



REPORT OF
THE
STATE AUDITOR

DEPARTMENT OF MILITARY AFFAIRS
FINANCIAL REVIEW

November 2001

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November 19, 2001

Members of the Legislative Audit Committee:

This report contains the results of a financial review of the Department of Military Affairs. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Military Affairs.

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**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**JOANNE HILL, CPA
Acting State Auditor**

**DEPARTMENT OF MILITARY AFFAIRS
FINANCIAL REVIEW
November 2001**

Authority, Purpose, and Scope

This financial review of the Department of Military Affairs was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all agencies and departments of state government. Audit work was performed from March through August 2001 by the Office of the State Auditor staff in cooperation with staff from the firm of Cottrell & Associates. The purpose of this review was to determine:

- The adequacy of internal controls over financial processes such as cash receipts and payables.
- Compliance with State Fiscal Rules and other statutory requirements.
- The implementation status of the Department's prior year recommendation.

Current Year Findings and Recommendations

The following presents highlights of the findings included in this report. Please refer to the Recommendation Locator in the next section for the recommendations, responses, implementation dates, and location of the full text of the findings, recommendations, and agency responses.

Overall, we concluded that the Department of Military Affairs needs to make improvements in its controls to ensure that financial transactions are recorded and reported accurately. The Department recognizes the problems we address in this report and is stepping up efforts to improve its accounting function, requesting help from the State Controller's Office, and moving to fill accounting positions. However, the complete turnover of accounting staff, combined with the lack of documentation on Department financial processes, has hindered progress. In our report we note significant shortcomings in the accounting area, as follows:

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

SUMMARY

- Vendor payments lagged during the year, exceeding the 45 days allowable under the law. For example, of a sample of 50 payables tested, 9 (totaling over \$100,000) were paid between 60 and 174 days after the date of the vendor invoice.
- The Department has not updated the State's accounting system for changes in its land, buildings, and construction in progress since Fiscal Year 1999. As a result, a land purchase of about \$58,000 is not shown and transfers of buildings to other state agencies, totaling \$450,000, have not been deducted from the accounting records.
- During Fiscal Years 2000 and 2001 the Department expended about \$3.7 million in controlled maintenance, land purchases, and construction costs on armories and other buildings but was unable to provide information on the amount of these costs that should be capitalized.
- The Department needs to improve controls over payroll, specifically segregating payroll duties.
- Currently the Department does not receive timely soldier discharge information to identify refunds receivable for state tuition assistance that was not "earned" by Guard members.
- The Department does not have adequate segregation of duties over approximately \$35,000 in accounts receivable.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	12	Improve oversight of financial activity and ensure controls over accounting functions are adequate.	Department of Military Affairs	Partially Agree	Partially Implemented
2	15	Reduce delays in processing transactions by streamlining the vendor payment and federal approval process. In addition, the Accounting Department should record changes in fixed assets annually.	Department of Military Affairs	Partially Agree	Partially Implemented
3	18	Improve controls over payroll.	Department of Military Affairs	Partially Agree	August 2001
4	19	Obtain advances on federal projects.	Department of Military Affairs	Agree	October 2001
5	20	Ensure that the Tuition Assistance Office is notified prior to the discharge of soldiers so that any refunds due can be collected.	Department of Military Affairs	Partially Agree	August 2001
6	21	Move the control over all Department receivables into the Accounting Section to allow for adequate segregation of duties and the prompt deposit of receipts.	Department of Military Affairs	Agree	November 2001
7	22	Proceed with testing of downloading capabilities of the state purchasing card to facilitate the timely coding of charges.	Department of Military Affairs	Agree	Partially Implemented

Description of the Department of Military Affairs

Purpose of the Department of Military Affairs

The Department of Military Affairs is authorized by Section 24-1-127, C.R.S., and consists of the National Guard and the Civil Air Patrol. The Adjutant General is the administrative head of the Department and the Chief of Staff of the Colorado National Guard. The Department is responsible for providing day-to-day command and control, guidance, policies, and administrative and logistics support to the Divisions of the National Guard and Civil Air Patrol. By statute, that support includes safekeeping and management of military real estate, equipment, facilities, and buildings; publishing necessary regulations, orders, and reports; maintaining records; and hiring personnel to carry out those missions.

The National Guard manages armories, support facilities, equipment, and Guard units. The National Guard is available to respond to threats of national or state security, natural disasters, or civil emergencies. The Civil Air Patrol trains volunteer personnel to assist in searches for missing persons and perform emergency medical airlifts.

Colorado National Guard

The Colorado National Guard (the Guard), the military force of the State, functions under the provisions of Section 28-3-2, C.R.S., and Title 32 of the United States Code. The Guard serves at the direction of the Governor to protect life and property and to preserve the State's internal security. It also recruits, trains, and maintains units and individuals ready to serve as part of the U.S. defense force when called to duty by the President or Secretary of Defense.

The Colorado National Guard has federal and state responsibilities. The federal mission is to provide a reserve component of the U.S. Army and U.S. Air Force. Congress can order the National Guard to active duty if it decides that the nation needs to supplement its regular forces. The Guard also participates in military operations and exercises. The federal government pays 100 percent of the personnel costs of the Guard for drills, annual training, and full-time employees.

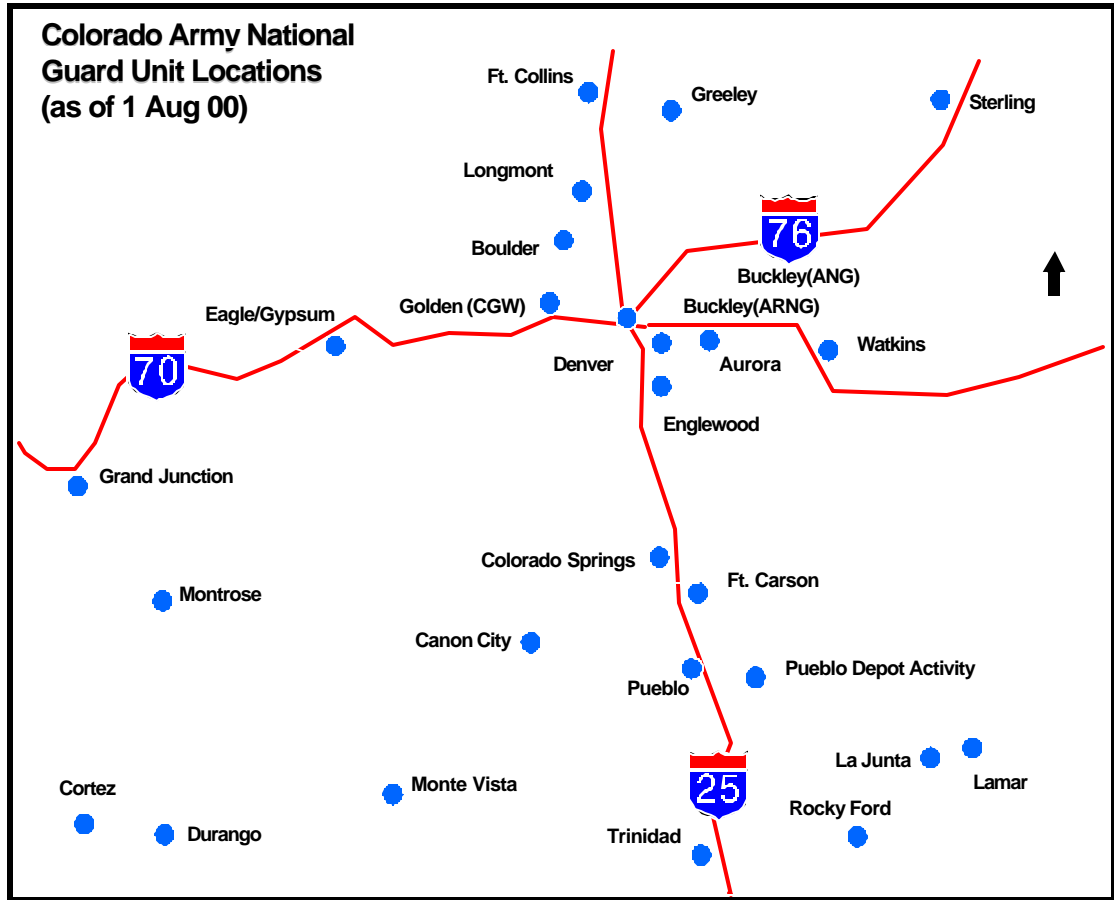
The state mission of the Colorado National Guard is to provide for the protection and preservation of life and property during natural disasters and civil emergencies. The state mission is, by law, secondary to the federal mission. The Governor can order state Guard units to active duty to provide military support for civil authorities during disaster and emergency situations. The State pays personnel salaries for the use of the Guard to accomplish the state mission. The Governor delegates command and control of the Guard to the Adjutant General during periods of state active duty. Currently in Colorado there are 3,135 members of the Army National Guard and 1,361 members of the Air National Guard.

Colorado Civil Air Patrol

Federal legislation (36 United States Code 201-208) created the Civil Air Patrol in 1946. The Civil Air Patrol serves as an auxiliary unit of the United States Air Force. The Colorado Civil Air Patrol functions under the provisions of Section 28-1-101, C.R.S.

The Patrol has its headquarters in Denver and has two classified employees for staff. Currently 1,811 volunteers participate in activities of the Patrol. The main duty of the Civil Air Patrol is search and rescue, but its responsibilities also include civil defense and aerospace education.

Colorado National Guard Facilities and Units



Source: Department of Military Affairs.

Summary of Financial Activity

The following table shows the state and federal financial activity of the Department for Fiscal Years 1998 through 2001. Other federally funded programs are shown separately below because they do not flow through the accounting system of the State.

Sources of Fiscal Year Funding				
Funding Sources	Fiscal Year 1997-98 ¹	Fiscal Year 1998-99 ¹	Fiscal Year 1999-00 ¹	Fiscal Year 2000-01 ²
General Funds	\$ 3,420,442	\$ 3,842,471	\$ 3,753,347	\$ 4,027,529
Cash Funds	22,831	32,510	24,257	25,073
Cash Funds Exempt	39,186	2,819	-	-
Federal Funds	<u>4,472,518</u>	<u>5,030,238</u>	<u>4,478,909</u>	<u>5,051,769</u>
Total State- Appropriated Funds	9,028,420	8,908,038	8,256,512	9,104,371
Other Federally Funded Programs	<u>113,650,534</u>	<u>110,460,964</u>	<u>112,623,097</u>	<u>107,575,719</u>
Total State and Federal Funds	<u>\$122,825,798</u>	<u>\$119,369,002</u>	<u>\$ 120,879,609</u>	<u>\$116,680,090</u>
FTE by Funding Source				
General Funds	32.2	34.9	36.7	36.8
Cash Funds	.1	.1	.1	.1
Federal Funds	67.5	71.3	77.1	57.6
Federal Programs	<u>1,138.0</u>	<u>1,138.0</u>	<u>1,138.0</u>	<u>1,198.0</u>
Source: Military Affairs Budget Request for Fiscal Year 2001-2002.				
¹ Actual expenditures for the respective fiscal years.				
² Appropriation of the fiscal year (after supplemental appropriation).				

The above table does not include appropriations for capital construction projects.

Overview of Federal Funding for Operations

As shown in the previous financial table, the Department's Fiscal Year 2001 appropriation was just over \$9 million. Of that, over \$5 million is federally funded through a cooperative agreement that establishes the terms and conditions of the federal contribution of funds to support the operation and training of the state Army and Air National Guard. The cooperative agreement is subdivided into 12 components or subsections, referred to as appendices, which outline the performance of specific activities. For instance, Appendix 1 for Army National Guard Real Property Operations and Maintenance supports the maintenance of real property, including Colorado National Guard armory facilities throughout the State.

Many of these activities are administered jointly, and state-appropriated expenditures are frequently made by, or at the request of, federal personnel. For instance, federal personnel may initiate a state purchase to have a security system installed at a Colorado armory for protected storage of weapons. In this example, federal action leads the procurement process, but the expenditure is included in the Department's overall appropriation and paid by the State, subject to reimbursement under the cooperative agreement.

For activities defined in the appendices, the expenditures are processed through the state purchasing and accounting system and then a request for reimbursement is made to the federal government. Each appendix is overseen by a separate federal program manager, some of whom work at the Department's headquarters in Englewood and some of whom work at Buckley Air Base, or at other off-site facilities. Three branches of the service participate in approving expenditures under the agreement, including the Army Guard, the Air Guard, and the National Guard.

Under the terms of the cooperative agreement, a monthly report for each appendix is prepared to reconcile the Department's records to records maintained by the federal program managers. Multiple subaccounts or "grant budget lines" are established on COFRS to provide a level of detail on the state system similar to the federal accounting records. Presently there are 66 grant budget lines for the cooperative agreement. The sheer number of line items complicates the coding of expenditures.

The cooperative agreement states that the federal government will reimburse the State for allowable costs incurred in performance of the agreement. To ensure that vendor invoices are for allowable costs and that they are coded to the appropriate expense account and grant budget line, the Department forwards vouchers with federal participation to the

federal program manager for approval and coding prior to COFRS entry and vendor payment.

Requests for reimbursement are prepared by the Department and submitted monthly (after the COFRS close) to the appropriate federal program manager for each appendix. The program manager reviews the supporting documentation for funds expended during the previous month, approves the request for federal reimbursement, and then forwards it to the disbursing officer (Army or Air) for payment. Currently the Army remits reimbursements via electronic funds transfer, while the Air mails checks. While the cooperative agreement is reimbursement-based, advances may be requested to compensate for state cash flow requirements.

Findings and Recommendations

Fiscal Responsibility Is Needed

The Department's management has the fiduciary responsibility to ensure that assets are safeguarded and financial transactions are recorded and reported accurately. Annually, state agencies are statutorily required to attest to the State Controller, State Auditor, and the Governor that systems of internal account and administrative control have been instituted and maintained. State agencies also annually sign a Letter of Certification of Financial Accounting affirming that:

The accounting function is staffed with adequate personnel to assure the accounting is properly carried out and timely, and sufficient monthly accruals are being made to update financial records so that management can properly analyze their financial condition and determine that the federal government and other parties owing the state are being properly billed.

The Department responded that it was in substantial compliance with these requirements. However, we are concerned about the Department's controls over its financial transactions and the recording and reporting of financial information. The Department has had significant accounting issues over the past few years. During our Fiscal Year 2000 Statewide financial audit, we noted that there was a significant turnover of accounting staff, problems completing required transactions, and difficulty in providing information on a timely basis.

As this report shows, there continues to be significant turnover, delays in processing vendor payments, obtaining federal approvals for reimbursement, and recording additions and deletions to fixed assets. On the basis of a request from the Department, we also reviewed controls over the payroll process.

Overall, we conclude that the Department needs to make improvements in its systems and controls to ensure that assets are safeguarded and that accounting for transactions is timely and accurate.

Recommendation No. 1:

The Department of Military Affairs should improve its oversight of financial activity and ensure its controls over accounting functions are adequate.

Department of Military Affairs Response:

Partially Agree. Financial controls are in place and are working. Procedures can be improved. The report shows the Department is hampered by significant turnovers in accounting personnel, delays in processing and obtaining reimbursements, adjusting fixed asset accounts and providing timely information. While we agree with this observation, most of those issues are beyond our immediate control.

We cannot require employees to stay. They will leave for upward mobility that we cannot offer in a five-person office. Requests for additional personnel have either not been granted or reduced by the Legislature.

Since most transactions are carried out as part of a Cooperative Agreement between the State and National Guard Bureau, we cannot directly control delays in federal invoice approval and payment procedures.

We can control operations within the accounting section and have documented procedures in desk manuals to facilitate inevitable turnover. We have discussed problems with the Cooperative Agreement with federal authorities and have agreement to try to document and streamline processes, and to improve timeliness. We have shifted duties within the accounting section to better balance workload and individual abilities and talents. We are scheduling training on procedures to adjust fixed asset accounts.

Improve the Recording and Reporting of Transactions

Reduce Delays in Processing Transactions

During our Fiscal Year 2000 audit, the Department experienced a significant turnover of accounting staff and delays in replacing the vacant positions. The situation left the Accounting Section understaffed for the majority of the year. The State Controller's Office

provided additional support. Even so, the Department had problems completing all required transactions and providing information on a timely basis. The shortage of accounting staff created additional risk that transactions may have been recorded improperly on the State's accounting system.

During our current review we found that new staff was faced with little or no documentation on Department processes and, as a result, struggled to learn the complexities of federal and state regulations that govern transactions. To further compound the problem, during the year, both the accounts payable and the payroll positions were vacant for several months. The new Accounting Section has made significant progress in documenting tasks and processes and in cross-training personnel, but the entire section is still in a learning curve.

We continue to see areas where further improvements should be made:

1. The processing of vendor payments lagged during the year, exceeding the 45 days allowed by Section 24-30-202(24), C.R.S., as other accounting personnel temporarily filled the vacant position. After the position was filled, it took a few months to organize the existing backlog and follow up on potential unpaid balances while researching to ensure that duplicate payments were not made. Our review of May 2001 vendor payments indicates that the Department is improving the timeliness of payment processing, but there are still some delays related to receiving invoices from the regions and obtaining timely approvals from program managers. For instance, of the May 2001 payables tested, 9 in the sample of 50 were paid between 60 and 174 days after the date of the vendor invoice. These nine payables amounted to a total of about \$119,000.
2. The Department has not updated the State's accounting system for changes in its land, buildings, and construction in progress since Fiscal Year 1999. For example, a land purchase of about \$58,000 is not shown and transfers of buildings to other state agencies, totaling about \$450,000, have not been deducted from the accounting records. During Fiscal Years 2000 and 2001 the Department expended about \$3.7 million in controlled maintenance, land purchases, and construction costs on armories and other buildings but was unable to provide information on the amount of these costs that should be capitalized. The Department also completed construction during this period, but the costs associated with the construction were not properly reflected as a completed project on the State's accounting system. As a result, the amounts reported do not accurately reflect the cost of the assets owned.

Also, in Fiscal Year 2000 buildings and property owned by the Department valued at \$7.9 million was transferred to the Department of Public Safety. In Fiscal Year 2001 the Department of Military Affairs determined that the actual cost was about \$2.2 million. Public Safety revised its records to reflect the \$2.2 million cost; however, the building is erroneously being reported on both Departments' books, resulting in an overstatement of assets in the State's financial statements of \$2.2 million.

Delays Due to Federal Action or Approvals

We noted three processes during which a delay in obtaining federal approval or action on an item will slow down or halt the progress of transactions through the accounting system. These include:

- Approval and coding of vendor payments.
- Budget modifications that are required to make federal funding available for spending.
- Federal approval on requests for reimbursements.

Approval for Vendor Payments

For purchases that are subject to federal participation, the Department obtains approval from a federal program manager prior to vendor payment. This confirms the federal commitment to reimburse the State for the outlay, as well as identifying the correct funding source or coding for the payment. However, because the federal approval is in addition to the required state approvals, and there are numerous federal program managers, some on-site, and some at Buckley or other off-site locations, the entire process can be lengthy and may exceed the 45-day state vendor payment guidelines. For instance, some of the overdue May 2001 invoices discussed above were subject to federal program manager approval.

Budget Modifications Are Required to Make Federal Funding Available for Spending

For the large percentage of the Department's budget that is federal and restricted, spending authority and the ability to pay vendor invoices is not available until budget modifications are processed, approved, and entered into COFRS. For some appendices, only a month

or two worth of spending authority is approved by the federal agency at one time, requiring numerous budget modifications each year. A significant amount of Department time is spent obtaining these budget modifications and the related approvals from the federal program managers. In the meantime, the payment of vendor invoices may be delayed pending approval of these budget modifications for federal spending authority.

Approval on Federal Requests for Reimbursement

The Department prepares monthly requests for reimbursement under the federal cooperative agreement. Separate requests are prepared for each of the 12 appendices of the agreement and then forwarded to the appropriate federal program manager for approval. Only after the requests for reimbursement are approved can they be submitted to the federal disbursing agents for payment. Obtaining timely approval from some of the federal program managers has been so problematic during the year that the Department created a spreadsheet to track the progress of each request through the approval and payment process. For instance, the Department's tracking sheets include the following example of delays:

- On December 11, 2000, three requests for reimbursement totaling about \$40,000 were sent to the federal program manager for approval; the approved requests were not returned to the Department until March 6, 2001, three months later.
- On January 8, 2001, two requests for reimbursement totaling about \$68,000 were sent to the federal program manager for approval; the approved requests were not returned to the Department until March 6, 2001, two months later.

During the year, the Department initiated a process of monthly meetings with federal program managers in an effort to increase communication and the timeliness of transaction processing, including federal reimbursements. It is clear, however, that more needs to be done. The Department needs to work with the federal program managers on systems and controls.

Recommendation No. 2:

In order to reduce delays in processing transactions, we recommend that:

- a. All areas of the Department work with Accounting to streamline the vendor payment process. In particular, the Department should consider various means to identify outstanding payables at the earliest possible date to ensure they are monitored by Accounting for timely approval and payment, as well as being recorded in the appropriate accounting period.

- b. The Department continue to work diligently with the federal program managers to streamline the approval processes for vendor payments, budget modifications to make federal spending authority available, and federal requests for reimbursement. Working together to study tracking systems, like the invoice spreadsheet noted above, will help to identify bottlenecks in the approval processes that need to be addressed.
- c. The Accounting Department record changes in fixed assets annually.

Department of Military Affairs Response:

Partially Agree. While the Department agrees with much of the recommendation, the solutions to all the problems are not within our control. For example, personnel turnover in a five person accounting section can be an extreme detriment, but the Department has only limited ability to influence salary for new hires. The Department has little ability to influence personal decisions of employees who leave because of opportunities for advancement elsewhere. Further, requests for additional FTE have been denied or reduced. We did get authority and funding to hire a part-time budget analyst and the impact of the new .5 position should begin to be felt this year.

Most transactions are accomplished through a Cooperative Agreement with the federal government and each is subject to approval by the federal program managers. Since the program managers are federal employees who work for federal supervisors, and for each it is an additional, rather than primary duty, the Department does not exercise direct control over their activities and priorities. This often makes it difficult to get prompt approvals on payments and bills. To further complicate matters, there are 11 Program Managers and they change at the rate of about 4 per year. Recognizing that it is a Cooperative Agreement and that there are problems in execution, the Department and the United States Property and Fiscal Officer, CO, have instituted monthly meetings between the two accounting staffs and with program managers. We have also instituted a comprehensive review of procedures for payments, billings, and accounting to better document and streamline processes where possible.

Within the Department, the accounting section has created desk manuals for each position to document desk procedures and to facilitate inevitable transition of new employees.

Payroll Controls Should Be Strengthened

The Department of Military Affairs was appropriated about 100 FTE (full-time equivalents) and expended about \$4.4 million in total payroll costs in Fiscal Year 2001. This represented about 42 percent of the Department's expenditures. On the basis of a request from the Department, we reviewed controls over the payroll process.

We reviewed payroll information for 21 employees from January 1999 through January 2001, including employee time sheets, personnel records, leave request forms, and the Department's manual timekeeping and leave tracking spreadsheets. We also recalculated time sheets and traced the hours to the manual spreadsheet to determine the accuracy of the time records.

Military Affairs maintains a manual timekeeping and leave tracking system. The process consists of the following steps:

- Employees fill out, sign, and forward weekly time sheets to their supervisor for approval.
- The approved time sheets are sent to the central budget office where the information is put into a manual spreadsheet that tracks hours worked and leave taken.
- Spreadsheet totals are then entered into the State's automated payroll system, Colorado Payroll Processing System (CPPS), as applicable, for either a biweekly or monthly pay period.

Areas where improvements can be made include:

- **Payroll Systems:** As noted above, Military affairs enters time worked and leave balances on handwritten ledgers. Automating payroll systems will help minimize the risk of errors and irregularities and reduce the amount of time spent on payroll. Military Affairs should work with the Department of Personnel to evaluate the possibility of purchasing an automated system.
 - **Segregation of Duties:** We noted that payroll duties need to be segregated. Duties related to establishing personnel positions/pay should be separated from those related to entering payroll. Duties related to review of payroll should be separated from those related to the data entry function. Segregating duties in the payroll area is essential for reducing errors and controlling irregularities.
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Recommendation No. 3:

The Department of Military Affairs should improve the payroll function by:

- a. Considering purchasing or developing an automated payroll system.
- b. Segregating payroll duties.

Department of Military Affairs Response:

Partially Agree. The Department will work with the Department of Personnel to evaluate payroll systems. Duties have been segregated. Beginning in August, the payroll clerk no longer receives leave slips and the Budget Officer (new position) will review payroll beginning in November 2001.

Improve the Timing of Federal Cash Advances

The Department's federal programs are reimbursement-based but generally allow for advances to compensate for the timing lag between when federal expenditures are paid by the State and when the related reimbursements are received. Failure to minimize this timing lag can result in state dollars' being used to finance federally funded projects and in lost interest to the State.

For instance, the Department submitted over \$900,000 in requests for advances during October 2000 for the current federal fiscal year. However, payment on the advances was delayed for months, and advances for some appendices were not received until May 2001. Turnover of federal personnel is cited by the Department as the reason for the delays.

During the current year, the Department also processed vendor billings and requested federal reimbursements for \$530,694 in design costs for a project that is 100 percent federally funded. No advances were requested on the design phase of the project. The Department plans to obtain federal advances for the construction phase of the project. Obtaining advances or timely reimbursements would reduce carrying costs.

Recommendation No. 4:

We recommend that the Department continue to work through the federal channels to obtain advances on both operating appendices and capital projects. Periodic studies to support the requests for reimbursement should be made to determine the average number of days from the Department's payment of warrants for federal projects to the corresponding receipt of reimbursement from the federal government.

Department of Military Affairs Response:

Agree. The Department and United States Property and Fiscal Officer have recognized the problem with advances. As a result of our August meeting, greater emphasis was placed on processing federal advances and all are in place for the federal fiscal year that began 1 October 2001—this in spite of the fact that there is no federal appropriation bill. For capital construction, no advances were in place for the design phase of the project mentioned. However, for Fiscal Year 2002 federal advances will be in place for the construction phase of the project

Work With Military Branches to Improve the Process for Identifying State Tuition Refunds

The State Tuition Assistance Program is a statutory program established under Section 23-5-111.4, C.R.S., to encourage enlistments, enhance the knowledge and skills of the National Guard, and retain membership in the National Guard. During Fiscal Year 2001, \$386,000 was appropriated for tuition assistance, and approximately \$33,000 in receivables for tuition refunds were recorded by the Department. The proceeds of which will be reinvested in the program.

Department regulations require that if a member of the Guard resigns or is discharged prior to completion of his/her membership obligation, the recipient shall be required to repay the amount of state tuition assistance not yet "earned." While regulations further require military personnel officers to notify the State Tuition Assistance Office monthly of pending discharges, this notification generally comes many months, or even a year, after the separation. As a result, the Tuition Assistance Office spends considerable time and effort after the fact identifying whether discharged soldiers owe the state refunds for tuition and, in some cases, locating the individuals for billing purposes.

We recommend that the Department enforce current regulations to ensure that the Tuition Assistance Office is notified prior to the discharge of soldiers so that the Department can determine if a refund is due, calculate the amount, and notify the soldier of his/her obligation. For instance, as a result of our audit, the Army National Guard has modified its discharge routing slip (checklist) to include the State Tuition Assistance Office as a required signoff. Increased adherence to the policy should increase the collectibility and timeliness of refunds.

Recommendation No. 5:

The Department should improve its controls by enforcing current regulations to ensure that the Tuition Assistance Office is notified prior to the discharge of soldiers.

Department of Military Affairs Response:

Partially Agree. The Department is dependent upon the Army and Air Guard for discharge information. The information is not always forthcoming. Over a year ago we located the Tuition Director's office with the people doing discharges. She is part of the discharge process so the Department now receives notification as soon as the discharge process begins. This has significantly improved notification. However, the most common reason for discharge of an airman or soldier is for absenteeism. They are processed for discharge after having failed to report for three or four months. This often means that the Army and Air Guard themselves cannot even contact the soldier during the discharge process. Inevitably, the soldier or airman are notified after the fact that they owe a Tuition Assistance debt.

Consolidate Accounts Receivable Functions

Currently various areas within the Department, other than the Accounting Section, handle the role of managing certain receivables. These areas are Tuition Assistance, Contracting, and Facilities. The receivables, totaling about \$35,000 at June 30, 2001, consist primarily of rental income and tuition assistance refunds. These areas do not have an adequate number of personnel to effectively segregate billing and collection duties. For example, we found that for both rental income and tuition assistance refunds, the receivables are identified and reported by the same individual who is responsible for receiving the related cash receipts. This does not allow for adequate segregation of duties and could allow for billings and the related collections to be diverted from the State. In addition, the deposit

of cash receipts would be faster if the checks were received directly by the Accounting Section.

Recommendation No. 6:

We recommend that the Department move the control over all Department receivables into the Accounting Section to allow for adequate segregation of duties and the prompt deposit of receipts.

Department of Military Affairs Response:

Agree. The policy on receivables and invoices has been changed to require that all payments and invoices be sent directly to the accounting section. To the extent that vendors and lessors follow instructions, this should correct the situation. The exception will be vendors providing services to Maintenance Shops—they will continue to send invoices directly to shops (for verification that services were completed) prior to forwarding to accounting.

Download State Purchasing Card Information and Code Charges Online

During our review we noted an area where the Department could eliminate some inefficiencies. Currently all charges for purchases made by the Department using the state purchasing card are entered into the State's accounting system, COFRS, by means of a journal entry during the month after the purchase is made. The current turnaround time for paying the credit card bill is only a few days after it is received, so there is not adequate time to identify the coding for the charges on the bill before it is paid. Preparation of journal entries is a laborious and time-consuming means of entering the data into COFRS.

Recently the Department learned of online capabilities for coding credit card charges throughout the month as they are incurred. The system also has the ability to automatically charge an individual's purchases to a default code identified in advance by the Department. At month-end, the coding can be reviewed online by accounting personnel and downloaded for COFRS entry before the bill is paid.

Recommendation No. 7:

We recommend that the Department proceed with testing downloading capabilities of the state purchasing card to facilitate the timely coding of charges.

Department of Military Affairs Response:

Agree. Recommendation is useful and we have begun to implement. However, the State should consider renegotiating contract so that billed agencies have more than 2-4 days to reconcile and pay before accruing interest charges.

Disposition of Prior Audit Recommendation

The following audit recommendation is summarized from the Statewide Audit for Fiscal Year 2000.

Report and Rec. No.	Recommendation	Disposition
2000 Statewide Financial Audit Rec. No. 21.	The Department of Military Affairs should ensure its controls over accounting functions are operational so that all transactions are recorded properly at fiscal year-end. In addition, the Department should cross-train its staff so that operations can be carried out in an effective manner during times of staff turnover.	Partially implemented. Cross-training of personnel has begun, but delays in filling open positions continued during Fiscal Year 2001. See current year Recommendation No. 1.

Distribution

Copies of this report have been distributed to:

Legislative Audit Committee (12)

The Adjutant General, Department of Military Affairs (10)

Joint Budget Committee (2)

Department of Treasury (1)

Department of Personnel
d.b.a. General Support Services
Executive Director (2)
State Controller (2)

Honorable Bill Owens, Governor

Office of State Planning and Budgeting (2)

Depository Center, Colorado State Library (4)

Joint Legislative Library (6)

State Archivist (permanent copy)

National Conference of State Legislatures

Senate Government, Veterans and Military Relations, and Transportation Committee

House State Veterans and Military Affairs Committee

Legislative Legal Services

Auraria Library

Colorado State University Library

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Report Control Number 1404