



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE DEPARTMENT OF MILITARY AFFAIRS**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 1998

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INTRODUCTION

DEPARTMENT OF MILITARY AFFAIRS
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The scope of the statewide single audit for the year ended June 30, 1998, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Department of Military Affairs, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Department of Military Affairs administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

**DEPARTMENT OF MILITARY AFFAIRS
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Audit Approach (Continued)

The Auditor of Public Account's office conducted the audit of the internal control focusing on the following objectives:

- Considering the internal control of the Department of Military Affairs in order to determine auditing procedures on the General-Purpose Financial Statements of the Commonwealth of Kentucky.
- Determining if the Department of Military Affairs has internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**DEPARTMENT OF MILITARY AFFAIRS
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

CFDA	Catalog of Federal Domestic Assistance
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
GAR	Governor's Authorized Representative
GASB	Governmental Accounting Standards Board
IFLOWS	Intergrated Flood Observing and Warning System
KRS	Kentucky Revised Statute
Military Affairs	Department of Military Affairs
NA	Not Applicable or Not Available
OMB	United States Office of Management and Budget
PA	Public Assistance
SARA	Superfund Amendment and Reauthorization Act
U.S.	United States

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998**

State Agency			EXPENDITURES	
Federal Grantor		PASS THROUGH		
CFDA# Program Title		GRANTOR'S #	CASH	NONCASH
DEPARTMENT OF MILITARY AFFAIRS				
<u>U.S. Department of Commerce</u>				
Direct Program:				
11.450	Integrated Flood Observing And Warning System (IFLOWS) (Note 4)	NA	\$272,010	
<u>U.S. Department of Transportation</u>				
Direct Program:				
20.703	Interagency Hazardous Materials Public Sector Training And Planning Grants (Note 4)	NA	74,796	
<u>U.S. Federal Emergency Management Agency</u>				
Direct Programs:				
83.008	Arson Prevention Initiative (Note 3)	NA		
83.011	Hazardous Materials Training Program For Implementation Of The Superfund Amendment And Reauthorization Act (SARA) of 1986 (Note 4)	NA	58,264	
83.105	Community Assistance Program-State Support Services Element	NA	104,176	
83.505	State Disaster Preparedness Grants (Note 4)	NA	44,707	
83.521	Earthquake Hazards Reduction Grants (Note 4)	NA	52,686	
83.534	Emergency Management - State And Local Assistance (Note 4)	NA	1,731,965	
83.535	Mitigation Assistance Program (Note 4)	NA	27,233	
83.543	Individual and Family Grants (Note 4) (Note 2)	NA	3,090,601	
83.544	Public Assistance Grants (Note 2)	NA	26,176,865	
83.547	First Responder Anti-Terrorism Training Assistance (Note 4)	NA	40,000	
83.549	Chemical Stockpile Emergency Preparedness Program (Note 4)	NA	2,060,509	
Subtotal Department of Military Affairs			\$33,733,812	

DEPARTMENT OF MILITARY AFFAIRS
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, "Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in Sections 205(h) and 205(i)." Accordingly, the accompanying schedule includes the cash federal financial assistance programs; the Department of Military Affairs had no noncash federal financial assistance programs for the year ended June 30, 1998. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the "Other Federal Assistance" subheading.

Reporting Entity - The Department of Military Affairs is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Department of Military Affairs presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Department of Military Affairs.

Basis of Accounting - The accompanying Schedule of Expenditures of Federal Awards – Cash Assistance Programs is presented on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, ". . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards – Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

**DEPARTMENT OF MILITARY AFFAIRS
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Commonwealth's Schedules of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency – recipient) and passed through to another state agency (secondary state agency – subrecipient) where the moneys are expended. This inter-agency activity is reported in the Schedules of Expenditures of Federal Awards as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedules exclude federal financial assistance related to state universities, when a state agency passes federal moneys to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in this schedule only by the purchasing agency as an expenditure.

**DEPARTMENT OF MILITARY AFFAIRS
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 2 - Type A Programs

Under the provision of the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Commonwealth of Kentucky, a Type A program must have expended over \$12 million. All other programs are Type B programs.

Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the Schedule of Expenditures of Federal Awards, plus any cash expenditures under the same CFDA designation.

The Department of Military Affairs had one cash program that met the Type A major program definition and one high-risk Type B program that was audited as a major program for the year ended June 30, 1998:

- 83.544 Public Assistance Grants \$26,176,865
- 83.543 Individual and Family Grants \$3,090,601

Note 3 - Zero Expenditure Program

These programs had no expenditures during the year ended June 30, 1998. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. The Department of Military Affairs had no programs with zero expenditures during the year ended June 30, 1998.

**DEPARTMENT OF MILITARY AFFAIRS
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

Note 4 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Provided To Subrecipients
11.450	Integrated Flood Observing & Warning System (IFLOWS)	\$ 272,010
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	47,200
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	39,451
83.505	State Disaster Preparedness Grants	18,059
83.521	Earthquake Hazards Reduction Grants	18,000
83.534	Emergency Management – State and Local Assistance	751,961
83.535	Mitigation Assistance Program	24,878
83.543	Individual and Family Grants	3,384,835
83.544	Public Assistance Grants	26,681,280
83.547	First Responder Anti-Terrorism Training Assistance	40,000
83.549	Chemical Stockpile Emergency Preparedness Program	<u>601,156</u>
	Total	<u>\$31,878,830</u>

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REPORT ON COMPLIANCE AND INTERNAL CONTROL



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John R. Groves, Jr., Adjutant General
Department of Military Affairs

Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of Department of Military Affairs with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Department of Military Affairs' major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Department of Military Affairs' management. Our responsibility is to express an opinion on Department of Military Affairs' compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Department of Military Affairs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Department of Military Affairs' compliance with those requirements.

In our opinion, based on our audit, the Department of Military Affairs complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 98 –MA-1.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John R. Groves, Jr., Adjutant General
Department of Military Affairs
Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Department of Military Affairs is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Department of Military Affairs' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Department of Military Affairs' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 98-MA-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable condition described above to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Department of Military Affairs is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John R. Groves, Jr., Adjutant General
Department of Military Affairs
Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Department of Military Affairs is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Department of Military Affairs.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Department of Military Affairs is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Federal Awards of the Department of Military Affairs is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete –
July 23, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts And Schedule Of Expenditures Of Federal Awards

Financial Statement Accounts: We issued a qualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements as of and for the fiscal year ended June 30, 1998 because we were unable to verify evidence regarding year 2000 disclosures. The Department of Military Affairs was included in our audit procedures of the general-purpose financial statements.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Department of Military Affairs’ Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth of Kentucky’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: We did not perform a financial statement audit specific to the Department of Military Affairs.

Compliance: In relation to the audit of the Department of Military Affairs’ accounts that we audited, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Federal Awards

Internal Control Over Compliance: Our consideration of the Department of Military Affairs’ internal control over compliance disclosed one reportable condition. We do not believe this condition constitutes a material weakness.

Compliance: We issued a qualified opinion on the Department of Military Affairs’ compliance with the requirements applicable to the Public Assistance Grants program.

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (Continued)

Identification Of Major Programs

OMB Circular A-133 defines a major program (Type A program) as “a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c).” Section __.520 states that “The auditor shall use a risk-based approach to determine which Federal programs are major programs.”

OMB Circular A-133 defines Type B programs as programs “which are high-risk using professional judgement and the criteria in section __.525.”

The following is a list of Type A and Type B programs audited:

<u>CFDA #</u>	<u>FEDERAL PROGRAM OR CLUSTER</u>	<u>AMOUNT</u>
<u>Type A Program:</u>		
CFDA # 83.544	Public Assistance Grants	\$26,176,865
<u>Type B Program:</u>		
CFDA # 83.543	Individual and Family Grants	\$3,090,601

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The dollar threshold used to distinguish between Type A and Type B Programs was \$12 million.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS

There were no financial statement audit findings.

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance:

FINDING 98-MA-1: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients

State Agency: Department of Military Affairs
Federal Program: CFDA 83.544 – Public Assistance Grants
Federal Agency: Federal Emergency Management Agency
Pass-Through Agency: Not Applicable
Compliance Area: Subrecipient Monitoring
Amount of Questioned Costs: None

The FY 97 audit for the Department of Military Affairs contained a reportable condition relating to the monitoring of subrecipients. The prior year audit noted in its findings that the agency could not consistently identify subrecipients, that the subrecipient tracking system was inadequate, and that required audit reports were not received in a timely manner. In its response to the finding, the agency indicated procedures to strengthen controls over subrecipient monitoring would be implemented.

However, during our testing for the FY 98 audit, we found that the deficiencies with the monitoring system had not been corrected. Specifically, we noted the following:

- Although the agency has implemented a tracking system for required audit reports, this listing still does not include the date the audit reports are due and the date findings and questioned costs (if any are noted) are resolved by the agency. Thus, the agency does not take appropriate action on those subrecipients who submit reports late or provide evidence that findings or questioned costs are resolved within six months of receipt of the report.
- As of June 15, 1999, only 5 of 6 required audits had been received. None of the 5 contained a “Desk Review Guide” as evidence the audit report had been reviewed. For the 6 items tested, 2 were not received within 13 months after the end of the fiscal year. As a result, audit reports are not being reviewed in a timely manner.

Therefore, we conclude that the corrective action plan for the Department of Military Affairs has been materially misrepresented.

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Reportable Conditions Relating To Internal Control And/Or Compliance(Continued)

FINDING 98-MA-1: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Because the majority of money received under CFDA # 83.544-Public Assistance flows through to subrecipients, it is imperative that monitoring of these subrecipients be done to ensure that federal moneys are expended in accordance with applicable laws and regulations and within the terms of the grant agreements. Under the requirements of the Single Audit Act and OMB Circular A-133, when in a single fiscal year a recipient of federal financial assistance passes \$300,000 or more of such assistance in a single subgrant through to one or more subrecipients, the primary recipient is responsible for determining whether the subrecipient expends that assistance in accordance with applicable laws and regulations. Furthermore, OMB Circular A-133 provides that, in such instances, the primary recipient should:

- a. Determine whether state or local subrecipients have met the applicable federal audit requirements.
- b. Determine whether the subrecipient has controls in place to ensure that federal financial assistance is being expended in accordance with applicable laws and regulations.
- c. Ensure that appropriate corrective action is taken within six months after receipt of a subrecipients Auditor's report that identifies reported instances of noncompliance with Federal Laws and Regulations.

According to the State's Administrative Plan for the Public Assistance Program:

- The GAR assures that the grantee and subgrantees perform audits in accordance with the Single Audit Act on a timely basis.
- The GAR reviews audits performed on the grantee and subgrantees by completing the "Uniform Desk Review Guide for Single Audits" or the "Desk Review Guide for Program Audits." If adverse findings affecting disaster payments are reported, the GAR assures that appropriate action is taken and reports that action to FEMA.

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Reportable Conditions Relating To Internal Control And/Or Compliance(Continued)

FINDING 98-MA-1: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Recommendation

We recommend the agency modify its tracking system for audit reports to include the following information:

- the date audit report is due;
- the date audit report is received;
- the date audit report is accepted by the agency;
- the date any findings and questioned costs are resolved; and
- documentation of correspondence with subrecipients regarding findings and questioned costs.

This type of tracking system should allow the agency to be aware of which subrecipients have not submitted audit reports, when audit reports are not received on time, whether follow up is necessary related to non-compliance issues and ensure that such issues are resolved within six months of receiving the audit report.

The agency is again in noncompliance with the monitoring requirement of the Single Audit Act and the Administrative Plan for the Public Assistance Program. We recommend all required subrecipient audit reports be reviewed in accordance with either the “Desk Review Guide for Single Audit Reports” or the “Desk Review Guide for Program Audits” and that documentation of such reviews be maintained. In addition, we recommend the agency perform these reviews in a timely manner.

Management Response and Corrective Action Plan

The PA Section has implemented a tracking system for required grant recipients expending \$300,000 or more in Federal funds in a fiscal year. The audit tracking report includes the following:

- *Date each audit is due*
- *Date audit is received from the applicant*
- *Date audit report is accepted by this agency*
- *Date of any findings*
- *Date questioned costs are resolved*

**DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Reportable Conditions Relating To Internal Control And/Or Compliance(Continued)

FINDING 98-MA-1: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Management Response and Corrective Action Plan (Continued)

All audits will be reviewed and maintained using either the “Desk Review Guide for Single Audit Reports” or the “Desk Review Guide for Program Audit.”

Audits requiring follow-up compliance issues will be resolved within six months of receiving the audit report along with appropriate action on grant recipients with questioned cost or late submissions.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**DEPARTMENT OF MILITARY AFFAIRS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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(1) Audit findings that have been fully corrected:

Not applicable.

(2) Audit findings not corrected or partially corrected:

Reportable Conditions

FY 97	97-MA-50	The Department of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients.	83.544	\$ 62,500	The Department of Military Affairs has implemented an audit tracking system; however, several deficiencies in the tracking system were noted. In addition, audit reports were not being reviewed in a timely manner. See 98- MA-1.
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(3) Corrective action taken is significantly different from corrective action previously reported:

Not applicable.

(4) Audit finding is no longer valid:

Not applicable.