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Report of the State Auditor



STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 1, 1977 THROUGH FEBRUARY 28, 1979

STATE OF COLORADO
" DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 1, 1977 THROUGH FEBRUARY 28, 1979
WITH
REPORT OF STATE AUDITOR"

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STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANT GRANT #75062345
FEBRUARY 28, 1979

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STATE OF COLORADO
OFFICE OF STATE AUDITOR
303-839-2051

ROBERT J. SCOTT, C. P. A.
State Auditor

ROOM 801, 1200 LINCOLN STREET
DENVER, COLORADO 80203

August 8, 1979

Legislative Audit Committee
1200 Lincoln Street, Suite 601
Denver, Colorado 80203

Members of the Legislative Audit Committee:

We have examined the balance sheet of the Federal Disaster Assistance Grant #75062345, Department of Military Affairs as of February 28, 1979 and the related statement of revenues and expenses for the seventeen month period then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Grant #75062345 as of February 28, 1979 and the revenues and expenses for the seventeen months then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In connection with our examination, nothing of a material nature came to our attention that caused us to believe that the Department was not in compliance with any of the regulations and administrative requirements of H.U.D. Handbook 3300.8, Requirements and Guidelines for State Disaster Preparedness Grants.

Respectfully submitted,

ROBERT J. SCOTT, CPA
State Auditor

STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
BALANCE SHEET
FEBRUARY 28, 1979

Assets

Liabilities

Operating Account

Controller's Clearing - Cash \$ 442

Accounts Payable \$ 277

Due to Federal Government 165

Total Assets \$ 442

\$ 442

General Fixed Asset Group of Accounts

Office Furniture and Equipment \$8,740

Investment in General Fixed Assets \$8,740

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See notes to financial statements.

STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
STATEMENT OF REVENUES AND EXPENSES
SEVENTEEN MONTHS ENDING FEBRUARY 28, 1979

Revenues

Federal Disaster Assistance Administration	<u>\$100,907</u>
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Expenses

Personal Services	\$75,306
Operating	10,745
Travel	3,889
Indirect Costs	<u>10,967</u>

100,907

Project Balance

\$ -0-

See notes to financial statements.

STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 1979

Summary of Significant Accounting Policies

The accounting policies of the Department of Military Affairs conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant policies.

Basis of Accounting

In order to insure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources intended for various purposes are classified for accounting and reporting purposes into funds that operate in accordance with activities or objectives specified. Separate accounts are maintained for each fund. All financial transactions have been reported by fund group.

The controllers clearing account operates on the same basic principle as home office and branch accounting. A debit balance in controllers clearing represents a "due from" the General Fund and a credit balance represents a "due to" the General Fund.

The accrual basis of accounting is followed.

The Department receives appropriations from the State. Federal and cash funds are appropriated as "augmenting revenues". Unexpended

appropriations at year-end either revert to the State General Fund or roll forward to the subsequent year. Approval must be obtained from the State Controller before roll-forwards can be made.

Expenditures for Federal projects are made from the Operating Account and may be reimbursed after such expenditures are made, thereby creating a "due from" the Federal Government. In those cases wherein funds for Federal projects are received in advance of actual expenditures a "due to" the Federal Government is established.

General fixed assets are recorded as expenditures in the various funds at the time of purchase. Such assets have been capitalized at cost in the general fixed asset group of accounts. No depreciation has been taken on general fixed assets.



August 8, 1979

We have examined the financial statements of Department of Military Affairs Federal Disaster Assistance Grant #75062345 for the seventeen month period ending February 28, 1979, and have issued our report thereon dated August 8, 1979. As a part of our examination, we made a study and evaluation of the Department's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our examination of the financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Department's system of internal accounting control for the seventeen months ended February 28, 1979, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Our study and evaluation disclosed no conditions that we believe to be material weaknesses. Comments and recommendations regarding accounting procedures and other matters are presented in the following section entitled "Auditor's Comments".

STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345
AUDITOR'S COMMENTS

STATE PURCHASING REGULATIONS

The State Division of Purchasing is the centralized purchasing office for the Department of Military Affairs and all divisions or sections within. The Division of Purchasing is responsible for for the procurement for the Department, except for emergency purchases, or small, non-repetitive items under \$50. In our testing of the accounting records of the Department we found several purchases that were made without obtaining a purchase order from the Division of Purchasing. These purchases were subject to the State Purchasing regulations.

Recommendation

1. The Department must adhere to all State Purchasing regulations.

AGENCY'S RESPONSE: The Department is in process of establishing a manual which will preclude violation of purchasing regulations. Target date for publication is January 1, 1980.

COST ALLOCATION

Certain costs are incurred jointly between the various sections and offices of the Department. Examples of these may be utilities, insurance and custodial services. The Department lacks documentation supporting the allocation of these costs to the

grant. Federal guidelines require supporting documentation supporting the basis of allocations used.

Recommendation

2. The Department must identify and document the basis for cost allocations.

AGENCY'S RESPONSE: Cost allocation plans are being updated and will be more formally documented.

EMPLOYEE ATTENDANCE REPORTS

Amounts charged to grant programs for personal services must be based on properly documented and approved payrolls. These payrolls must be supported by time and attendance records which are approved by supervisory personnel. In our tests of payroll records, we found that weekly attendance reports were not approved by supervisory personnel, but were merely prepared by clerical staff. In addition, weekly attendance reports should at a minimum be reviewed and approved by the employees whose time is being reported.

Recommendation

3. Both the employee and supervisor must review the weekly attendance reports and indicate their approval by signing them.

AGENCY'S RESPONSE: The Department is presently reviewing its policy on attendance reports to include the recommendation for the employees to sign the reports.

STATE OF COLORADO
DEPARTMENT OF MILITARY AFFAIRS
FEDERAL DISASTER ASSISTANCE GRANT #75062345

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following is a summary of the prior audit recommendations for the period October 1, 1975 through September 30, 1977 and their disposition at August 8, 1979.

<u>Recommendations</u>	<u>Disposition</u>
1. Follow the Division of Purchasing's directives, in that all purchases over \$50, unless it's an emergency, must go through the Division of Purchasing.	Recommendation <u>was not</u> implemented. See current recommendation number 1.
2. Require persons responsible for reviewing and approving vouchers to be familiar with the Division of Purchasing's rules and regulations, State Fiscal Rules, and any applicable State statutes.	Recommendation <u>was not</u> implemented. See current recommendation number 1.
3. Prepare all billings using the Central Accounting System as the source.	Recommendation <u>was not</u> implemented.
4. Eliminate the manual records.	Recommendation <u>was not</u> implemented.
5. Review supporting documentation more thoroughly so that the nature of the disbursement is properly understood.	Recommendation <u>was not</u> implemented.
6. Record indirect costs reimbursable in the accounting period in which they were incurred.	Recommendation <u>was</u> implemented.

		Recommendations	Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
Report Page Ref.	No.		See Comments	Requires Legislative Action**	Imple- mented*	To Be Imple- mented*	Deferred **	Reject **
		DEPARTMENT OF MILITARY AFFAIRS FEDERAL ASSISTANCE GRANT #75062345						
		<u>Current Year Recommendations</u>						
8	1.	The Department must adhere to all State Purchasing regulations.				1/1/80		
9	2.	The Department must identify and document the basis for cost allocations.				1/1/80		
9	3.	Both the employee and supervisor must review the weekly attendance reports and indicate their approval by signing them.				1/1/80		
		<u>Prior Year Recommendations Not Implemented</u>						
10	3.	Prepare all billings using the Central Accounting System as the source.				7/1/79		
10	4.	Eliminate the manual records.				7/1/79		
10	5.	Review supporting documentation more thoroughly so that the nature of the disbursement is properly understood.				10/1/79		

