



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Military Affairs*

*For the Two Fiscal Years Ended
June 30, 2012*

OCTOBER 2012

LEGISLATIVE AUDIT
DIVISION

12-25

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

RANDY BRODEHL
brodehl@centurytel.net

TOM BURNETT
Tburnetthd63@hotmail.com

VIRGINIA COURT
Vjchd52@yahoo.com

MARY McNALLY
mcnallyhd49@gmail.com

TRUDI SCHMIDT
trudischmidt@q.com

WAYNE STAHL, VICE CHAIR
westahl@nemontel.net

SENATORS

DEBBY BARRETT
grt3177@smtel.com

GARY BRANAE
garybranae@gmail.com

TAYLOR BROWN
taylor@northernbroadcasting.com

CLIFF LARSEN
cliff@larsenusa.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA, CHAIR
tropila@mt.net

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
ladhotline@mt.gov

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

CHRIS G. DARRAGH
VANESSA SHAW

JOHN FINE
ZAC YATES

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

October 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2012. Included in this report are three recommendations related to recruitment, accruals, and the Federal Transparency Act.

The department's written response to the audit recommendations is included at the end of the audit report. We thank the Adjutant General and his staff for their assistance and cooperation.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Background.....	2
Prior Audit Recommendations.....	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Improper Recruitment and Selection Practices	5
Misclassification of Accruals	6
Noncompliance with the Federal Transparency Act	6
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Balances for the Fiscal Year Ended June 30, 2012.....	A-3
Schedule of Changes in Fund Balances for the Fiscal Year Ended June 30, 2011	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2012.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2011	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2012.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2011	A-8
Notes to the Financial Schedules	A-9
DEPARTMENT RESPONSE	
Department of Military Affairs.....	B-1

FIGURES AND TABLES

Tables

Table 1	Summary of Control Deficiencies.....	1
---------	--------------------------------------	---

APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Military Affairs

Brigadier General Matthew T. Quinn, Adjutant General

Karen Revious, Administrator, Centralized Services Division

Ed Tinsley, Administrator, Disaster and Emergency Services Division

Joe Foster, Administrator, Veterans Affairs Division

Janice Thomson-Rouse, Director, Youth Challenge Program

Mike Stone, Director, STARBASE

Board of Veterans' Affairs Executive Committee

Sylvia Beals, Vice Chairman

Keith Heavy Runner, Vice Chairman

Joe Foster, Administrator, Veterans Affairs Division

Voting Members		<u>Term Expires</u>
Sylvia Beals	Forsyth	8/01/2014
Mary Creech	Butte	8/01/2014
Harry Lafriniere	Florence	8/01/2014
Gary Sorensen	Missoula	8/01/2015
Bill Willing	Anaconda	8/01/2015
Anita Old Bull Big Man	Billings	8/01/2015
Peter Olson	Culbertson	8/01/2016
Joe Tropila	Great Falls	8/01/2015
David Boyd	Poplar	8/01/2015
Sarah Price	Helena	8/01/2014
Keith Heavy Runner	Browning	8/01/2013
Nonvoting Members		
Lesia Evers	Fort Harrison	8/01/2013
Byron Erickson	Helena	8/01/2013

Matthew Quinn	Helena	8/01/2013
Bernard Jacobs	Helena	8/01/2014
Larry Jent	Bozeman	8/01/2014
Bruce Knutson, representing Senator Tester		8/01/2016
Jocelyn Galt, representing Congressman Rehberg		8/01/2016
Johnathon Kenneway, representing Senator Baucus		8/01/2016

For additional information concerning the Department of Military Affairs, contact:

Karen Revious
Department of Military Affairs
P.O. Box 4788
Helena, MT 59604-4789
(406) 324-3330
e-mail: kprevious@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Military Affairs

For the Two Fiscal Years Ended June 30, 2012

OCTOBER 2012

12-25

REPORT SUMMARY

The Department of Military Affairs (department) provides security to Montana citizens through its support of the Army and Air National Guard programs and administration of the Public Assistance Grant Program. The department assists veterans in receiving their veteran's benefits and provides educational opportunities to at-risk youth.

Context

The department has 193 Full-Time Equivalent Employees (FTE) to carry out its mission. Approximately 40 percent of the total FTE supports the Army and Air National Guard programs and 25 percent provides educational opportunities to at-risk youth. The remaining staff support the functions at the department, assist in disaster and emergency situations, and assist veterans and their families.

Over 75 percent of the department's operations are federally funded. The department receives funding from the Operations and Maintenance Grant, Public Assistance Grant, Homeland Security Grant and numerous other smaller grants.

In June of 2011, the Governor declared a state of emergency related to the flooding in eastern Montana. As a result of this emergency, the department will receive approximately \$60 million of Public Assistance Grant funds to assist those affected by the floods over the course of the next three years. In fiscal year 2012, the department entered into formal contracts totaling \$34,732,193.

Results

The current audit report contains three recommendations related to recruitment and selection procedures, miscoded accruals, and compliance with the Federal Transparency Act.

The department had ten prior audit recommendations of which nine were implemented. The one not implemented, relating to expenditure accruals, is a recommendation in this report.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	1
Source: Agency audit response included in final report.	

For a complete copy of the report (12-25) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Obtain an understanding of the department’s control systems to the extent necessary to support our audit of the department’s financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine department compliance with selected laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the financial schedules present fairly the results of operations of the department for each of the fiscal years ended June 30, 2012, and June 30, 2011.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A material weakness is one or more deficiencies in internal control such that there is reasonable possibility that a material misstatement of the entity’s financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Subject	Type of Deficiency	Page
Accrual Internal Controls	Significant Deficiency	6

This report contains three recommendations to the department. In accordance with §5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

Background

The department consists of the following functions and authorized Full-Time Equivalent positions (FTE) for fiscal year 2011-12.

Montana National Guard is authorized approximately 78 FTE that are paid through the state's payroll system. An additional 867 full-time personnel are paid through the federal payroll system. The Montana National Guard has two programs – the Air National Guard and the Army National Guard. The Air National Guard provides firefighting personnel, maintenance, and support for Air National Guard facilities at Great Falls. The Army National Guard provides administration, construction, maintenance, and support for military facilities and training areas throughout the state.

Centralized Services Division (12 FTE) is the primary administrative support organization for the department, including financial management, budgeting, personnel, and other administrative functions.

Disaster and Emergency Services Division (DES) (24 FTE) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response and recovery plans. DES provides technical support for civil defense shelters, exercises, and radiological defense and monitoring. The division also receives, records, and disburses federal funds to eligible government entities.

Montana National Guard Youth Challenge Program (48 FTE) is a program for youth ages 16 to 18 who stopped attending secondary school before graduating. Challenge is a 17-month, voluntary, military-modeled training program. It targets unemployed, drug-free, nonfelons who are not currently under judicial supervision. The program provides an opportunity for eligible high school age youths to enhance their life skills, increase their educational levels, and increase their employment potential.

Veterans Affairs Division (29 FTE) is responsible for assisting Montana's veterans and dependents in obtaining veterans benefits and managing the State Veterans Cemetery program. The division provides information on benefits, guidance on completing veterans administration forms, and referrals to other agencies. The division is attached to the department for administrative purposes. The division administrator is hired by, and reports to, the Board of Veterans Affairs, a 20-member board, of which 17 are appointed by the Governor and three represent the members of Montana's congressional delegation.

Montana STARBASE Program (3 FTE) is for elementary school aged children. Its goals include raising interest and improving the knowledge and skills in math, science, and technology by exposing the students and their teachers to real world applications of math and science. The program uses positive role models found on military bases and installations to implement its experimental learning, simulations, experiments in aviation and space-related fields. This science and math based program also addresses drug use prevention, health, self-esteem, and life skills issues.

Montana Military Family Relief Fund (MMFRF) provides monetary grants to families of Montana National Guard and Reserve Component members who, on or after April 28, 2007, are on active duty for federal service in a contingency operation. MMFRF grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty.

Montana Guard Scholarship Program was established to assist in recruiting and retention efforts for the Montana Air and Army National Guard. The program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in training programs.

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2010. The report contained ten recommendations, of which the department implemented nine. The recommendation not implemented is related to controls over accruals which is discussed on page 6.

Chapter II – Findings and Recommendations

Improper Recruitment and Selection Practices

The department hired three individuals who did not meet the minimum education or experience qualifications documented in the recruiting materials.

State Recruitment and Selection policy requires departments establish minimum standards for equitable and consistent treatment of applicants and employees in recruitment and selection for state jobs. We reviewed five recruitment files for positions the department hired during our audit period. We compared the information submitted by the applicants to the minimum qualifications and alternative methods of obtaining necessary qualifications included in the recruiting materials. In three instances, the applicants hired for the positions did not meet the minimum qualifications as documented. Two positions required a college degree and one required four years of related job experience. In two files documentation suggests there were other applicants that met the minimum qualifications who were not considered. However in one of the recruitment files, there were no applicants that met the minimum requirements.

State policy requires agency managers and individuals involved in the selection process to evaluate each applicant's qualifications against the job requirements and minimum qualifications. Department personnel believe they have the freedom to accept experience in place of education or any other factors they determined necessary to accomplish the job specific task as minimum requirements necessary to fill the position. State policy requires those alternative considerations to be documented on the recruiting materials. Alternative considerations were documented by department staff, but these individuals hired did not meet the documented alternative considerations.

RECOMMENDATION #1

We recommend the department comply with state policy for recruitment and selection of employees to provide for equitable and consistent treatment of applicants.

Misclassification of Accruals

The department did not record Disaster and Emergency Services accruals in accordance with state accounting policy.

State accounting policy requires the department to record accruals for payment obligations that occur before the end of the fiscal year. In addition, state policy requires separate accounting treatment for these obligations based on the date goods or services are received; before or after fiscal year-end. Accruals must be supported by documentation and reviewed before they are recorded, as required by state accounting policy.

At fiscal year-end, Centralized Services Division (CSD) sends a letter to all divisions within the department asking for a list of the accruals and the support. In fiscal year 2011 and fiscal year 2012, Disaster and Emergency Services (DES) provided CSD with a list, but no support. Accruals were approved without required verification that the accrual met valid obligation criteria, resulting in incorrect accruals misclassification for both fiscal years. Accruals were misclassified by \$6,624,280 in fiscal year 2011, and \$212,347 in fiscal year 2012. This misclassification has no effect on the financial schedules in this report. Human error and lack of accounting experience resulted in the accrual classification errors according to DES personnel.

RECOMMENDATION #2

We recommend the department follow control processes to ensure expenditure accrual transactions are recorded and supported in accordance with state accounting policy.

Noncompliance with the Federal Transparency Act

The department does not have controls in place to ensure Public Assistance Grant fund awards to subrecipients are reported as required by the Federal Transparency Act.

The Federal Transparency Act requires the department to report each subaward action exceeding \$25,000 on the federal subaward system no later than the end of the month following the month in which the obligation was made. In fiscal year 2012, the department obligated \$34,732,193 of Public Assistance Grant funds to local and tribal

governments, irrigation districts, and private nonprofits. As of fiscal year-end 2012, the department had not reported any of these obligations as required.

RECOMMENDATION #3

We recommend the department work with the Federal Department of Homeland Security to ensure compliance with the Federal Transparency Act requirements in relation to the Public Assistance Grants.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Military Affairs for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Military Affairs for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

August 24, 2012

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2011	\$ <u>(781,471)</u>	\$ <u>1,427,592</u>	\$ <u>(5,022,480)</u>	\$ <u>0</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	1,303	867,897	60,424,284	48,370
Nonbudgeted Revenues & Transfers-In		122,934		
Prior Year Revenues & Transfers-In Adjustments	156	15,962	(3,666,847)	
Direct Entries to Fund Balance	<u>10,485,576</u>	<u>112,095</u>	<u>(87,621)</u>	
Total Additions	<u>10,487,035</u>	<u>1,118,888</u>	<u>56,669,816</u>	<u>48,370</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	5,664,028	1,372,091	37,242,214	48,370
Nonbudgeted Expenditures & Transfers-Out	(296)	122,650	240	
Prior Year Expenditures & Transfers-Out Adjustments	<u>9,634,847</u>	<u>2,789</u>	<u>35,919,574</u>	
Total Reductions	<u>15,298,579</u>	<u>1,497,530</u>	<u>73,162,028</u>	<u>48,370</u>
FUND BALANCE: June 30, 2012	\$ <u><u>(5,593,015)</u></u>	\$ <u><u>1,048,950</u></u>	\$ <u><u>(21,514,692)</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2010	\$ <u>(785,719)</u>	\$ <u>1,852,749</u>	\$ <u>(3,183,098)</u>	\$ <u>(1,446,488)</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	107,113	856,465	45,537,139	864,563
Nonbudgeted Revenues & Transfers-In	1,487	382,731		
Prior Year Revenues & Transfers-In Adjustments	29	(2,185)	2,302,120	
Direct Entries to Fund Balance	<u>6,434,403</u>	<u>99,198</u>	<u>(290,746)</u>	
Total Additions	<u>6,543,031</u>	<u>1,336,210</u>	<u>47,548,513</u>	<u>864,563</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,575,534	1,386,576	49,549,391	(581,925)
Nonbudgeted Expenditures & Transfers-Out	(1,737)	382,490	3	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(35,014)</u>	<u>(7,700)</u>	<u>(161,501)</u>	
Total Reductions	<u>6,538,784</u>	<u>1,761,366</u>	<u>49,387,894</u>	<u>(581,925)</u>
FUND BALANCE: June 30, 2011	\$ <u><u>(781,471)</u></u>	\$ <u><u>1,427,592</u></u>	\$ <u><u>(5,022,480)</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Charges for Services	\$ 1,459	\$ 269,105	\$ 3,831		\$ 274,395
Investment Earnings		1,694			1,694
Rentals, Leases and Royalties		620			620
Grants, Contracts, and Donations		9,425			9,425
Transfers-In		725,949		\$ 48,370	774,319
Federal Indirect Cost Recoveries			91,087		91,087
Federal			<u>56,662,519</u>		<u>56,662,519</u>
Total Revenues & Transfers-In	<u>1,459</u>	<u>1,006,793</u>	<u>56,757,437</u>	<u>48,370</u>	<u>57,814,059</u>
Less: Nonbudgeted Revenues & Transfers-In		122,934			122,934
Prior Year Revenues & Transfers-In Adjustments	156	15,962	(3,666,847)		(3,650,728)
Actual Budgeted Revenues & Transfers-In	<u>1,303</u>	<u>867,897</u>	<u>60,424,284</u>	<u>48,370</u>	<u>61,341,854</u>
Estimated Revenues & Transfers-In	1,404	867,900	60,424,293	48,370	61,341,967
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (101)</u>	<u>\$ (3)</u>	<u>\$ (9)</u>	<u>\$ 0</u>	<u>\$ (113)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (100)				\$ (100)
Charges for Services	(1)	(1)	(1)		(3)
Investment Earnings		(1)			(1)
Transfers-In		(1)			(1)
Federal Indirect Cost Recoveries			(2)		(2)
Federal			(6)		(6)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (101)</u>	<u>\$ (3)</u>	<u>\$ (9)</u>	<u>\$ 0</u>	<u>\$ (113)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 1,387		\$ 1,598		\$ 2,985
Charges for Services	107,242	\$ 107,682	18,082		233,006
Investment Earnings		1,719			1,719
Rentals, Leases and Royalties		510			510
Grants, Contracts, and Donations		21,452			21,452
Transfers-In		1,105,648		\$ 864,563	1,970,212
Federal Indirect Cost Recoveries			77,727		77,727
Federal			47,741,852		47,741,852
Total Revenues & Transfers-In	108,629	1,237,012	47,839,259	864,563	50,049,463
Less: Nonbudgeted Revenues & Transfers-In	1,487	382,731			384,218
Prior Year Revenues & Transfers-In Adjustments	29	(2,185)	2,302,120		2,299,964
Actual Budgeted Revenues & Transfers-In	107,112	856,466	45,537,139	864,563	47,365,281
Estimated Revenues & Transfers-In	107,113	856,458	45,520,764	864,564	47,348,900
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1)	\$ 8	\$ 16,375	\$ (1)	\$ 16,381
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services		\$ (1)	\$ 43		\$ 41
Rentals, Leases and Royalties		10			10
Grants, Contracts, and Donations		13,025			13,025
Transfers-In		(13,027)		\$ (1)	(13,027)
Federal Indirect Cost Recoveries			(1)		(1)
Federal			16,333		16,333
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1)	\$ 8	\$ 16,375	\$ (1)	\$ 16,381

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Air National Guard Program	Army National Guard Program	Centralized Services Division	Challenge Program	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	Starbase	Veterans Affairs Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT												
Personal Services												
Salaries	\$ 1,850,185	\$ 2,014,479	\$ 667,895	\$ 1,604,033	\$ 1,151,085	\$ 16,577				\$ 132,775	\$ 1,059,220	\$ 8,496,249
Hourly Wages	68											68
Other Compensation				4,326								4,326
Employee Benefits	787,044	690,311	193,344	672,942	414,051	2,780				44,996	422,993	3,228,461
Total	<u>2,637,297</u>	<u>2,704,790</u>	<u>861,239</u>	<u>2,281,301</u>	<u>1,565,136</u>	<u>19,357</u>				<u>177,771</u>	<u>1,482,213</u>	<u>11,729,104</u>
Operating Expenses												
Other Services	693,435	7,645,968	17,678	466,395	182,083	128,785				163,808	29,732	9,330,411
Supplies & Materials	171,272	507,719	29,961	231,572	222,762	353				285,714	84,171	1,533,524
Communications		323,092	13,638	71,002	61,338		\$ 840			2,238	34,497	506,645
Travel	8,953	70,223	12,663	59,909	125,046	21,600				22,828	35,984	357,206
Rent		270,310	2,545	325,503	2,023						66,339	666,720
Utilities	765,419	1,934,515		3,345							14,985	2,718,264
Repair & Maintenance	71,761	4,132,230	14,197	24,177	951,512		51,294			18,459	9,286	5,272,916
Other Expenses	8,959	62,092	30,379	78,728	67,756	456			\$ 196,086	5,724	10,474	460,654
Goods Purchased For Resale		3,974										3,974
Total	<u>1,719,799</u>	<u>14,950,123</u>	<u>121,061</u>	<u>1,260,631</u>	<u>1,615,047</u>	<u>151,194</u>	<u>52,134</u>		<u>196,086</u>	<u>498,772</u>	<u>285,468</u>	<u>20,847,788</u>
Equipment & Intangible Assets												
Equipment		331,199									78,284	409,483
Total		<u>331,199</u>									<u>78,284</u>	<u>409,483</u>
Capital Outlay												
Buildings							1,871,409				76,493	1,947,902
Other Improvements							456					456
Total							<u>1,871,865</u>				<u>76,493</u>	<u>1,948,358</u>
Grants												
From State Sources					477,172	9,934,451		\$ 121,012				10,532,635
From Federal Sources					2,299,388	39,398,557						41,697,945
Total					<u>2,776,560</u>	<u>49,333,008</u>		<u>121,012</u>				<u>52,230,580</u>
Benefits & Claims												
To Individuals			2,280									2,280
Total			<u>2,280</u>									<u>2,280</u>
Transfers-out												
Fund transfers					1,238,051	1,549,967	48,370					2,836,388
Total					<u>1,238,051</u>	<u>1,549,967</u>	<u>48,370</u>					<u>2,836,388</u>
Total Expenditures & Transfers-Out	\$ <u>4,357,096</u>	\$ <u>17,986,112</u>	\$ <u>984,580</u>	\$ <u>3,541,932</u>	\$ <u>7,194,794</u>	\$ <u>51,053,526</u>	\$ <u>1,972,369</u>	\$ <u>121,012</u>	\$ <u>196,086</u>	\$ <u>676,542</u>	\$ <u>1,922,458</u>	\$ <u>90,006,507</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 372,289	\$ 1,604,056	\$ 639,168	\$ 844,341	\$ 886,817	\$ 9,871,068			\$ 196,086		\$ 884,754	\$ 15,298,579
State Special Revenue Fund					216,021	122,793		\$ 121,012			1,037,704	1,497,530
Federal Special Revenue Fund	3,984,807	16,382,056	345,412	2,697,591	6,091,956	41,059,665	\$ 1,923,999		\$ 676,542			73,162,028
Capital Projects Fund						48,370						48,370
Total Expenditures & Transfers-Out	<u>4,357,097</u>	<u>17,986,112</u>	<u>984,580</u>	<u>3,541,932</u>	<u>7,194,794</u>	<u>51,053,526</u>	<u>1,972,369</u>	<u>121,012</u>	<u>196,086</u>	<u>676,542</u>	<u>1,922,458</u>	<u>90,006,507</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(16)	209	(44)	(173)	16	122,793					(191)	122,594
Prior Year Expenditures & Transfers-Out Adjustments	4,222	(912,917)	719	(1,575)	(2,714,865)	49,191,750			(13,322)	408	2,789	45,557,209
Actual Budgeted Expenditures & Transfers-Out	<u>4,352,890</u>	<u>18,898,820</u>	<u>983,905</u>	<u>3,543,680</u>	<u>9,909,643</u>	<u>1,738,983</u>	<u>1,972,369</u>	<u>121,012</u>	<u>209,408</u>	<u>676,134</u>	<u>1,919,860</u>	<u>44,326,704</u>
Budget Authority	4,486,144	19,042,483	1,189,325	3,746,880	27,090,867	3,103,047	91,839,022	200,000	209,408	685,800	2,412,534	154,005,510
Unspent Budget Authority	\$ <u>133,254</u>	\$ <u>143,663</u>	\$ <u>205,420</u>	\$ <u>203,200</u>	\$ <u>17,181,224</u>	\$ <u>1,364,064</u>	\$ <u>89,866,653</u>	\$ <u>78,988</u>	\$ <u>0</u>	\$ <u>9,666</u>	\$ <u>492,674</u>	\$ <u>109,678,806</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 5,113	\$ 111,296	\$ 7,547	\$ 76,400	\$ 507,017	\$ 697,344					\$ 4,168	\$ 1,408,885
State Special Revenue Fund		5,000			154,179	122,797		\$ 78,988			488,506	849,470
Federal Special Revenue Fund	128,141	27,367	197,873	126,800	16,520,028	543,923	\$ 65,925,354		\$ 9,666			83,479,152
Capital Projects Fund						23,941,299						23,941,299
Unspent Budget Authority	\$ <u>133,254</u>	\$ <u>143,663</u>	\$ <u>205,420</u>	\$ <u>203,200</u>	\$ <u>17,181,224</u>	\$ <u>1,364,064</u>	\$ <u>89,866,653</u>	\$ <u>78,988</u>	\$ <u>0</u>	\$ <u>9,666</u>	\$ <u>492,674</u>	\$ <u>109,678,806</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Centralized Services Division	Challenge Program	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	Starbase	Veterans Affairs Program	Total
Personal Services												
Salaries	\$ 1,671,753	\$ 2,034,670	\$ 655,809	\$ 1,558,378	\$ 1,178,800	\$ 160,495				\$ 92,278	\$ 1,011,527	\$ 8,363,710
Employee Benefits	701,387	707,442	184,660	650,316	392,446	21,387				31,745	400,585	3,089,966
Total	<u>2,373,139</u>	<u>2,742,112</u>	<u>840,468</u>	<u>2,208,694</u>	<u>1,571,246</u>	<u>181,881</u>				<u>124,023</u>	<u>1,412,112</u>	<u>11,453,676</u>
Operating Expenses												
Other Services	705,213	7,706,414	17,562	522,810	191,004	41,873	\$ 27,439			17,804	44,763	9,274,884
Supplies & Materials	167,291	518,165	52,442	289,724	233,852	7,985				20,380	77,290	1,367,130
Communications	1,733	239,834	17,692	75,540	52,560	819	197			14,057	47,512	449,945
Travel	6,718	72,775	7,053	53,296	124,121	68,494				9,217	14,837	356,511
Rent	255	361,256		248,971	1,555	122,414					80,901	815,353
Utilities	721,214	2,014,656		2,957	4,876						16,144	2,759,847
Repair & Maintenance	101,944	2,867,405	2,460	95,801	17,365		404,280				53,802	3,543,058
Other Expenses	10,754	63,465	57,882	87,973	57,885	1,893			\$ 280,592	107,547	11,496	679,486
Goods Purchased For Resale		5,752			117							5,869
Total	<u>1,715,123</u>	<u>13,849,724</u>	<u>155,091</u>	<u>1,377,072</u>	<u>683,334</u>	<u>243,479</u>	<u>431,917</u>		<u>280,592</u>	<u>169,005</u>	<u>346,745</u>	<u>19,252,082</u>
Equipment & Intangible Assets												
Equipment		324,815	19,485		15,798							360,097
Total		<u>324,815</u>	<u>19,485</u>		<u>15,798</u>							<u>360,097</u>
Capital Outlay												
Buildings		57,004					5,567,777					5,624,781
Other Improvements							4,525					4,525
Total		<u>57,004</u>					<u>5,572,302</u>					<u>5,629,306</u>
Grants												
From State Sources					447,005	401,372		\$ 296,255				1,144,632
From Federal Sources					16,310,690	783,473						17,094,163
Total					<u>16,757,695</u>	<u>1,184,844</u>		<u>296,255</u>				<u>18,238,794</u>
Benefits & Claims												
To Individuals			2,280									2,280
Total			<u>2,280</u>									<u>2,280</u>
Transfers-out												
Fund transfers					922,811		864,563				382,508	2,169,884
Total					<u>922,811</u>		<u>864,563</u>				<u>382,508</u>	<u>2,169,884</u>
Total Expenditures & Transfers-Out	<u>\$ 4,088,262</u>	<u>\$ 16,973,654</u>	<u>\$ 1,017,325</u>	<u>\$ 3,585,766</u>	<u>\$ 19,950,885</u>	<u>\$ 1,610,205</u>	<u>\$ 6,868,782</u>	<u>\$ 296,255</u>	<u>\$ 280,592</u>	<u>\$ 293,028</u>	<u>\$ 2,141,365</u>	<u>\$ 57,106,119</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 361,852	\$ 1,651,972	\$ 714,075	\$ 793,586	\$ 1,046,789	\$ 826,596			\$ 280,592		\$ 863,321	\$ 6,538,784
State Special Revenue Fund					187,067			\$ 296,255			1,278,044	1,761,366
Federal Special Revenue Fund	3,726,410	15,321,681	303,250	2,792,180	18,717,028	783,609	\$ 7,450,707			\$ 293,028		49,387,894
Capital Projects Fund							(581,925)					(581,925)
Total Expenditures & Transfers-Out	<u>4,088,262</u>	<u>16,973,654</u>	<u>1,017,325</u>	<u>3,585,766</u>	<u>19,950,885</u>	<u>1,610,205</u>	<u>6,868,782</u>	<u>296,255</u>	<u>280,592</u>	<u>293,028</u>	<u>2,141,365</u>	<u>57,106,119</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(26)	(49)	(65)	(235)	(86)	(1,064)					382,278	380,756
Prior Year Expenditures & Transfers-Out Adjustments	(14,057)	(12,584)	(3,964)	(4,997)	(160,585)						(8,027)	(204,215)
Actual Budgeted Expenditures & Transfers-Out	4,102,344	16,986,286	1,021,353	3,590,998	20,111,555	1,611,269	6,868,782	296,255	280,592	293,028	1,767,114	56,929,578
Budget Authority	4,261,027	17,748,765	1,335,517	3,653,003	28,212,576	2,749,372	91,476,681	581,750	280,592	387,434	2,062,727	152,749,444
Unspent Budget Authority	<u>\$ 158,683</u>	<u>\$ 762,479</u>	<u>\$ 314,163</u>	<u>\$ 62,005</u>	<u>\$ 8,101,021</u>	<u>\$ 1,138,102</u>	<u>\$ 84,607,899</u>	<u>\$ 285,495</u>	<u>\$ 0</u>	<u>\$ 94,406</u>	<u>\$ 295,613</u>	<u>\$ 95,819,866</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 1,865	\$ 137,472	\$ 6,072	\$ 13,824	\$ 25,255	\$ 992,921					\$ 17,016	\$ 1,194,426
State Special Revenue Fund					117,595			\$ 285,495			278,597	681,687
Federal Special Revenue Fund	156,817	625,007	308,091	48,181	7,958,171	145,182	\$ 62,202,925			\$ 94,406		71,538,779
Capital Projects Fund							22,404,974					22,404,974
Unspent Budget Authority	<u>\$ 158,683</u>	<u>\$ 762,479</u>	<u>\$ 314,163</u>	<u>\$ 62,005</u>	<u>\$ 8,101,021</u>	<u>\$ 1,138,102</u>	<u>\$ 84,607,899</u>	<u>\$ 285,495</u>	<u>\$ 0</u>	<u>\$ 94,406</u>	<u>\$ 295,613</u>	<u>\$ 95,819,866</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Military Affairs
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue and Capital Projects). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Veterans Affairs, Veterans Cemeteries, the Military Family Relief Fund and Disaster and Emergency Services.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Homeland Security, National Guard, and Military Capital Construction.

- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for construction related to the Army National Guard and Veteran's Cemeteries.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011, and June 30, 2012.

3. Direct Entries to Fund Balance and Prior Period Adjustments

Direct entries to fund balances in the General, Special Revenue, and Federal Special Revenue Fund, funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Prior year expenditures in the general fund and federal funds show an increase from other fiscal years due to 2011 flood expenditures. The flood event happened at the end of state fiscal year 2011, but the extent of the damage and expenditure estimates could not be established until fiscal year 2012, causing higher than normal prior year expenditures.

DEPARTMENT OF
MILITARY AFFAIRS

DEPARTMENT RESPONSE

DEPARTMENT OF MILITARY AFFAIRS



BRIAN SCHWEITZER
GOVERNOR

ARMED FORCES RESERVE CENTER
1956 MT MAJO STREET

STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL
MAJOR GENERAL MATTHEW T. QUINN
(406) 324-3000 - FAX (406) 324-3010

P.O. BOX 4789
FORT HARRISON, MONTANA 59636-4789

October 2, 2012

Tori Hunthausen
Legislative Auditor
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 02 2012

LEGISLATIVE AGENCIES

Dear Ms Hunthausen,

In reply to the Financial Compliance Audit Report received by this office September 26, 2012, we are submitting the following comments:

Recommendation #1:

We concur with your recommendation. The department Human Resource Officer (HRO) will establish procedures to ensure minimum requirements and alternative considerations are adequately documented in job profiles and on recruiting materials. In addition, the department will establish a written policy and procedures to ensure all applications are screened in the Human Resource Office and only those that meet the documented minimum qualifications or alternative considerations are forwarded to the hiring committee to ensure compliance with state policy. The department will be in compliance with this recommendation no later than October 31, 2012

Recommendation #2:

We concur with your recommendation. The Disaster and Emergency Services Division (DES) and Centralized Services Division (CSD) will work together to strengthen internal procedures to ensure expenditure accrual transactions are recorded and supported in accordance with department and state accounting policy. Department staff will be trained on proper accruals. The department will be in compliance with this recommendation no later than October 31, 2012.

Recommendation #3:

The department does not concur. DES implemented a procedure and format for sub-award Federal Funding Accountability and Transparency Act (FFATA) reporting May 31, 2012. At that time all DES sub-awards that could be entered were entered into the FFATA system. Not all DES sub-awards can be entered in the FFATA system, therefore, there is no mechanism for DES to meet the FFATA requirement and thereby be in compliance with the state audit procedures.

The federal government must establish the federal grant in the FFATA database before the state program can report. The Response and Recovery grants have not been established in FFATA. DES has been working with Washington DC FEMA offices to have the grants entered which

would enable FFATA reporting by the division but have not had any success. DES will continue to work with our federal counter parts to have the grants established in FFATA to ensure compliance with the Federal Transparency Act requirements. Completion date is unknown as we are dependent on FEMA to enter the grants into FFATA before we can report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matt Quinn', with a long horizontal flourish extending to the right.

MG Matthew T. Quinn
Director

CURRENT CORRECTIVE ACTION PLAN

Please complete this WORD table with the pertinent information about the legislative audit being presented on October 26, 2012. Further instructions are listed below the table. Add rows to the table, if necessary; otherwise the table should expand to accept your text. If your agency concurs with all audit recommendations, the completion of this table and sending it to OBPP fulfills your requirements of MM 2-05-1 at this time. If your agency does not concur (i.e. “conditionally concur”, or “do not concur”) with all audit recommendations, the completing of this table, providing documentation of non-concurrence, and sending all to OBPP fulfills your requirements of MM 2-05-1 at this time.

(1) Agency	(2) Audit Report & Rec #	(3) Does this affect a federal program?	(4) CFDA # (if previous YES)	(5) Management View	(6) CAP – Corrective Action Plan	(7) Person responsible for CAP	(8) Target Date
67010	12-25 #1	No		Concur	The department Human Resource Office will establish procedures to ensure minimum requirements and alternative considerations are adequately documented in job profiles and on recruiting materials. In addition, the department will establish a written policy and procedures to ensure all applications are screened in the Human Resource Office and only those that meet the documented minimum qualifications or alternative considerations are forwarded to the hiring committee to ensure compliance with state policy.	Erv Kent	11/01/12
67010	12-25 #2	Yes	97.067, 83.534	Concur	The Disaster and Emergency Services Division (DES) and Centralized Services Division (CSD) will work together to strengthen internal procedures to ensure expenditure accrual	Ed Tinsley	11/01/12

					transactions are recorded and supported in accordance with department and state accounting policy. Department staff will be trained on proper accruals processes and documentation.		
67010	12-25 #3	Yes	97.036	Do not concur	<p>DES implemented a procedure and format for sub-award Federal Funding Accountability and Transparency Act (FFATA) reporting May 31, 2012. At that time all DES sub-awards that could be entered were entered into the FFATA system. Not all DES sub-awards can be entered in the FFATA system, therefore, there is no mechanism for DES to meet the FFATA requirement and thereby be in compliance with the state audit procedures.</p> <p>The federal government must establish the federal grant in the FFATA database before the state program can report. The Response and Recovery grants have not been established in FFATA. DES has been working with Washington DC FEMA offices to have the grants entered which would enable FFATA reporting by the division but have not had any success. DES will continue to work with our federal counter parts to have the grants established in FFATA to ensure compliance with the Federal Transparency Act requirements.</p>	Ed Tinsley	Completion date dependent on FEMA