Guard Facilities Operations and Maintenance	13,000,000	5,553,465	1,594,109	7,147,574	5,852,426
<i>Total Facilities Operations:</i>	\$ 27,610,700	\$ 15,018,142	\$ 1,620,600	\$ 16,638,742	\$ 10,971,958
Total, Fund 0333	\$ 37,410,700	\$ 18,673,647	\$ 2,087,314	\$ 20,760,961	\$ 16,649,739
U.S.S. Illinois Commissioning Fund - 0395					
Grants to the U.S.S. Illinois Commissioning Committee	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Total, Fund 0395	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Illinois Military Family Relief Fund - 0725					
<i>Office of the Adjutant General:</i>					
Special Duty due to September 11th Terrorist Attacks	\$ 5,000,000	\$ -	\$ 195,000	\$ 195,000	\$ 4,805,000
Total, Fund 0725	\$ 5,000,000	\$ -	\$ 195,000	\$ 195,000	\$ 4,805,000
Subtotal - Appropriated Funds	\$ 43,510,700	\$ 29,568,548	\$ 2,303,508	\$ 31,872,056	\$ 22,542,824

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
 COMPLIANCE EXAMINATION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Expenditure Authority for Fiscal Year 2016

For the Fourteen Months Ended August 31, 2016

Public Act 099-0409, Public Act 099-0524, and Court Ordered Expenditures	Expenditure Authority (Net after Transfers)	Lapse Period Expenditures		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	July 1 to August 31		
NONAPPROPRIATED FUNDS					
Illinois National Guard Billeting Fund - 0076					
<i>Facilities Operations:</i>					
Billeting		\$ 283,276	\$ 31,998	\$ 315,274	
		<u>\$ 283,276</u>	<u>\$ 31,998</u>	<u>\$ 315,274</u>	
Total, Fund 0076					
Illinois National Guard State Active Duty Fund - 0730					
<i>Facilities Operations:</i>					
Illinois National Guard State Active Duty		\$ 12,780	\$ -	\$ 12,780	
		<u>\$ 12,780</u>	<u>\$ -</u>	<u>\$ 12,780</u>	
Total, Fund 0730					
Subtotal - Nonappropriated Funds		<u>\$ 296,056</u>	<u>\$ 31,998</u>	<u>\$ 328,054</u>	
GRAND TOTAL - ALL FUNDS		<u>\$ 29,864,604</u>	<u>\$ 2,335,506</u>	<u>\$ 32,200,110</u>	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016 and have been reconciled to the Department's records.

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

Note 3: The Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As the Department never received enacted personal services appropriations for Fund 0001, the Department was able to submit vouchers to pay its employees in full without a maximum expenditure limit for personal service costs during Fiscal Year 2016. Further, the Department incurred non-payroll obligations within Funds 0043, 0333, and 0725, which the Department was unable to pay until the passage of Public Acts 099-0409 and 099-0524.

Note 4: Public Act 099-0524 authorizes the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 65 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department to be submitted against its Fiscal Year 2017 appropriation.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
Appropriations for Fiscal Year 2015

Fourteen Months Ended August 31, 2015

P.A. 098-0681, 098-0675, 099-0001 FISCAL YEAR 2015	Appropriations (Net After Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
APPROPRIATED FUNDS					
General Revenue Fund - 0001 <i>Office of the Adjutant General:</i>					
Personal Services	\$ 1,572,900	\$ 1,571,204	\$ (757)	\$ 1,570,447	\$ 2,453
State Contribution to Social Security	117,800	115,889	113	116,002	1,798
Contractual Services	14,800	14,471	(4,962)	9,509	5,291
Travel	12,500	6,971	711	7,682	4,818
Commodities	19,600	6,158	12,216	18,374	1,226
Printing	500	-	-	-	500
Equipment	4,800	4,306	222	4,528	272
Electronic Data Processing	28,200	22,566	4,673	27,239	961
Telecommunications Services	20,700	14,336	2,862	17,198	3,502
Operation of Auto Equipment	16,600	16,074	467	16,541	59
State Officers' Candidate School	700	-	-	-	700
Lincoln's Challenge	2,703,000	2,644,859	1,054	2,645,913	57,087
Care/Preservation of Historical Artifacts	7,200	7,057	-	7,057	143
Cash Transfer to the Illinois Military Family Relief Fund	800,000	800,000	-	800,000	-
Grant to the Veterans' Assistance Commission of Cook County	391,000	-	-	-	391,000
<i>Total Office of the Adjutant General</i>	<u>\$ 5,710,300</u>	<u>\$ 5,223,891</u>	<u>\$ 16,599</u>	<u>\$ 5,240,490</u>	<u>\$ 469,810</u>
<i>Facilities Operations:</i>					
Personal Services	\$ 5,748,400	\$ 5,741,468	\$ 1,757	\$ 5,743,225	\$ 5,175
State Contribution to Social Security	415,700	413,774	134	413,908	1,792
Contractual Services	3,718,100	3,069,110	568,473	3,637,583	80,517
Commodities	111,900	102,163	1,883	104,046	7,854
Equipment	83,700	52,039	17,407	69,446	14,254
<i>Total Facilities Operations</i>	<u>\$ 10,077,800</u>	<u>\$ 9,378,554</u>	<u>\$ 589,654</u>	<u>\$ 9,968,208</u>	<u>\$ 109,592</u>
Total, Fund 0001	<u>\$ 15,788,100</u>	<u>\$ 14,602,445</u>	<u>\$ 606,253</u>	<u>\$ 15,208,698</u>	<u>\$ 579,402</u>

Schedule 2

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Appropriations for Fiscal Year 2015

Fourteen Months Ended August 31, 2015

	Appropriations (Net After Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
P.A. 098-0681, 098-0675, 099-0001					
FISCAL YEAR 2015					
Military Affairs Trust Fund - 0043					
<i>Office of the Adjutant General:</i>					
Youth Programs and Other Programs	\$ 1,000,000	\$ 80,441	\$ 906	\$ 81,347	\$ 918,653
Total, Fund 0043	\$ 1,000,000	\$ 80,441	\$ 906	\$ 81,347	\$ 918,653
Federal Support Agreement Revolving Fund - 0333					
<i>Office of the Adjutant General:</i>					
Lincoln's Challenge	\$ 8,600,000	\$ 4,477,182	\$ 915,821	\$ 5,393,003	\$ 3,206,997
Lincoln's Challenge Allowances	1,200,000	123,100	44,875	167,975	1,032,025
Total Office of the Adjutant General	\$ 9,800,000	\$ 4,600,282	\$ 960,696	\$ 5,560,978	\$ 4,239,022
<i>Facilities Operations:</i>					
Army/Air Reimbursable Positions	\$ 14,610,700	\$ 9,067,995	\$ 46,754	\$ 9,114,749	\$ 5,495,951
Expenses Related to Army National Guard Facilities					
Operations and Maintenance	13,000,000	5,290,798	1,403,945	6,694,743	6,305,257
Total Facilities Operations	\$ 27,610,700	\$ 14,358,793	\$ 1,450,699	\$ 15,809,492	\$ 11,801,208
Total, Fund 0333	\$ 37,410,700	\$ 18,959,075	\$ 2,411,395	\$ 21,370,470	\$ 16,040,230
Illinois Military Family Relief Fund - 0725					
<i>Office of the Adjutant General:</i>					
Special Duty due to September 11th Terrorist Attacks	\$ 5,000,000	\$ 360,500	\$ (500)	\$ 360,000	\$ 4,640,000
Total, Fund 0725	\$ 5,000,000	\$ 360,500	\$ (500)	\$ 360,000	\$ 4,640,000
Illinois National Guard Armory Construction Fund - 0927					
<i>Facilities Operations:</i>					
Construction of Illinois National Guard Facilities	\$ 471,774	\$ -	\$ -	\$ -	\$ 471,774
Land Acquisition & Construction of Parking	91,600	24,778	-	24,778	66,822
Total Facilities Operations	\$ 563,374	\$ 24,778	\$ -	\$ 24,778	\$ 538,596
Total, Fund 0927	\$ 563,374	\$ 24,778	\$ -	\$ 24,778	\$ 538,596

Schedule 2

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Appropriations for Fiscal Year 2015

Fourteen Months Ended August 31, 2015

P.A. 098-0681, 098-0675, 099-0001 FISCAL YEAR 2015	Appropriations (Net After Transfers)	Lapse Period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
Subtotal - Appropriated Funds	\$ 59,762,174	\$ 3,018,054	\$ 37,045,293	\$ 22,716,881
NON-APPROPRIATED FUNDS				
Illinois National Guard Billeting Fund - 0076 <i>Facilities Operations:</i> Billeting	\$ 16,979	\$ 65,329	\$ 82,308	
Total, Fund 0076	\$ 16,979	\$ 65,329	\$ 82,308	
Illinois National Guard State Active Duty Fund - 0730 <i>Facilities Operations:</i> Illinois National Guard State Active Duty	\$ 953	\$ -	\$ 953	
Total, Fund 0730	\$ 953	\$ -	\$ 953	
Subtotal - Nonappropriated Funds	\$ 17,932	\$ 65,329	\$ 83,261	
GRAND TOTAL - ALL FUNDS	\$ 34,045,171	\$ 3,083,383	\$ 37,128,554	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from State Comptroller records as of August 31, 2015, and have been reconciled to the Department's 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
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

	FISCAL YEAR		
	2016	2015	2014
	P.A. 099-0409	P.A. 098-0681	
	Court Ordered	P.A. 098-0675	
	Expenditures	P.A. 098-0064	
	P.A. 099-0524	P.A. 099-0001	P.A. 098-0050
APPROPRIATED FUNDS			
General Revenue Fund -0001			
Appropriations (Net After Transfers)		\$ 15,788,100	\$ 14,890,500
Expenditures			
<i>Office of the Adjutant General:</i>			
Personal Services	\$ 1,621,829	\$ 1,570,447	\$ 1,563,500
State Contribution to Social Security	119,776	116,002	113,949
Contractual Services	19,076	9,509	-
Travel	-	7,682	-
Commodities	-	18,374	-
Printing	-	-	-
Equipment	-	4,528	-
Electronic Data Processing	-	27,239	31,723
Telecommunications Services	-	17,198	-
Operation of Auto Equipment	-	16,541	-
State Officers' Candidate School	-	-	690
Lincoln's Challenge	2,762,973	2,645,913	2,199,905
Care/Preservation of Historical Artifacts	-	7,057	6,625
Cash Transfer to the Illinois Military Family Relief Fund	-	800,000	800,000
Ordinary & Contingent Expenses	-	-	3,291,835
<i>Total Office of the Adjutant General</i>	\$ 4,523,654	\$ 5,240,490	\$ 8,008,227
<i>Facilities Operations:</i>			
Personal Services	\$ 5,925,919	\$ 5,743,225	\$ 5,327,048
State Contribution to Social Security	431,376	413,908	389,604
Contractual Services	23,231	3,637,583	-
Commodities	-	104,046	-
Equipment	-	69,446	-
<i>Total Facilities Operations</i>	\$ 6,380,526	\$ 9,968,208	\$ 5,716,652
Total Expenditures	\$ 10,904,180	\$ 15,208,698	\$ 13,724,879
Lapsed Balance		\$ 579,402	\$ 1,165,621

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

	FISCAL YEAR		
	2016	2015	2014
	P.A. 099-0409	P.A. 098-0681	
	Court Ordered	P.A. 098-0675	
	Expenditures	P.A. 098-0064	
	P.A. 099-0524	P.A. 099-0001	P.A. 098-0050
Military Affairs Trust Fund - 0043			
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	\$ 11,915	\$ 81,347	\$ 302,622
Total Expenditures	\$ 11,915	\$ 81,347	\$ 302,622
Lapsed Balance	\$ 988,085	\$ 918,653	\$ 697,378
Federal Support Agreement Revolving Fund - 0333			
Appropriations (Net After Transfers)	\$ 37,410,700	\$ 37,410,700	\$ 34,279,400
Expenditures			
<i>Office of the Adjutant General:</i>			
Lincoln's Challenge	\$ 3,706,959	\$ 5,393,003	\$ 5,856,447
Lincoln's Challenge Allowances	415,260	167,975	348,485
Total Office of the Adjutant General	\$ 4,122,219	\$ 5,560,978	\$ 6,204,932
<i>Facilities Operations:</i>			
Army/Air Reimbursable Positions	\$ 9,491,168	\$ 9,114,749	\$ 9,839,706
Expenses Related to Army National Guard			
Facilities Operations and Maintenance	7,147,574	6,694,743	7,076,595
Total Facilities Operations	\$ 16,638,742	\$ 15,809,492.00	\$ 16,916,301.00
Total Expenditures	\$ 20,760,961	\$ 21,370,470	\$ 23,121,233
Lapsed Balance	\$ 16,649,739	\$ 16,040,230	\$ 11,158,167
U.S.S. Illinois Commissioning Fund - 0395			
Appropriations (Net After Transfers)	\$ 100,000	\$ -	\$ 5,000,000
Expenditures			
Grants to the U.S.S. Illinois			
Commissioning Committee	\$ -	\$ -	\$ 463,000
Total Expenditures	\$ -	\$ -	\$ 463,000
Lapsed Balance	\$ 100,000	\$ -	\$ 4,537,000

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

	FISCAL YEAR		
	2016	2015	2014
	P.A. 099-0409	P.A. 098-0681	
	Court Ordered	P.A. 098-0675	
	Expenditures	P.A. 098-0064	
	P.A. 099-0524	P.A. 099-0001	P.A. 098-0050
Illinois Military Family Relief Fund - 0725			
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	\$ 195,000	\$ 360,000	\$ 463,000
Total Expenditures	\$ 195,000	\$ 360,000	\$ 463,000
Lapsed Balance	\$ 4,805,000	\$ 4,640,000	\$ 4,537,000
Illinois National Guard Armory Construction Fund - 0927			
Appropriations (Net After Transfers)	\$ -	\$ 563,374	\$ 591,569
Expenditures			
<i>Facilities Operations:</i>			
Construction of Illinois National Guard Facilities	\$ -	\$ -	\$ 28,195
Land Acquisition & Construction of Parking	-	24,778	-
Total Expenditures	\$ -	\$ 24,778	\$ 28,195
Lapsed Balance	\$ -	\$ 538,596	\$ 563,374
TOTAL - ALL APPROPRIATED FUNDS			
Appropriations (Net After Transfers)	\$ 43,510,700	\$ 59,762,174	\$ 55,761,469
Total Expenditures	\$ 31,872,056	\$ 37,045,293	\$ 37,639,929
Lapsed Balance	\$ 22,542,824	\$ 22,716,881	\$ 18,121,540
NON-APPROPRIATED FUNDS			
Illinois National Guard Billeting Fund - 0076			
Expenditures			
<i>Facilities Operations:</i>			
Billeting	\$ 315,274	\$ 82,308	\$ -
Total Expenditures	\$ 315,274	\$ 82,308	\$ -

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

	FISCAL YEAR		
	2016	2015	2014
	P.A. 099-0409	P.A. 098-0681	
	Court Ordered	P.A. 098-0675	
	Expenditures	P.A. 098-0064	
	P.A. 099-0524	P.A. 099-0001	P.A. 098-0050
Illinois National Guard State Active Duty Fund - 0730			
Expenditures			
<i>Facilities Operations:</i>			
Illinois National Guard State Active Duty	\$ 12,780	\$ 953	\$ 24,292
Total Expenditures	\$ 12,780	\$ 953	\$ 24,292
GRAND TOTAL - ALL FUNDS			
Total Expenditures	\$ 32,200,110	\$ 37,128,554	\$ 37,664,221
STATE OFFICERS' SALARIES			
General Revenue Fund -0001 (State Comptroller)			
Appropriations		\$ 312,800	\$ 312,800
Expenditures			
Adjutant General	\$ 115,613	\$ 115,481	\$ 115,613
Two Chief Assistants to the Adjutant General	171,798	190,764	197,086
Total Expenditures	\$ 287,411	\$ 306,245	\$ 312,699
Lapsed Balance		6,555	101

Note 1: Fiscal Year 2015 appropriations, expenditures, and lapsed balances were obtained from State Comptroller records as of August 31, 2015 and reconciled to the Department's records.

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

Note 3: Fiscal Year 2016 expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016 and reconciled to the Department's records.

Note 4: The Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As the Department never received enacted personal services appropriations for Fund 0001, the Department was able to submit vouchers to pay its employees in full without a maximum expenditure limit for personal service costs during Fiscal Year 2016. Further, the Department incurred non-payroll obligations within Funds 0043, 0333, and 0725, which the Department was unable to pay until the passage of Public Acts 099-0409 and 099-0524.

Note 5: Public Act 099-524 authorizes the Department to pay Fiscal Year 2016 costs using its Fiscal Year 2017 appropriations for non-payroll expenditures. The Analysis of Operations section of this report at page 65 includes information from Department management about the number of invoices and the total dollar amount of invoices held by the Department to be submitted against its Fiscal Year 2017 appropriation.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
COMPARATIVE SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
(CASH BASIS) - LOCALLY HELD FUNDS
For the Fiscal Years Ended June 30, 2016
(expressed in thousands)

Lincoln's Challenge Stipend Fund - 1336	<u>Fiscal Year</u>	
	<u>2016</u>	<u>2015</u>
Beginning Cash Balance	\$ 7	\$ 1
Cash Receipts:		
Private Organizations or Individuals	82	
Fund Transfers - In		100
Cash Disbursements:		
Awards or Grants	87	94
Other	1	
Ending Cash Balance	<u>\$ 1</u>	<u>\$ 7</u>

STATE OF ILLINOIS
 DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN STATE PROPERTY
 For the Two Years Ended June 30, 2016
 (Not Examined)

	Land and Land Improvements	Site Improvements	Building and Building Improvements	Equipment	Capital Lease Equipment	Construction in Progress	Total
Balance at July 1, 2014	\$ 12,882,912	\$ 15,441,903	\$ 273,963,533	\$ 8,446,087	\$ -	\$ 16,211,746	\$ 326,946,181
Additions	-	135,363	51,338	1,035,271	-	-	1,221,972
Deletions	-	(537,538)	-	(457,498)	-	-	(995,036)
Net Transfers	-	3,891,101	6,414,909	-	-	16,264,923	26,570,933
Balance at June 30, 2015	\$ 12,882,912	\$ 18,930,829	\$ 280,429,780	\$ 9,023,860	\$ -	\$ 32,476,669	\$ 353,744,050
Balance at July 1, 2015	\$ 12,882,912	\$ 18,930,829	\$ 280,429,780	\$ 9,023,860	\$ -	\$ 32,476,669	\$ 353,744,050
Additions	-	-	-	1,469,507	-	-	1,469,507
Deletions	-	-	-	(903,246)	-	-	(903,246)
Net Transfers	-	452,967	4,950,848	-	-	-	5,403,815
Balance at June 30, 2016	\$ 12,882,912	\$ 19,383,796	\$ 285,380,628	\$ 9,590,121	\$ -	\$ 32,476,669	\$ 359,714,126

Note: The above schedule has been derived from Department records. However, the records were unable to be reconciled to property reports submitted to the Office of the Comptroller. As a result, this schedule was not examined (see Finding 2016-001).

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO
DEPOSITS REMITTED TO THE STATE COMPTROLLER**

For the Fiscal Years Ended June 30,

	FISCAL YEAR		
	2016	2015	2014
General Revenue Fund - 0001			
Miscellaneous Receipts	\$ 4,473	\$ 6,034	\$ 193
Department of Defense	502,089	1,215,434	599,386
Total Cash Receipts per Department Records	<u>506,562</u>	<u>1,221,468</u>	<u>599,579</u>
Less - In Transit at End of Year	-	-	-
Add - In Transit at Beginning of Year	-	-	-
Deposits Recorded by the State Comptroller	<u>\$ 506,562</u>	<u>\$ 1,221,468</u>	<u>\$ 599,579</u>
Military Affairs Trust Fund - 0043			
U.S. Customs Service	\$ 14,456	\$ 55,909	\$ 26,974
Private Organizations or Individuals	2,326	2,087	40
Other Charges for Services	-	-	152
Property Rental	47,738	76,539	89,085
Total Cash Receipts per Department Records	<u>64,520</u>	<u>134,535</u>	<u>116,251</u>
Less - In Transit at End of Year	-	(22,587)	-
Add - In Transit at Beginning of Year	22,587	-	-
Deposits Recorded by the State Comptroller	<u>\$ 87,107</u>	<u>\$ 111,948</u>	<u>\$ 116,251</u>
Illinois National Guard Billeting Fund - 0076			
Billeting Operation Proceeds	\$ 350,595	\$ 386,052	\$ -
Total Cash Receipts per Department Records	<u>350,595</u>	<u>386,052</u>	<u>-</u>
Less - In Transit at End of Year	-	(46,721)	-
Add - In Transit at Beginning of Year	46,721	-	-
Deposits Recorded by the State Comptroller	<u>\$ 397,316</u>	<u>\$ 339,331</u>	<u>\$ -</u>
Federal Support Agreement Revolving Fund - 0333			
Lincoln's Challenge Program	\$ 4,513,312	\$ 5,024,579	\$ 6,278,173
Department of Defense	16,210,133	16,092,631	16,261,721
Reimbursements/Jury Duty and Recoveries	32,998	8,935	3,246
Prior Year Refunds	-	-	1,222
Prior Year Warrant Voids	849	330	-
Department Record Adjustment	75,204	-	-
Total Cash Receipts per Department Records	<u>20,832,496</u>	<u>21,126,475</u>	<u>22,544,362</u>
Less - In Transit at End of Year	(36,459)	(547,613)	804,056
Add - In Transit at Beginning of Year	551,386	698,029	(702,478)
Deposits Recorded by the State Comptroller	<u>\$ 21,347,423</u>	<u>\$ 21,276,891</u>	<u>\$ 22,645,940</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND
RECONCILIATION OF CASH RECEIPTS TO
DEPOSITS REMITTED TO THE STATE COMPTROLLER**
For the Fiscal Years Ended June 30,

	FISCAL YEAR		
	2016	2015	2014
Illinois Military Family Relief Fund - 0725			
Donations - Private Organizations or Individuals	\$ 16,583	\$ 837,936	\$ 847,684
Miscellaneous Receipts	-	-	(152)
Total Cash Receipts per Department Records	16,583	837,936	847,532
Less - In Transit at End of Year	-	(10,789)	-
Add - In Transit at Beginning of Year	-	-	-
Deposits Recorded by the State Comptroller	<u>\$ 16,583</u>	<u>\$ 827,147</u>	<u>\$ 847,532</u>
Illinois National Guard State Active Duty Fund - 0730			
State Agencies	\$ 12,780	\$ 44,763	\$ -
Total Cash Receipts per Department Records	12,780	44,763	-
Less - In Transit at End of Year	-	-	-
Add - In Transit at Beginning of Year	-	-	-
Deposits Recorded by the State Comptroller	<u>\$ 12,780</u>	<u>\$ 44,763</u>	<u>\$ -</u>
Illinois National Guard Armory Construction Fund - 0927			
Sale of Land and Structures	\$ 1	\$ -	\$ -
Total Cash Receipts per Department Records	1	-	-
Less - In Transit at End of Year	-	-	-
Add - In Transit at Beginning of Year	-	-	-
Deposits Recorded by the State Comptroller	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>
Grand Total - All Funds			
Total Cash Receipts per Department Records	\$ 21,783,537	\$ 23,751,229	\$ 24,107,724
Less - In Transit at the End of Year	(36,459)	(627,710)	804,056
Add - In Transit at Beginning of Year	620,694	698,029	(702,478)
Total Deposits Recorded by the State Comptroller	<u>22,367,772</u>	<u>23,821,548</u>	<u>24,209,302</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2016

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2016 AND 2015

General Revenue Fund – 001

Office of the Adjutant General – Electronic Data Processing/ Cash Transfer to the IL Military Family Relief Fund

The General Revenue Fund was not appropriated in Fiscal Year 2016. Hence, no expenditures were disbursed for electronic data processing expenditures and the Department was unable to make its annual cash transfer to the Illinois Military Family Relief Fund.

Facilities Operations – Contractual Services

The General Revenue Fund was not appropriated in Fiscal Year 2016. The only contractual service expenditures disburseable during the fiscal year was for payroll pursuant to the Circuit Court of St. Clair County in *AFSCME Council 31 v. Munger* (15 CH 475).

Facilities Operations – Commodities/ Equipment

The General Revenue Fund was not appropriated in Fiscal Year 2016. Hence, no expenditures were disbursed for commodity or equipment expenditures.

Military Affairs Trust Fund - 0043

Office of the Adjutant General – Youth Programs and Other Programs

The Department did not received appropriations for the fund until after the passage of Public Act 099-0524 on June 30, 2016. Prior to its appropriation, the Department limited its expenditures from the fund.

Federal Support Agreement Revolving Fund - 0333

Office of the Adjutant General – Lincoln’s Challenge

The decrease in Lincoln’s Challenge expenditures was due to administrative changes that resulted in decreased enrollment and graduations in Fiscal Year 2016.

Office of the Adjutant General – Lincoln’s Challenge Allowances

The increase in Lincoln’s Challenge Allowances expenditures was due to more Lincoln’s Challenge Academy cadets being eligible to receive post-graduate stipends in Fiscal Year 2016.

Illinois Military Family Relief Fund – 0725

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

The decrease in grant expenditures was due to fewer eligible candidates to receive the grants during Fiscal Year 2016.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2016

Illinois National Guard Armory Construction Fund - 0927Facilities Operations – Land Acquisition & Construction of Parking

The Illinois National Guard Armory Construction Fund was not appropriated for Fiscal Year 2016, resulting in no expenditures.

Illinois National Guard Billeting Fund - 0076Facilities Operations – Billeting

The Illinois National Guard Billeting Fund was not fully operational until April 2015. Fiscal Year 2016 represented the fund's first full year of transactions.

Illinois National Guard State Active Duty Fund – 0730Facilities Operations – Illinois National Guard State Active Duty Fund

The increase in Illinois National Guard State Active Duty expenditures was due to normal fluctuation. The amount of expenditures is determined by the number of service members activated by the Governor or by the President of the United States during a fiscal year. The number of activated service members can vary significantly from year to year. There were a few activations in Fiscal Year 2015, but several more in Fiscal Year 2016.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2015 AND 2014**General Revenue Fund – 001**Office of the Adjutant General – Lincoln's Challenge

The increase in Lincoln's Challenge expenditures was due to the increase in General Education Degree testing requirement expenses in Fiscal Year 2015.

Office of the Adjutant General – Ordinary & Contingent Expenses

In Fiscal Year 2015, the Ordinary & Contingent Expenses line item was divided into three separate line items under Facilities Operations. These expenses were listed under Facilities Operations as Contractual Services, Commodities, and Equipment in Fiscal Year 2015. Expenditures in these accounts decreased 15.77% from the Ordinary & Contingent expenditures in Fiscal Year 2014.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2016

Military Affairs Trust Fund - 0043Office of the Adjutant General – Youth Programs and Other Programs

In Fiscal Year 2014, the Youth Programs and Other Programs line item was used to supplement the utility expenditures normally paid out of the General Revenue Fund – 001 and the Federal Support Agreement Revolving Fund – 0333. In Fiscal Year 2015, no such supplement funding was needed.

Federal Support Agreement Revolving Fund - 0333Office of the Adjutant General – Lincoln’s Challenge Allowances

The decrease in Lincoln’s Challenge Allowances expenditures was due to fewer Lincoln’s Challenge Academy cadets being eligible to receive post-graduate stipends in Fiscal Year 2015.

Illinois Military Family Relief Fund – 0725Office of the Adjutant General – Special Duty due to September 11th Terrorist Attacks

The decrease in grant expenditures was due to fewer eligible candidates to receive the grants during Fiscal Year 2015.

Illinois National Guard Armory Construction Fund - 0927Facilities Operations – Construction of Illinois National Guard Facilities/ Land Acquisition & Construction of Parking

The decrease/increase in Construction of Illinois National Guard Facilities and Land Acquisition & Construction of Parking expenditures was due to normal fluctuation. Specific construction projects can only be expended for out of each line item. The amount of expenditures is determined by the number of construction projects in process during a fiscal year. The number of projects can vary significantly from year to year.

Illinois National Guard Billeting Fund -0076Facilities Operations – Billeting

The increase in Illinois National Guard Billeting Fund expenditures was due to the fund being created in Fiscal Year 2014, but not fully operational until April 2015.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2016

Illinois National Guard State Active Duty Fund – 0730

Facilities Operations – Illinois National Guard State Active Duty Fund

The decrease in Illinois National Guard State Active Duty expenditures was due to normal fluctuation. The amount of expenditures is determined by the number of service members activated by the Governor or by the President of the United States during a fiscal year. The number of activated service members can vary significantly from year to year.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2016

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2016 AND 2015

General Revenue Fund – 0001

Department of Defense

The decrease in receipts was due to a payroll reimbursement for Capital Air Base from the Federal Government being received after the end of Fiscal Year 2016. In addition, General Revenue Fund reimbursements are determined by final expenditures. Because expenditures vary from year to year, receipts vary as well.

Military Affairs Trust Fund – 0043

U.S. Customs Service

The decrease in receipts was due to the Department not receiving money from the Equitable Sharing Counter Drug Program during Fiscal Year 2016.

Property Rental

The decrease in receipts was due to fewer Armory rental agreements during Fiscal Year 2016.

Federal Support Agreement Revolving Fund – 0333

Reimbursements/Jury Duty and Recoveries

The increase in receipts was due to the Department beginning to receive program income and an incremental increase in costs from outside organizations use of Department facilities during Fiscal Year 2016.

Illinois Military Family Relief Fund – 0725

Donations – Private Organizations or Individuals

The decrease in receipts was due to the Illinois Military Family Relief Fund not receiving a transfer from the General Revenue Fund during Fiscal Year 2016. In addition, the Department received fewer donations during Fiscal Year 2016.

Illinois National Guard State Active Duty Fund – 0730

State Agencies

The decrease in receipts was due to the State not activating the National Guard during Fiscal Year 2016.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2016

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2015 AND 2014

General Revenue Fund – 0001

Miscellaneous Receipts

The increase in receipts was due to the Federal Government transferring the Billeting Program to the State of Illinois.

Department of Defense

The increase in receipts was due to the State receiving multiple years' worth of reimbursements from the Federal Government for Air Wing payroll during Fiscal Year 2015.

Military Affairs Trust Fund – 0043

U.S. Customs Service

The increase in receipts was due to the Department receiving money from the Equitable Sharing Counter Drug Program during Fiscal Year 2015.

Illinois National Guard Billeting Fund – 0076

Billeting Operation Proceeds

The increase in receipts was due to the Federal Government transferring the Billeting Program to the State of Illinois.

Illinois National Guard State Active Duty Fund – 0730

State Agencies

The increase in receipts was due to the Department receiving reimbursement for the activation of the Illinois National Guard during a winter storm in 2014.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Two Years Ended June 30, 2016

FISCAL YEAR 2016**Federal Support Agreement Revolving Fund – 0333****Facilities Operations – Expenses Related to Army National Guard Facilities Operations and Maintenance**

Expenditures paid during the Lapse Period were for invoices received late in the fiscal year for utilities, recycling, rent, food service, mattresses for cadets at Lincoln’s Challenge Academy, security, computers, and payroll.

Illinois Military Family Relief Fund – 0725**Office of the Adjutant General – Special Duty due to September 11th Terrorist Attacks**

The significant spending during the Lapse Period is primarily due to the Department processing invoices received during Fiscal Year 2016 after the passage of Public Act 099-0524 on June 30, 2016.

FISCAL YEAR 2015**Federal Support Agreement Revolving Fund – 0333****Office of the Adjutant General – Lincoln’s Challenge Allowances**

Expenditures paid during the Lapse Period were for post-graduate stipends, which are paid with federal funds left at the end of the fiscal year.

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

Expenditures paid during the Lapse Period were for invoices received late in the fiscal year for utilities, recycling, rent, food service, mattresses for cadets at Lincoln’s Challenge Academy, security, tractors, a forklift, computers, and payroll.

Illinois National Guard Billeting Fund - 0076**Facilities Operations – Billeting**

The Illinois National Guard Billeting Fund was not fully operational until April 2015. As a result, most expenditures were not paid from the fund until later in the fiscal year and in the Lapse Period.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2016

General Revenue Fund (001)

<u>Aging Schedule</u>	<u>2016</u>	<u>2015</u>
Current	\$ 394	\$ 6
1 - 30 days	-	-
31 - 90 days	-	-
91 - 180 days	-	-
181 - 1 year	-	-
Over 1 year	1	1
	<u>\$ 395</u>	<u>\$ 7</u>
Less: Estimated Uncollectables	-	-
Accounts Receivable Net Balance	<u>\$ 395</u>	<u>\$ 7</u>

Note: Amounts due are the result of overpayment of salary to former employees. In addition, amounts are also due from the United States Department of Defense for reimbursable costs in conjunction with the Master Cooperative Funding Agreement.

Note: During our review of the Department's accounts receivable records, we noted problems with collection amounts reported on the Department's Quarterly Summary of Accounts Receivable (C-97) in the General Revenue Fund (see Finding 2016-004 in the Schedule of Findings for additional details).

Military Affairs Trust Fund (043)

<u>Aging Schedule</u>	<u>2016</u>	<u>2015</u>
Current	\$ -	\$ -
1 - 30 days	1	-
31 - 90 days	6	-
91 - 180 days	1	-
181 - 1 year	-	-
Over 1 year	-	-
	<u>\$ 8</u>	<u>\$ -</u>
Less: Estimated Uncollectables	-	-
Accounts Receivable Net Balance	<u>\$ 8</u>	<u>\$ -</u>

Note: Amounts due are from other State agencies and private individuals or organizations for the use or rent of the Department's property and facilities.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2016

Illinois National Guard Billeting Fund (076)

<u>Aging Schedule</u>	<u>2016</u>	<u>2015</u>
Current	\$ 59	\$ 49
1 - 30 days	2	-
31 - 90 days	-	-
91 - 180 days	-	-
181 - 1 year	-	-
Over 1 year	-	-
	<u>\$ 61</u>	<u>\$ 49</u>
Less: Estimated Uncollectables	-	-
Accounts Receivable Net Balance	<u>\$ 61</u>	<u>\$ 49</u>

Note: Amounts due are from Illinois National Guard billeting operations throughout the State.

Federal Support Agreement Revolving Fund (333)

<u>Aging Schedule</u>	<u>2016</u>	<u>2015</u>
Current	\$ 1,743	\$ 1,731
1 - 30 days	-	-
31 - 90 days	-	-
91 - 180 days	-	-
181 - 1 year	-	-
Over 1 year	-	-
	<u>\$ 1,743</u>	<u>\$ 1,731</u>
Less: Estimated Uncollectables	-	-
Accounts Receivable Net Balance	<u>\$ 1,743</u>	<u>\$ 1,731</u>

Note: During our review of the Department's accounts receivable records, we noted problems with collection amounts reported on the Department's Quarterly Summary of Accounts Receivable (C-97) in the Federal Support Agreement Revolving Fund (see Finding 2016-004 in the Schedule of Findings for additional details).

Note: Amounts due are 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.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Two Years Ended June 30, 2016

Illinois National Guard State Active Duty Fund (730)

<u>Aging Schedule</u>	<u>2016</u>	<u>2015</u>
Current	\$ -	\$ -
1 - 30 days	-	-
31 - 90 days	-	-
91 - 180 days	-	-
181 - 1 year	-	-
Over 1 year	-	-
	<u>-\$ -</u>	<u>-\$ -</u>
Less: Estimated Uncollectables	-	-
Accounts Receivable Net Balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note: Amounts due are from the Illinois Emergency Management Agency for reimbursable costs in conjunction with State active duty call-ups.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2016
(Not Examined)

Department Functions

The 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 13,000 members (10,000 comprising the Illinois Army National Guard and 3,000 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 is to maintain properly trained and equipped units available for prompt mobilization for war or as otherwise needed. The State mission of the Guard is to provide trained and disciplined forces for domestic emergencies or as otherwise required by State laws. The Guard maintains 51 readiness centers (50 State-owned and one federally licensed), four joint armed forces reserve centers, one State headquarters facility, one military education facility, one military museum, two outdoor weapons range complexes (one live fire and one non-live fire), one training site, one training area, three Army Aviation Support Facilities and 22 vehicle field maintenance shops in 49 communities throughout the State. The Illinois Air National Guard maintains large bases at two civilian airports and one at an active U.S. Air Force Base.

The position of Adjutant General is appointed by the Governor as the head officer of the Department. Major General Richard J. Hayes, Jr. is the 39th Adjutant General of the Illinois National Guard. He assumed the position on June 8, 2015. 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 training, equipment, and mobilization of the Illinois National Guard for use in national defense and for State emergencies. In addition, the Adjutant General supervises all military installations, property, and equipment of the Illinois Air and Army National Guard.

Per statute, "the Adjutant General shall have charge of and carefully preserve the colors, flags, guidons, and military trophies of war belonging to the State" (20 ILCS 1805/25). The Department maintains over 8,200 objects, 1000 photos, 1,700 archived items, and 1,900 volumes under this statute. In addition, the Department operates the Illinois State Military Museum located in Springfield.

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2016
(Not Examined)

The Department also organizes and operates the community-related program Lincoln's Challenge Academy, 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 an emergency declared by the President of the United States or Congress or as defined by administrative rule of the Department" (20 ILCS 1805/22-9). The Department has established eligibility criteria that are used to award the grants.

Department Planning Program

The Department is not required 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 Construction and Facilities Management Officer 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 MILIATRY AFFAIRS
BUDGET IMPASSE DISCLOSURES
For the Two Years Ended June 30, 2016
(Not Examined)

Payment of Fiscal Year 2016 Costs in Future Fiscal Years

Article 74 of Public Act 99-0524 authorized the Department to pay Fiscal Year 2016 costs using the Department's Fiscal Year 2017 appropriations for non-payroll expenditures. The following chart shows the Department's plan to expend its Fiscal Year 2017 appropriations to cover its Fiscal Year 2016 costs:

OUTSTANDING FISCAL YEAR 2016 INVOICES			
Fund #	Fund Name	Number	Dollar Value
686	Budget Stabilization Fund	<u>396</u>	<u>\$ 401,228</u>
		<u>396</u>	<u>\$ 401,228</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
**ALTERNATIVE FINANCING IN LIEU OF APPROPRIATIONS AND
PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS**
For the Two Years Ended June 30, 2016
(Not Examined)

Transactions Involving the Illinois Finance Authority

The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2016.

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

Vendor Payment Program (VPP)

In 2011, the State of Illinois (State) created the voluntary VPP in response to delays in payments for goods and services provided by the State's vendors arising from the State's cash flow deficit. The Department of Central Management Services (CMS) approved third party financing entities to act as "qualified purchasers" of accounts receivable from "participating vendors" who had submitted invoices which had not been paid by the State.

A participating vendor's accounts receivable is eligible for the VPP if it is from an invoice unpaid by the State that is (1) not for medical assistance payments (2) where 90 days have passed since the proper bill date, which is (3) entitled to interest under the State Prompt Payment Act (Act) (30 ILCS 540) and (4) free of any liens or encumbrances. Under the terms of an agreement between a qualified purchaser and the participating vendor, the participating vendor receives payment for 90% of the receivable balance. The participating vendor, in turn, assigns its rights to the interest due under the Act to the qualified purchaser. When the State Comptroller ultimately pays the invoice, the participating vendor receives the remaining 10% due (less any offsets).

Notably, while CMS approved the qualified purchasers and provided information to vendors about VPP, neither CMS nor the State are parties to the assignment agreements.

During Fiscal Year 2015 and Fiscal Year 2016, none of the Department's vendors participated in the Vendor Payment Program (VPP).

Vendor Support Initiative Program (VSI)

During Fiscal Year 2016, the State created the voluntary VSI as an alternative to the VPP for cases where the Department lacked an enacted appropriation or other legal expenditure authority to present invoices to the State Comptroller for payment. The VSI operated similarly to the VPP, although the Department was required to determine a participating vendor's invoice (1) would have met the requirements of the VPP and (2) provided the proper bill date of invoice prior to the qualified purchaser and participating vendor entering into an agreement where the participating vendor received payment for 90% of the receivable balance. The participating vendor, in turn, assigned its rights to the interest due under the Act to the qualified purchaser. After the State Comptroller ultimately paid/pays the invoice after the Department receives/received

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
**ALTERNATIVE FINANCING IN LIEU OF APPROPRIATIONS AND
PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS**
For the Two Years Ended June 30, 2016
(Not Examined)

appropriations or other legal expenditure authority to pay the invoice, the participating vendor receives/received the remaining 10% due (less any offsets).

During Fiscal Year 2016, the Department had one vendor participate in VSI for one invoice, totaling \$1,142. A summary of the amount of transactions by qualified purchaser follows:

TRANSACTIONS BY
QUALIFIED PURCHASER

Qualified Purchaser	Total
A	\$ 1,142
	<hr/>
	\$ 1,142
	<hr/>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
INTEREST COSTS ON FISCAL YEAR 2016 INVOICES
For the Two Years Ended June 30, 2016
(Not Examined)

Prompt Payment Interest Costs

The Department plans to calculate prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540) using the vendor's proper bill date through the date the State Comptroller issues a warrant to the vendor, regardless of when and if an enacted appropriation existed during Fiscal Year 2016. The Act (30 ILCS 540/3-2) and the Illinois Administrative Code (74 Ill. Admin. Code 900.100) require interest to be paid under a daily simple interest rate of .033% (1% over a 30-day period) for every day elapsed following the 90th day after a vendor submits an eligible proper bill to the Department. The following chart shows the Department's prompt payment interest incurred related to Fiscal Year 2016 invoices, calculated on the accrual basis of accounting, through June 30, 2016, by fund:

PROMPT PAYMENT INTEREST INCURRED

Year Ended June 30, 2016

Fund #	Fund Name	Invoices	Vendors	Dollar Value
043	Military Affairs Trust Fund	5	1	\$ 113
076	Illinois National Guard Billeting Fund	1	1	394
686	Budget Stabilization Fund	61	14	5,108
		67	16	\$ 5,615

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
AVERAGE NUMBER OF EMPLOYEES
For the Years Ended June 30, 2016
(Not Examined)

The following table, prepared from Department records, presents the average number of employees, by function, for the Fiscal Year ended June 30,

<u>Division</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Office of the Adjutant General	24	26	23
Facilities	193	190	194
Total average full-time employees	<u>217</u>	<u>216</u>	<u>217</u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
EMERGENCY PURCHASES
For the Two Years Ended June 30, 2016
(Not Examined)

The Department had two emergency purchases in Fiscal Years 2015 and 2016. All of the emergency purchases affidavits were filed with the Auditor General.

<u>DESCRIPTION OF EMERGENCY PURCHASE</u>	<u>TOTAL ACTUAL COST</u>
Whelan Security - Additional security contract	\$ 129,254
Illinois Mechanical Services & Design, Inc. - Boiler replacement at Peoria	<u>\$ 39,451</u>
TOTAL EMERGENCY PURCHASES	<u><u>\$ 168,705</u></u>

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Two Years Ended June 30, 2016
(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, Illinois National Guard Billeting Fund, Federal Support Agreement Revolving Fund, National Guard State Active Duty Fund, Illinois National Guard Armory Construction Fund.

Statutory Authority: 20 ILCS 1805

	2016	2015	2014
<u>Input Indicators:</u>			
Total expenditures – all sources (in thousands)	\$25,107	\$27,790	\$22,996
Average monthly full-time equivalents	215	206	218
<u>Output Indicators</u>			
GRF expenditures (in thousands)	\$8,099	\$11,894	\$10,725
Other funds expenditures (in thousands)	\$16,994	\$29,202	\$17,271
Number of IL National Guard personnel supported	12,998	13,000	13,102
Number of facilities supported	100	100	101
<u>Efficiency/Cost-Effectiveness</u>			
Percent of GRF Appropriations expended	94%	99%	90%
Percent of total expenditures expended from Other Funds	68%	56%	62%

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Two Years Ended June 30, 2016
(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 80% 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.

Statutory Authority: 20 ILCS 1805

	2016	2015	2014
<u>Input Indicators:</u>			
Total Expenditures – all sources (in thousands)	\$6,885	\$8,207	\$8,405
Total Expenditures – State appropriated funds (in thousands)	\$6,885	\$8,207	\$8,405
<u>Output Indicators:</u>			
Number of graduates	313	429	554
<u>Outcome Indicators:</u>			
Number of graduates with GED	187	176	329
Number of graduates assigned a mentor	313	429	554
<u>Efficiency/Cost-Effectiveness</u>			
Average cost per graduate (in dollars)	\$21,997	\$19,025	\$15,172
Percentage of graduates with GED	60%	41%	59%
Percentage of graduates assigned a mentor	100%	100%	100%

STATE OF ILLINOIS
DEPARTMENT OF MILITARY AFFAIRS
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Two Years Ended June 30, 2016
(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

Fund: Illinois Military Family Relief Fund

Statutory Authority: 20 ILCS 1805/22-9

	2016	2015	2014
<u>Input Indicators:</u>			
Total Expenditures – all sources	\$195	\$1,160	\$1,263
<u>Output Indicators:</u>			
Number of grants	283	811	855
<u>Efficiency/Cost-Effectiveness</u>			
Average grant amount (in dollars)	\$689	\$500	\$500