

**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
DEPARTMENT OF MILITARY AFFAIRS**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2006**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Donald C. Storm, Major General KYNG
The Adjutant General
Department of Military Affairs

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Department of Military Affairs to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefore. We are providing this letter to the Department of Military Affairs in compliance with KRS 43.090.

The work completed on the Department of Military Affairs is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2006, we considered the Department of Military Affairs' internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 28, 2007, and contains all reportable conditions and material weaknesses in the Commonwealth's internal control over financial reporting and internal control over compliance and also contains all reportable instances of noncompliance. This letter does contain the Department of Military Affairs' findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Donald C. Storm, Major General KYNG
The Adjutant General
Department of Military Affairs

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various Department of Military Affairs personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
 - (Other Matters and CAFR/SSWAK Findings, if applicable, excerpted from the SSWAK)
- ◆ Summary Schedule of Prior Audit Findings

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 28, 2007

LIST OF ABBREVIATIONS/ACRONYMS

AFWS	Automated Flood Warning Systems
AIFF	Air Guard Firefighters
AIFS	Air Guard Family Support
AIOM	Air Operations and Maintenance
AFP	Authorized Funding Plan
AGO	Adjutant General's Office
ANGI	Air National Guard Regulations
APA	Auditor of Public Accounts
AYCM	Army Communications
CAFR	Comprehensive Annual Financial Report
CFDA	Catalog of Federal Domestic Assistance
CAP	Cost Allocation Plan
COT	Commonwealth Office of Technology
DMA	Department of Military Affairs
DMAR	Department of Military Affairs Regulations
DoD	Department of Defense
eMARS	Enhanced Management Administrative Reporting System
FY	Fiscal Year
FFY	Federal Fiscal Year
FYE	Fiscal Year Ended
IMF	Installation Management Fund
JV	Journal Voucher
KRS	Kentucky Revised Statutes
KY	Kentucky
MARS	Management Administrative Reporting System
MCA	Master Cooperative Agreement
MISC	Miscellaneous
MOD	Modification
N/A	Not Applicable
NGB	National Guard Bureau
NGR	National Guard Regulations
O&M	Operations and Maintenance
OMB	Office of Management and Budget
PDM	Pre-Disaster Mitigation
PV	Payment Voucher
SEFA	Schedule of Expenditures of Federal Awards
SF	Short Form
SFY	State Fiscal Year
SSWAK	Statewide Single Audit of Kentucky
TR	Tenant (Sub-Project)
U.S.	United States
U.S.C.	United States Code
USPFO	United States Property and Fiscal Officer
WIA	Workforce Investment Act
WMD	Weapons of Mass Destruction

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA#	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
DEPARTMENT OF MILITARY AFFAIRS				
<u>U.S. Department of Commerce</u>				
Direct Program:				
11.450	Automated Flood Warning Systems (AFWS)	\$	40,216	
<u>U.S. Department of Defense</u>				
Direct Programs:				
12.400	Military Construction, National Guard		7,408,421	
12.401	National Guard Military Operations and Maintenance (O&M) Projects		11,353,304	
12.404	National Guard Civilian Youth Opportunities		1,848,571	
<u>U.S. Department of Labor</u>				
Passed Through from Department for Workforce Investment:				
Workforce Investment Act Cluster:				
17.259	WIA Youth Activities		240,480	
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Air Transportation Cluster:				
20.106	Airport Improvement Program		1,819,760	
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		103,657	
<u>U.S. Department of Education</u>				
Passed Through from the Council on Postsecondary Education:				
84.002	Adult Education State Grant Program		139,380	
<u>U.S. Department of Health and Human Services</u>				
Passed Through from the Cabinet for Health and Family Services:				
Centers for Disease Control and Prevention-				
93.283	Investigations and Technical Assistance		34,054	
93.889	National Bioterrorism Hospital Preparedness Program		176,475	
Direct Program:				
Mental Health Disaster Assistance and Emergency				
93.982	Mental Health		93,629	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA#	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Homeland Security</u>				
Passed Through from Governor's Office of Homeland Security:				
Homeland Security Cluster:				
97.004	State Domestic Preparedness Equipment Support Programs (Note 2)	841,440		\$ 237,500
97.067	Homeland Security Grant Program (Note 2)	3,681,164		824,021
Direct Programs:				
Homeland Security Cluster:				
97.004	State Domestic Preparedness Equipment Support Programs (Note 2)	2,941,939		2,789,243
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	114,117		114,117
97.020	Hazardous Materials Training Program	1,068		
97.032	Crisis Counseling	20,730		
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	13,721,106		13,587,682
97.039	Hazard Mitigation Grant	2,157,173		2,132,352
97.040	Chemical Stockpile Emergency Preparedness Program	5,466,958		4,663,111
97.047	Pre-Disaster Mitigation	110,388		110,388
97.063	Pre-Disaster Mitigation Disaster Resistant Universities	18,558		18,558
TOTAL DEPARTMENT OF MILITARY AFFAIRS		\$52,332,588		\$ 24,476,971

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - 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*. The accompanying schedule includes all federal grant activity for the Commonwealth, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

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 basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Clusters of programs are indicated in the schedule by light gray shading.

Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, and the letters “NA” to denote that no specific number is applicable. Each program is numbered in parentheses, following the NA for each federal grantor.

The state agencies’ schedule is presented on the cash, modified cash, or accrual basis of accounting.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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

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

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 06. The Department of Military Affairs had the following programs (cash and noncash) that met the Type A program definition for FY 06, some of which were administered by more than one (1) state agency. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
Workforce Investment Act Cluster		
17.259	WIA Youth Activities	\$ 240,480
Homeland Security Cluster		
97.004	State Domestic Preparedness Equipment Support Programs	841,440
97.067	Homeland Security Grant Program	6,623,103
Total Type A Programs		\$ 7,705,023

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-1: The Department Of Military Affairs Should Ensure That
Required Cost Allocation Plans Are Approved Before Charging Expenditures To
Federal Grants**

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 National Guard Military Operations and Maintenance
(O&M) Projects

Pass-Through Agency: U.S. Department of Defense

Compliance: Allowable Costs

Amount of Questioned Costs: \$8,003.

During FFY04 the Department of Military Affairs (DMA) established a new sub-project (tenant or TR) under the Air Operations and Maintenance (AIOM4) project to account for the costs relating to the use of one of the Louisville facility buildings for weapons of mass destruction (WMD) purposes. O&M costs at sites used for WMD are eligible for 100% federal reimbursement, while the rest of the Louisville facility receives 75% federal reimbursement. The TR subproject budget was \$36,000.

No cost allocation plan covering the facility's shared costs was approved. No expenditures were charged to the TR subproject until April 2006, when DMA reviewed AIOM4 transactions prior to project closure. At that time the entire \$36,000 budgeted amount was transferred from 75% sub-project electrical utility (E212) expenditures to the TR sub-project. Documentation does not support the full amount of this transfer or the subsequent federal billing.

DMA did not prepare a cost allocation plan to divide utility costs at the Louisville site, which has only one electric meter for the entire facility.

DMA charged the full amount budgeted to the TR sub-project as closeout approached. No evidence was found to suggest that documentation of the charge was prepared or reviewed.

The transfer of \$36,000 from the 75% sub-project to the 100% reimbursable TR sub-project triggered a request for federal reimbursement. DMA submitted Partial Payment request #49 dated April 28, 2006 asking for \$8,003. FFY04 utility expenditures at the Louisville site totaled \$467,946. DMA has used 2.528% to calculate the TR sub-project share of utility expenses; assuming this percentage is correct, \$11,830 of utility expense was eligible to transfer to the TR sub-project. If an approved cost allocation plan had been in place, the federal reimbursement for the state's 25% share previously paid would have been \$2,957. However, the entire \$8,003 is a questioned cost in light of the absence of an approved cost allocation plan.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-1: The Department Of Military Affairs Should Ensure That Required Cost Allocation Plans Are Approved Before Charging Expenditures To Federal Grants (Continued)**

The Compliance Supplement (OMB Circular A-133), in its section on compliance requirements for Allowable Costs/Cost Principles relating to centralized costs, states at Part 3B1e:

Required Certification - No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.

The documentation requirements at Part 3B1d(1) state:

The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.

Further, OMB Circular A-87 Attachment A on Cost Principles for State, Local, and Indian Tribal Governments requires in its basic guidelines at C1j that all costs be adequately documented.

Recommendation

The Department of Military Affairs should:

- Prepare and submit for approval a cost allocation plan covering all shared costs to be reimbursed under the AIOM TR sub-project.
- Submit for federal reimbursement only those costs it can document.
- Reimburse the federal government for \$8,003.53 of undocumented costs.

Management Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for allowable costs is to provide reasonable assurance that federal grant awards are expended only for allowable activities and that the costs of goods and services charged to Federal grant awards are allowable and in accordance with the applicable costs principles. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-1: The Department Of Military Affairs Should Ensure That Required Cost Allocation Plans Are Approved Before Charging Expenditures To Federal Grants (Continued)**

Management Response and Corrective Action Plan

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department from this finding and concurs, in part, with the auditor's internal control finding of failing to update the Federal Fiscal Year 2004 (FFY2004) Cost Allocation Plan to specifically address the newly constructed Weapons of Mass Destruction (WMD) tenant building but does not concur with the auditor's findings of questioned costs. However, DMA management will request that the federal grantor review this audit finding and provide instructions concerning the questioned cost.

SUMMARY: DMA's review of this finding has determined that the state provided legitimate services to the federal grantor concerning the newly constructed WMD tenant building located on the Louisville National Guard Air Base but the federal grantor did not provide the specific earmarked funding for the new WMD tenant building until Authorized Funding Plan (AFP) modification document number 04-4 (MOD 04-4) was issued on 28 Sep 2004 which was only two days before the end of the grant's period of availability date. This late-in-the-year funding modification to the grant award was done by the federal grantor within FFY2004 but was initially mistaken by the state as being a statement of federal in-kind assistance (i.e. federal government paying the WMD building directly) and therefore not a 'spend-able' federal grant budget authorization for the state utilize. The state's erroneous perception of the new \$36,000 AFP 100% funding as being federal in-kind assistance for the new WMD building was corrected when AFP MOD 04-5 was issued on 4 February 2005. But, since the new, earmarked WMD funding had been provided only two days prior to the end of the grant period, the state then had no other option than to Journal Voucher transfer costs that had previously been paid in unfunded support of the WMD building and were eligible and legitimate costs which had occurred within the grant's period of availability. These costs were then Journal Voucher transferred to this new, earmarked, and fully funded 100% WMD tenant account in order comply with the new, federal funding AFP budget provisions. The state's internal accounting adjustment of previously paid, legitimate grant costs did not result in any additional federal billings other than to properly adjust previous state payments made in support of the WMD tenant building that had been made from a 75% federally reimbursable account to the new 100% federally reimbursable account that was now specifically earmarked for the new WMD tenant building costs. Also, since the earmarked funding was provided at the very end of the grant period and after all federal fiscal year grant costs had

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-1: The Department Of Military Affairs Should Ensure
That Required Cost Allocation Plans Are Approved Before Charging
Expenditures To Federal Grants (Continued)**

Management Response and Corrective Action Plan

been paid, the federally approved Cost Allocation Plan that had been in effect during the FFY2004 period of availability did not address how infrastructure costs for the entire Air Base could be prorated to determine the costs chargeable to the specific WMD tenant building.

DISCUSSION: To fully comprehend the necessity of the state's accounting action, one must understand the timeline of events. The period of availability for the Air Guard Organization & Maintenance FFY2004 grant award (AIOM4) was from 1 October 2003 to 30 September 2004 which covered Federal Fiscal Year 2004. The un-liquidated cleanup suspense date that is required by federal regulation was 31 December 2004.

This Air National Guard Organization & Maintenance FFY2004 (AIOM4) grant was incrementally funded (as per federal regulation) from 1 Oct 2003 up through 30 Sep 2004 by three Authorized Funding Plan (AFP) modification documents (MOD's 04-1, 04-3, 04-4) which originally earmarked a total of \$67,200 for Administrative Support costs (which was 100% federally reimbursable) and originally earmarked a total of \$946,100 for Infrastructure Support & Maintenance costs (which was 75% federally reimbursable). The originally earmarked 100% Admin Support funds could only be used to pay for a property officer's salary and admin support cost allocated salaries and the originally earmarked 75% Infrastructure funds could only be used to pay for support staff and utility costs for the Louisville National Guard Air Base as it existed at that time (i.e. before completion of the WMD tenant building). Neither of these original AFP budget earmarks, that were in effect for the entire FFY2004 period, contained any new funding for the new WMD building which was, at that time, under construction. Historically, this original AFP budgeted funding design was the normal and reoccurring, federally required, budget and eligibility breakdown of this grant award.

During the FFY2004 period of availability of this grant award, a new WMD building was constructed on the Air Base which was intended to be 100% federally reimbursable when completed. However, the during the construction of this new building, no provisions were made for separate utility meters and, consequently, the building was tied directly into the utility and other services that metered and served the entire Air Base. When the WMD building was completed in March 2004, the state continued to pay the infrastructure bills for the entire Air

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-1: The Department Of Military Affairs Should Ensure That Required Cost Allocation Plans Are Approved Before Charging Expenditures To Federal Grants (Continued)**

Management Response and Corrective Action Plan

Base which, unknowingly, contained costs for the new WMD building. The additional WMD building costs, which were erroneously included in the invoices for the entire Air Base, caused the state to exceed the AFP MOD 04-4 stipulated budgets of \$67,200 for Administrative Support costs (which was 100% federally reimbursable) and the \$959,100 federal AFP for the 75% Infrastructure costs account. This AFP funding deficit was identified to the federal grantor which is the United States Property and Fiscal Office for Kentucky (USP&FO) who investigated the problem.

Once USP&FO determined what was causing the budgeted funding problem, they issued AFP MOD 04-5 on 4 Feb 2005 which contained slight adjustments in the two previously stipulated earmarks (100% Admin Spt and 75% Infrastructure & Maintenance) but again contained the new budget earmarking of \$36,000 exclusively for the WMD tenant building costs which was designated as 100% federally reimbursable. Since this new earmarked funding was originally provided at the very end date of the grant award and the specific costs of the WMD building had already been paid and were intermixed with the previously paid Air Base costs, the state had no other option than to Journal Voucher transfer these previous costs from the over-spent 75% reimbursable Infrastructure account to the proper 100% WMD account in order to comply with the revised federal AFP budget. Therefore, this cost transfer in question was necessary to fully comply with the revised, federally required AFP earmarked budget categories.

Simply put, it was physically and financially impossible for DMA to post WMD building costs to the new 100% federally funded WMD AFP budget account at the time the these costs were incurred because the federal AFP funding authority for this specific building did not exist from March 2004 (the time the WMD building was completed) until two days before the end of the grant award.

CONCLUSION: *While one can argue that the FFY2004 Cost Allocation Plan was old and out of date at the time of the WMD building cost transfer and should have been updated to support the later Journal Voucher transfer of previously paid WMD building costs to the grant, and one can argue that the Journal Voucher coding should not have been done as one lump sum and instead have been done as specific cost transfers, however, one can't argue with the fact that the \$36,000 cost that was transferred to the WMD budget AFP were legitimate*

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*

Finding 06-DMA-1: The Department Of Military Affairs Should Ensure That Required Cost Allocation Plans Are Approved Before Charging Expenditures To Federal Grants (Continued)

Management Response and Corrective Action Plan

costs to the federal government which had been incurred by the state for payment of infrastructure costs for the entire Air Base (which had included the WMD building) during the period of availability of the AIOM4 grant.

Auditor Reply

The only documentation provided to the auditor for costs related to the WMD building covered utilities in the amount of \$11,830. The remaining \$24,169 has not been documented. Further, according to the regulations cited above, shared costs are not reimbursable unless a cost allocation plan has been approved, so the entire \$8,003 paid to DMA as a result of the transfer of costs from the 75% sub-project to the TR sub-project is a questioned cost.

Finding 06-DMA-2: The Department Of Military Affairs Should Properly Request And Document Grant Extensions

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Pass-Through Agency: U.S. Department of Defense

Compliance: Period of Availability

Amount of Questioned Costs: \$6,334.57

DMA failed to comply with federal requirements concerning Period of Availability of Federal Funds. Four projects recorded transactions more than 90 days after the project closing date, but no documentation exists of approval for an extension by the United States Property and Fiscal Officer for Kentucky (USPFO) on behalf of the National Guard Bureau (NGB).

All four federal awards listed above cover one federal fiscal year (FFY), October 1 to September 30. The Master Cooperative Agreement between the National Guard Board and the Commonwealth of Kentucky, which governs the awards, allows 90 days after the end of the FFY for liquidating claims, disbursing obligations, and preparing a final accounting for the award. The USPFO is allowed to extend the time required to accomplish this for good cause shown, and such extensions are frequently permitted. However, no record exists of extensions granted for the four awards listed.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*

Finding 06-DMA-2: The Department Of Military Affairs Should Properly Request And Document Grant Extensions (Continued)

Transactions for each of the four awards listed took place more than 90 days after the applicable project closing date. They are described below:

Project	Total	Description
AIFS3	\$117.99	Correct object
AIFS4	\$1,093.24	
AYCM4	\$593.71	
AIFF5	\$4,529.63	

Total questioned costs as detailed above are \$6,334.57.

A Master Cooperative Agreement (MCA) between the NGB and the Commonwealth of Kentucky governs these awards. Section 306b addresses the deadline, stating, “If unliquidated claims and undisbursed obligations arising from the State’s performance of the agreement will remain 90 days or longer after the close of the fiscal year, the State shall provide a detailed listing of uncleared obligations and a projected timetable for the liquidation and disbursement no later than 31 December. The USPFO shall then set an appropriate new timetable for the State to submit their final accounting.”

Section 306c states, “Costs incurred in a fiscal year which are not disclosed by the State within 90 days of the end of the fiscal year, except costs associated with unliquidated claims and undisbursed obligations arising from the State’s performance of the agreement which the State has reported, shall not be eligible for reimbursement by NGB. The USPFO may extend the 90-day limit for good cause shown.” Costs incurred after the 90-day limit has passed are therefore allowable only when an extension has been granted.

Recommendation

We recommend that the DMA comply with Period of Availability of Federal Funds requirements by requesting and documenting an extension from the USPFO whenever transactions relating to an award have not been completed by the following December 31.

Management Response and Corrective Action Plan

Management’s goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department’s internal control objective for period of availability principles is to provide reasonable assurance that Federal grant awards are used only during the authorized period

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-2: The Department Of Military Affairs Should Properly Request
And Document Grant Extensions (Continued)**

Management Response and Corrective Action Plan

of availability. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department from this finding and concurs, in part, with the auditor's internal control finding of the lack of written un-liquidated cost lists for the minor Army and Air National Guard grants but does not concur with the auditor's findings of questioned costs. However, DMA management will request that the federal grantor review this audit finding and provide instructions concerning the questioned cost.

DISCUSSION:

The federal grantor has previously provided information to the auditor concerning the use of their quarterly un-liquidated meetings to coordinate these minor DoD Cooperative Agreement un-liquidated costs that occur after the un-liquidated cleanup date of 31 Dec. However, subsequent to the previous audit finding, the federal grantor has decided that, from now on, all DoD Cooperative Agreement extensions will be via written lists.

Specific Response to Air Guard Family Support (AIFS) grant period availability finding. *Both the AIFS3 and AIFS4 grants had an ending period of availability date of 9/30/2004 and an un-liquidated cleanup date of 12/31/2004. However, the federal grantor specifically allowed the later AIFS workers' compensation premium payment costs as was stated in an email from the federal Grants Officer Representative dated 21 July 2005 and, therefore, this \$1,211.23 cost fully complies with Section 306c of the Master Cooperative Agreement and should not be a questioned cost.*

The original DMA expenditure for the AIFS3 and AIFS4 questioned charges occurred on 7/28/2005 (via Payment Voucher PV 095 IIC47002927) which was coded for cost distribution by use of the MARS Cost Allocation process. This process collects all costs posted to it for a period of one fiscal month and then makes distribution of those costs during the Cost Allocation run cycle which actually occurs at the being of the following month. This Cost Allocation distribution process ran on 8/4/2005 and distributed the appropriate charges to

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
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And Document Grant Extensions (Continued)**

Management Response and Corrective Action Plan

these grants at that time via Journal Voucher (JV 095 CA012300041). However, the original Payment Voucher contained an internal coding error in the payment coding which labeled the cost as 'E431 Grants-In-Aid State Govt. Entities' instead of the correct label of 'E131 Workers' Compensation Premium'. This was an internal accounting error for which JV 095 JVC00095983 was subsequently processed on 8/8/2005 to correct the erroneous internal coding. This Journal Voucher internal accounting correction in no way charged the federal government any additional amounts above the original 7/28/2005 un-liquidated charge that was specifically coordinated with the federal grantor before payment was made.

Specific Response to the Air Guard Firefighters (AIFF) grant period availability issue. *The AIFF5 grant had an ending period of availability of 9/30/2005 and an un-liquidated cleanup date of 12/31/2005. Part of the eligible expenditures for this grant is the purchase of specialized clothing and instruments of which two purchases occurred on 1/3/2006. The payment documents PV 095 I-06001431 purchased clothing and PV 095 I-06001733 purchased instruments and apparatus against purchase order PO 095 C-05352083. These payment documents posted to the accounting system 3 days after the end of the un-liquidated cleanup date.*

Specific Response to the Army Communications (AYCM) grant period availability issue. *The AYCM4 grant had an ending period of availability of 9/30/2004 and an un-liquidated cleanup date of 12/31/2004. It is inexplicable why these two telecom usage charges were paid from the AYCM4 grant instead of the AYCM5 grant to which they were eligible. Both the questioned charges are un-liquidated cleanup payments for COT Telecom circuit usage that occurred during the period of eligibility of the AYCM5 grant. The first payment was on 11/10/2005 via PV 095 PV5311A0030 for \$352.31 which covered the monthly telecom usage period to 10/1/2005 (i.e. September 2005 usage). The second payment was on 11/15/2005 via PV 095 PV5280A0028 for \$241.40 which covered the monthly telecom usage period to 9/1/2005 (i.e. August 2005 usage). However, it should be noted that the federal grantor reimbursed these FFY05 eligible costs from the FFY04 AYCM4 federal funding instead of from the FFY05 AYCM5 federal funding to which these charges should have been posted by the state. This improper federal fiscal year billing by the state did not increase the federal reimbursement above that which was correctly due the state from the following federal fiscal year funds.*

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 06-DMA-2: The Department Of Military Affairs Should Properly Request
And Document Grant Extensions (Continued)**

Auditor Reply

We have reviewed the supporting documentation DMA has presented to support federal approval of \$1,211.24 of the questioned costs to AIFS3 and AIFS4. While the correspondence indicated that the federal agency was aware of the potential charges, it did not clearly indicate their approval of the charges after the period of availability for grant funds had expired. DMA has confirmed expenditures occurred after the unliquidated cleanup date on all four projects. AYCM4 apparently involved a clerical error that was not caught, but the other transactions were assigned to the intended project year. DMA has not documented federal approval of extensions to any of the projects.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

Finding 06-DMA-3: The Department Of Military Affairs Should Ensure That Installation Management Funds Are Properly Managed

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Pass-Through Agency: U.S. Department of Defense

Compliance: Program Income

Amount of Questioned Costs: None

Federal regulation NGR 5-1/ANGI 63-101 permits the rental of state-owned, federally supported armories provided that the income is used to maintain the armories. KRS 36.086 permits the establishment of an armory bank account, referred to as an Installation Management Fund, or IMF, to receive rental income and pay maintenance expenses. The federally appointed armory manager is authorized to execute rental contracts and manage the IMF. All expenditures over \$50 require prior approval from the Director of the Facilities Division. The Facilities Division also oversees the IMF by requiring a monthly report from each armory manager. This report contains a detailed listing of receipts and expenditures, a copy of the bank statement and checks, copies of rental agreements, and supporting documentation for all expenditures.

We examined every FY 06 monthly report from five armories and noted the following problems:

Improper Handling of Receipts

- Ashland made deposits for three October 2005 contracts in December 2005.

Missing Documentation for Expenditures

- Monticello did not have proper documentation of the five expenditures totaling \$487.
- Wendell H. Ford Regional Training Center did not have proper documentation of two expenditures totaling \$375.
- Ashland did not have proper documentation of two expenditures totaling \$450.

Missing/Incomplete Contracts

- London's January monthly report had six deposits, totaling \$425, with no contracts.
- Louisville did not have contracts for two deposits, totaling \$4,864.
- Ashland had a contract that specified it was for the rental of their facility for four months at \$300 per month, so the total receipt from the contract should be \$1200. But receipts for this contract were only \$1,050. The armory manager stated that the actual usage and collection covered only three and a half months, but the contract did not document this.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-3: The Department Of Military Affairs Should Ensure That Installation Management Funds Are Properly Managed (Continued)****Failure to Obtain Advance Approval of Expenditures over \$50**

- The London Armory failed to obtain prior approval for six expenditures totaling \$519.
- Monticello failed to obtain prior approval of four expenditures that totaled \$450.

Recommendations from the fiscal year 2004 audit for dealing with problems with Program Income compliance were delivered near the end of fiscal year 2005. In response DMA adopted improved procedures, but these were not put into effect until February 2006 during FY06 because of the audit's timing. Consequently, testing of FY06 activities revealed problems similar to those noted during the FY04 and FY05 audit.

DMA is a state agency, while armory managers are federally appointed. This means that DMA personnel request cooperation but have limited enforcement power. A further complicating factor is the high turnover rate among armory managers due to widespread deployment of National Guard units. Formerly the armory manager made all payments to individuals (typically for armory management fees or for security and cleanup in connection with armory rentals) directly from the IMF. As one of its new procedures, DMA now processes these payments through MARS. This assures that these payments are appropriately reported on form 1099-MISC to the Internal Revenue Service and the Kentucky Department of Revenue. Also, because payments are contingent upon receipt of the monthly report, this policy encourages full and timely reporting. Program income compliance has improved as a result of this change; most of the problems described above occurred before February 2006.

Chapter 7-1.a. (1) of federal regulation NGR 5-1/ANGI 63-101 states, in part, "Title 10 U.S.C. 18236(c) permits States to rent out armories if the State uses the rentals to maintain the armory."

Military Affairs policy DMAR 210-8 Section VI c. states "The Standard Voucher (AGO Ky Form 27-2) when used as a receipt record will have supporting documents attached (rental, contracts, vending deposits, bank deposits, etc.). If supporting documentation is used in the previous report, reference only is required."

Military Affairs policy DMAR 210-8 Section VI d requires expenditures to have supporting documentation.

Military Affairs policy DMAR 210-8 Section III c requires prior approval for any non-recurring purchase over \$50.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-3: The Department Of Military Affairs Should Ensure That Installation Management Funds Are Properly Managed (Continued)**

Good internal control procedures require that adequate documentation be submitted to allow for the verification of all deposits and expenditures especially cash transactions. Also, these procedures would provide for adequate separation of duties and the evidence of an arms-length transaction. Proper account review ensures that all funds raised for this purpose are properly spent to maintain the armories. Further, the review process provides a control to prevent the appearance that funds have been diverted for personal use.

Income derived from the rental of the armories goes for the vital purpose of maintaining National Guard armories. Taxpayers benefit from this activity because self-financed maintenance saves federal and state tax dollars. Communities benefit from the availability of suitable space for gatherings. Appropriate regulations and internal controls serve the Commonwealth of Kentucky, the federal government, and these stakeholders.

Recommendation

The DMA should continue to follow its current regulations and closely monitor the IMF accounts. Documentation of expenditures and receipts to these accounts missing from monthly reports should be requested and received prior to releasing payment to the IMF managers.

Management Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for program income is to provide reasonable assurance that federal grant related program income is correctly earned, recorded, and used in accordance with the federal grant program requirements. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department and concurs with the auditor's findings. DMA will continue to fully implement and communicate DMA Regulation 210-8, the department's revised policy regarding the administration and management of IMF accounts, to rectify this audit finding. Additionally, The Adjutant General will personally notify each Armory Manager and their Commanding Officers, by official correspondence, of their administrative and legal responsibilities within this program. By these measures, this reoccurring audit finding of noncompliance will be rectified promptly and efficiently.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-4: The Department Of Military Affairs Should Ensure That All Transactions Are Properly Approved**

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Pass-Through Agency: U.S. Department of Defense

Compliance: None

Amount of Questioned Costs: None

Transaction #PX000002213 was processed with approval in MARS from only one individual. This type of document records indirect expenses; while the state expends no money directly at that time, the transaction may trigger a request for federal reimbursement. Consequently, MARS acceptance of the transaction with approval from only one individual signifies a control weakness.

MARS specifications from the DMA permit the agency's MARS Administrator to cancel lower-level approvals of a document, make changes to it, and apply the transaction's final approval. Granting that authority to the MARS Administrator is a DMA management decision.

Only one approval in MARS was applied to a transaction that transferred \$18,581.34 on December 22, 2005 to the AYCM4 project. This occurred before the FY05 audit, which issued a similar finding, was conducted. No further instances took place after FY05 audit findings were presented.

Good internal controls dictate that at least two individuals should review and approve transactions. This control is important for assuring that transactions are accurate and valid.

Recommendation

The DMA should arrange for additional review of all MARS transactions that received only one approval. Because a new statewide accounting system (eMARS) was implemented after the period under audit, DMA should assess whether or not it permits similar occurrences. If eMARS allows any single person to change and approve any type of transaction, higher-level review should be required – by the system, if possible, otherwise manually.

Management Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for allowable cost / cost principles is to provide reasonable assurance that Federal grant awards are expended only for allowable activities and that the costs of goods and services charged to Federal grant awards are

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-4: The Department Of Military Affairs Should Ensure That All Transactions Are Properly Approved (Continued)**

Management Response and Corrective Action Plan

allowable and in accordance with the applicable cost principles. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department and has determined that DMA does not concur with the auditor's finding due to the fundamental and basic MARS security fact that no single MARS user could ever both create and enter data into a transaction and then approve that same transaction. It has always taken at least two people to process any MARS transaction (a creator and an approver) not just the PX document cited by the auditor's findings.

DISCUSSION: The auditor's finding reflects on what is actually a systemic design issue in the MARS state accounting system; namely, that a specifically authorized approver could correct or change the coding on a PX document that had previously been prepared by another person, and then approve that document. Since the PX type document only charged shop stock / bench stock type indirect costs to a federal grant, the risk of material misstatement or outright fraud is practically non-existent. No cash or other form of payment can ever be made from a PX document.

CONCLUSION: Since the state changed to the new eMARS accounting system on 1 July 2006, this question of control weakness is moot because the eMARS system does not allow an approver to change any of the coding on any transaction document before final approval. The new eMARS system, like the old MARS system, still requires at least two separate and distinct people to process a transaction to completion (a submitter and an approver). With the new eMARS system, it is unlikely for an auditor to ever again perceive a systemic issue in this specific arena.

Auditor Reply

When the agency administrator cancels first level entries and approvals to make any desired changes (vendor, amount, accounting string, etc.) to the document, the revision in effect creates a new document, though it retains the same document number. By then applying all levels of approval without involvement from any other agency personnel, the agency administrator becomes the only person involved in the modified transaction. We reiterate that this is a control weakness.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

Finding 06-DMA-5: The Department Of Military Affairs Should Ensure That Federal Expenditures Are Charged At The Approved Match Rate

State Agency: Department of Military Affairs

Federal Program: CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Pass-Through Agency: U.S. Department of Defense

Compliance: Matching

Amount of Questioned Costs: \$124.37

The National Guard Board reimburses telecommunication expenditures at DMA facilities at 100%, 97% or 50% of actual charges. The Commonwealth of Kentucky is required to pay the remaining amount from state funds as part of the grant agreement.

Auditors found during testing of 25 telecommunications charges one that was entered with an incorrect federal reimbursement percentage for a transaction charged to activity code X828. The correct percentage was 97%, but the expenditure document was created with the sub-project code for 100%. This resulted in an overcharge of \$9.24 for the transaction in the test sample. During all of SFY 2006, a total of \$124.37 was overcharged to the federal government for the X828 activity code. All these charges are questioned costs.

The DMA employee who created the expenditure document in MARS used an incorrect sub-project, which caused the bill for this transaction to be billed at 100% rather than 97%, as was approved for the X828 activity code.

The MCA states in Article II, *Obligations of the Parties*, at Section 201.b, “The state will obligate sufficient funds to pay its share of the costs of this MCA”. Section 202.a also provides that the “NGB shall reimburse the State for the allowable costs incurred in performance of this MCA according to its terms and conditions for reimbursement”.

To ensure compliance with the MCA, good internal controls dictate accounts be set up correctly so that both parties pay their agreed-upon share of expenditures. Should the funding related to an activity code be changed, this change should be communicated promptly to the appropriate personnel so that the accounting system can be updated accordingly.

Recommendation

The DMA should consider changes or improvements to internal control procedures that will reduce the risk of this type of error occurring in the future. One suggested control is to specify within the statewide accounting system that only one sub-project may apply to each telecommunication activity code.

DMA should also reimburse the federal government for questioned costs described herein.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-5: The Department Of Military Affairs Should Ensure That Federal Expenditures Are Charged At The Approved Match Rate (Continued)**

Management Response and Corrective Action Plan

Management's goal for the internal control process, within the Dept. of Military Affairs (DMA), is to obtain reasonable assurance that material misstatements will not occur or will be detected in a timely manner. The department's internal control objective for matching is to provide reasonable assurance that federal grant matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued. The department's current internal control environment, effected by executive management, establishes management's full support of ethical, efficient, and effective internal control activities and sets a positive tone for correction of identified deficiencies.

Based on the auditor's findings, DMA management has conducted an analysis of the overall risk environment currently facing the department from this finding and concurs, in part, with the auditor's internal control finding of failing to update the MARS Activity Code list of reimbursable communication circuits but does not concur with the auditor's findings of questioned costs. However, DMA management will request that the federal grantor review this audit finding and provide instructions concerning the questioned cost.

DISCUSSION: DMA's internal control methodology for communicating the appropriate fund splitting and matching for each reimbursable communications circuit involves using the MARS Activity code table to record and crosswalk the vendor's unique communications circuit number, the unique MARS Activity code assigned to that particular communications circuit, and the federal reimbursable rate. Reporting back to the federal government on its specified reporting requirements is precisely what the MARS Activity Code table was functionally designated to do.

Under this particular federal grant agreement, DMA must report the specific expenditure made for each reimbursable communications circuit before the federal government will reimburse the state for their federal share of the cost. This federal reporting and billing requirement necessitates DMA's use of the MARS Activity code table in the state accounting system. The use of the Activity code table to identify specific circuits also provides a historical accounting record for circuit identification payment and billing.

However, there is a limit to the use of this MARS Activity coding methodology when using the single, State-Fiscal-Year based code table in the state accounting system to track and report multiple, follow-on Federal-Fiscal-Year based grants which overlap the State Fiscal Year. A new state Activity code table is

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-5: The Department Of Military Affairs Should Ensure That Federal Expenditures Are Charged At The Approved Match Rate (Continued)**

Management Response and Corrective Action Plan

established on 1 July which is the beginning of each state fiscal year for use during the entire state fiscal year. But, 1 Jul also starts the final 3 months of the end of one Federal Fiscal Year grant and a new Federal Fiscal Year follow-on grant begins on 1 October. When this federal fiscal year boundary is reached and a new follow-on federal grant is received, the individual circuit split ratios may or may not be changed by the federal government to coincide with the beginning of a new federal grant period of availability.

When a new circuit is added or an old circuit is shutdown between the old and new federal grant, there is no problem in recording this in the single, state fiscal year based MARS Activity Code table. A new circuit can be added by adding a brand new MARS Activity Code number and an old circuit number can be removed from use by changing its eligibility code to non-eligible and still maintain the circuit and Activity code in the table for historical (old federal fiscal year) reference (this will also prevent it from billing to the federal government if a payment erroneously uses an old federal fiscal year circuit Activity Code in a payment document).

However, when the federally stipulated reimbursable ratio changes for an existing circuit between an old federal fiscal year grant (which ends on 30 Sep) and a renewed federal fiscal year grant (which begins on 1 Oct), there is a systemic problem when using a single, state fiscal year based Activity Code table. If a split ratio that is recorded in the text field of the MARS Activity Code is changed in the accounting system (per the new federal reimbursement ratio guidance), then that text ratio will be incorrect information for historical grant reporting purposes. But if you don't change the text ratio in the Activity Code name, then the stated ratio will be incorrect information for the new federal fiscal year grant.

This coding of the federal reimbursement ratio in the text portion of the Activity Code name has always been intended by DMA to be a general aid only and to be utilized when a payment clerk makes a payment of a federally reimbursable communications circuit. The federal communications grant stipulations are very complicated and very complex and this Activity Code 'aid' works to simplify the crosswalking of the provider's monthly billing (which is by the vendor's circuit number) to the federal reporting requirements (via the use of the Activity Code) and the federally approved reimbursement ratio into one computerized list. However, the use of the single, fiscal year based Activity Code table has its systemic limitations when it comes to the ratio change issue between federal fiscal years, but, this is a minor problem because the proper federal ratio is actually achieved thru the use of the Sub-Project Billing setup.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****Finding 06-DMA-5: The Department Of Military Affairs Should Ensure That Federal Expenditures Are Charged At The Approved Match Rate (Continued)****Management Response and Corrective Action Plan**

Since the billing ratio of the cost to the federal government is controlled by the Sub-Project Billing setup in the state accounting system and not by the text ratio entered in the Activity Code name, this incorrect ratio listing in the Activity Code text field situation does not result in the federal government being billed too much when the correct Sub-Project number is entered in the payment document as was the case in the auditor's finding.

CONCLUSION: DMA submitted the SFY2006 Army Communications grant payments for X828 Glasgow OMS T1 line to the federal grantor who stated that the correct federal reimbursement ratio for that circuit was 100%. The 97% ratio listed in the Activity Code text name that the auditor found was simply the wrong reimbursement ratio and the correct 100% ratio had been communicated to the payment clerk separately who paid it correctly. The Activity Code text name field that listed 97% had simply failed to get updated. Since the correct amount was charged to the federal grantor, as stipulated by the federal grantor, then the federal grant matching ratio was properly met and was properly calculated. Therefore, the questioned cost is moot.

Auditor Reply

No documentation was available to support the X828 charges at 100% until the end of fieldwork March 2, 2007. Based on the March 13, 2007 documentation provided we consider the questioned costs now resolved. We recommend that DMA maintain and update documentation of approved match rates for telecom expenditures.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 05	05-DMA-2	The Department Of Military Affairs Should Develop An Internal Control System To Comply With OMB Circular A-133 Compliance Requirements	97.004	0	Resolved FY 06
FY 05	05-DMA-3	The Department Of Military Affairs Should Continue To Implement The Procedures Established To Fully Comply With OMB A-133 And Develop Procedures To Ensure Personnel Complete The Entire Monitoring Tool	97.036	0	Resolved FY 06
FY 05	05-DMA-4	The Department Of Military Affairs Should Adhere To Policies Instituted For Oversight Of The Installation Management Fund Accounts	12.401	0	Due to improvements this finding is downgraded to an other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 05	05-DMA-5	The Department Of Military Affairs Should Provide The USPFO A Written Report Of Unliquidated Claims And Undisbursed Obligations Within Ninety Days After The End Of Grants	12.401	0	Resolved FY 06
FY 05	05-DMA-6	The Department Of Military Affairs Should Establish Procedures To Ensure SF-269 Quarterly Reports Are Accurate	97.036	0	Resolved FY 06
FY 05	05-DMA-8	The Department Of Military Affairs Should Review Employee Approval Authorities	12.401	0	Due to improvements this finding is downgraded to an other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 04	04-DMA-02	The Department Of Military Affairs Should Implement Internal Control Procedures To Comply With NGR 5-1/ANGI 63/101 Relating To Program Income For The National Guard Program	12.401	0	Resolved FY 06

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
	05-DMA-7	The Department Of Military Affairs Should Reimburse The Federal Government For Questioned Costs And Request Reimbursement Only For Expenditures That Have Adequate Supporting Documentation	12.401	\$40,188	Corrective action plan implemented, but questioned cost has not been resolved
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
<i>There were no findings for this section.</i>					
<i>(4) Audit finding is no longer valid:</i>					
FY 03	03-MIL-2	The department of military affairs should ensure subrecipient monitoring is properly performed	97.036	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearing house. The Federal agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-MIL-1	The department of military affairs should ensure subrecipient monitoring is properly performed	97.036	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearing house. The Federal agency is not currently following up on this audit finding. A management decision has not been issued.
FY 01	01-MIL-1	The department of military affairs should ensure subrecipients meet OMB Circular A-133 Audit Requirements	97.036	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearing house. The Federal agency is not currently following up on this audit finding. A management decision has not been issued.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

FY 04	04-DMA-04	The Department Of Military Affairs Should Develop An Internal Control System For The State Domestic Preparedness Equipment Support Program To Comply With OMB Circular A-133 Compliance Requirements	97.004	0	Resolved FY 06
FY 04	04-DMA-05	The Department Of Military Affairs Should Follow Established Internal Control Used To Ensure Compliance With OMB Circular A-133 Compliance Requirements For The Public Assistance Program	97.036	0	Resolved FY 06

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid:

There were no findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 05	05-DMA-10	The Department Of Military Affairs Should Ensure All Appropriate Approvals Are Obtained Prior To Processing Expenditure Transactions	97.036	0	Resolved FY 06
FY 05	05-DMA-11	The Department Of Military Affairs Should Improve Internal Controls Relating To Equipment Management	97.004	0	Resolved FY 06
FY 05	05-DMA-12	The Department Of Military Affairs Should Improve Internal Controls Relating To The Review Process For The OJP 4587/1 Form Semi-Annual Report	97.004	0	Resolved FY 06
FY 05	05-DMA-13	The Department Of Military Affairs Should Consider Using One Work Order System That Will Interface With The Commonwealth's Accounting System	12.401	0	Resolved FY 06
FY 04	04-DMA-06	The department of military affairs should establish written procedures for the preparation of the Quarterly SF-269 Report	97.036	0	Resolved FY 06
FY 04	04-DMA-07	The department of military affairs should improve internal controls relating to equipment management	97.004	0	Resolved FY 06
FY 04	04-DMA-10	The department of military affairs should improve internal controls relating to the review process for the OJP 45781/1 Form Semi-Annual Report	97.004	0	Resolved FY 06
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY05	05-DMA-14	The Department Of Military Affairs Should Ensure The State Match Rate Is Applied Correctly For All Program Expenditures	12.401	0	See 06-DMA-5

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(4) Audit finding is no longer valid:</i>					
FY 01	01-MIL-1	The Department Of Military Affairs Should Ensure Subrecipients Meet OMB Circular A-133 Audit Requirements	97.036	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearing house. The Federal agency is not currently following up on this audit finding. A management decision has not been issued.
FY 97	97-Military Affairs-50	The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients	97.036	\$62,500	Two years have passed since the audit report in which this finding was submitted to the Federal Clearing house. The Federal agency is not currently following up on this audit finding. A management decision has not been issued.
FY 00				-34,747	
FY 02				<u>-27,743</u>	
				0	