



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF MILITARY AFFAIRS

Compliance Examination
 For the Two Years Ended June 30, 2020

Release Date: July 14, 2021

FINDINGS THIS AUDIT: 18				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	4	5	2018	20-5	20-7, 20-12, 20-13	
Category 2:	7	6	13	2016		20-9	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2014		20-6, 20-8	
TOTAL	8	10	18	2012	20-2, 20-3		
FINDINGS LAST AUDIT: 16				2004	20-1		

SYNOPSIS

- **(20-1)** The Department did not maintain sufficient controls over its property and related fiscal records.
- **(20-2)** The Department did not adhere to the internal auditing provisions of the Fiscal Control and Internal Auditing Act.
- **(20-3)** The Department did not exercise adequate controls over its commodities inventories.
- **(20-13)** The Department did not exercise adequate controls over voucher processing.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**DEPARTMENT OF MILITARY AFFAIRS
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2020**

Usually, digests of compliance reports released by the Auditor General include certain key expenditure statistics. As described in Finding 2020-018 (pages 50-51), the Department's internal controls were inadequate to (1) prepare certain schedule and components (report components) and (2) demonstrate certain report components Department management prepared were complete and accurate. As this part of a typical digest consists of expenditure data derived from the *Comparative Schedule of Net Expenditures by Major Activity* report component within the Department's *Compliance Examination Report*, this information is unable to be provided.

EXPENDITURE STATISTICS	2020	2019	2018
Total Receipts.....	\$ 42,242,790	\$ 35,913,611	\$ 28,161,037
Average Number of State Employees.....	225	226	225

AGENCY DIRECTOR
During Examination Period: General Richard Hayes, Jr. (through 2/7/19), Major General Richard Neely (effective 2/8/19)
Currently: Major General Richard Neely

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

PROPERTY CONTROL WEAKNESSES

The Department did not maintain sufficient controls over its property and related fiscal records.

During testing, we noted the Department did not maintain detailed supporting documentation for its quarterly Agency Report of State Property (Form C-15) filed with the Office of Comptroller (Comptroller). Due to the lack of detailed documentation, the following compliance examination procedures could not be performed:

Lack of detailed supporting documentation

Property additions and deletions reports could not be provided

Unable to reconcile the Department's records

Unable to test if purchases were appropriately classified

- The State property listing provided by the Department in response to audit requests could not be reconciled with the ending balances reported in the Form C-15 Reports. Moreover, the Department could not provide annual additions and deletions reports during fiscal years 2019 and 2020.
- Property additions per the Form C-15 Reports could not be reconciled to the Comptroller's records reflected on the Object Expense/ Expenditures by Quarter Report (SA02).
- During testing, the Department failed to provide documentation to support its calculations for the SCO-537/538 forms; therefore, we were unable to test if the Department appropriately classified purchases as building improvements, land improvements, or site improvements.

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.

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 testing of what records were available.

Some of the more significant issues noted by the accountants included the following:

Equipment items were not found in the property listing

- Three of 60 (5%) equipment items tested were not found in the Department's property listing

Purchases of equipment, totaling \$646,141, were not found in property records

- Fourteen of 19 (74%) telecommunication, State property and electronic data processing expenditure vouchers tested, totaling \$646,141, contained purchases of equipment with individual unit prices of \$1,000 and more, but those items were not found on the Department's property control records.

Permanent improvements totaling \$4,060,921 were not added to the property records

- Twenty-nine of 46 (63%) permanent improvement vouchers tested, totaling \$4,060,921, were remodeling, renovation, and site improvement expenditures, but those items were not added to the Department's property records,

CDB transfers-in totaling \$2,558,595 were not recorded

- For ten of 10 (100%) Capital Development Board (CDB) projects tested, totaling \$2,976,811 as of June 30, 2020, the Department failed to record transfers-in from CDB for the 1st quarter of Fiscal Year 2019 through the 3rd quarter of Fiscal Year 2020, totaling \$2,558,595, to the Department's property records. (Finding 1, pages 11-15) **This finding has been repeated since 2004.**

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

Department officials agreed

Department officials agreed with the finding.

NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

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

A few of the issues we noted during our review of the Department's internal audit activities for fiscal years 2019 and 2020 follow:

No two-year audit plan for Fiscal Year 2019

- The Department did not have a two-year audit plan for the fiscal year ended June 30, 2019. In addition, the fiscal year 2020-2021 two-year audit plan did not identify all of the Department's material laws and regulations, material provisions of contracts and grant agreements, major systems of internal accounting and administrative controls over the obligation and

Fiscal Year 2020 audit plan not approved

expenditure, and use of public funds of the State, and reviews of the design of major new electronic data processing systems before their installation in assessing its risk factors when selecting the internal audits to be performed. Further, the plan was not approved by the Adjutant General or Chief of Staff.

No review of application prior to implementation

- The Department did not conduct a review of the State's Enterprise Resource Planning (ERP) application prior to its implementation on January 1, 2020.

No written report of audit plan

- The Chief Internal Auditor did not submit a written report to the Adjutant General detailing how the audit plan was carried out, the significant findings, and the extent to which recommended changes were implemented for fiscal years 2019 and 2020. (Finding 2, pages 16-18) **This finding has been repeated since 2012.**

We recommended the Chief Internal Auditor gain a thorough understanding of the compliance requirements applicable to the Department and develop policies and procedures to ensure compliance with the Act and internal auditing standards.

Department officials agreed

Department officials agreed with the finding.

INADEQUATE INTERNAL CONTROL OVER COMMODITIES

The Department did not exercise adequate internal control over its commodities inventories.

Unable to provide the list of commodities inventories

In Fiscal Year 2019, the Department implemented a new, web-based database for ordering commodities inventory. The database allows Readiness Centers' (armories) Managers throughout the State to email orders to the Storekeeper and the Department to maintain an items-on-hand count. During our testing, we noted the database could not generate a report of items-on-hand as of a given point-in-time. As a result, the Department was not able to provide the list of commodities inventories as of June 30, 2019 and June 30, 2020.

Year end balances of commodities inventories could not be tested

Due to this condition, we 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 year end commodities inventories balances. (Finding 3, pages 19-20) **This finding has been repeated since 2012.**

We recommended the Department implement procedures to maintain accurate records of its commodities inventory,

perform periodic inventory counts, and reconcile its inventory records as required.

Department officials agreed

Department officials agreed with this finding.

INADEQUATE CONTROLS OVER VOUCHER PROCESSING

The Department did not exercise adequate controls over voucher processing.

During our review of 288 expenditure vouchers, totaling \$16,734,538, we noted the following:

Vouchers were recognized as expenses in the wrong fiscal year

- Six (2%) vouchers tested, totaling \$660,305, included travel, repairs and maintenance, and professional services expenditures totaling \$332,366 that were recognized as expenses in the wrong fiscal year.

Vouchers tested were approved late

- Thirty-five (12%) vouchers tested, totaling \$1,229,510, were approved from 4 to 200 days late.

Lacked evidence to support approval of invoices

- Two (1%) vouchers tested, totaling \$29,019, lacked documentary evidence to support approval of the invoices, and therefore, we were unable to determine whether the approvals were timely.

No support to document the date invoices were received

- For 16 (6%) vouchers tested, totaling \$492,030, the Department failed to maintain supporting documentation showing the date invoices were received. (Finding 13, pages 39-40)

We recommended the Department strengthen its internal controls to ensure expenditures are adequately supported, posted to the correct fiscal year, properly approved, paid timely, and properly documented.

Department officials agreed

Department officials agreed with this finding.

OTHER FINDINGS

The remaining findings pertain to weaknesses in preparation of GAAP reporting forms, inadequate controls over contractual services, monthly reconciliations, and Agency Fee Impositions Reports, failure to file required reports and develop a formal fraud risk assessment program, noncompliance with vehicle requirements, completion and retention of employment eligibility verification forms, noncompliance with the Military Code of Illinois, inaccurate accounts receivable reporting, inadequate computer security controls, weaknesses in cybersecurity programs and practices, weaknesses with payment card industry data security standards, and the failure

to demonstrate the completeness and accuracy of report components. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2020, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2020-001 through 2020-005. Except for the noncompliance described in these findings, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by the Office of the Auditor General's staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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