



# Audit Highlights

Highlights of Legislative Auditor report on the Office of the Military, issued on October 11, 2001. Report # LA02-15.

## Purpose of Audit

The purpose of this audit was to evaluate the Office of the Military's financial and administrative practices, including whether the practices were carried out in accordance with laws, regulations, policies, and contractual requirements, and whether appropriate controls were in place. Our audit included a review of the Office's financial and administrative activities during calendar year 2000.

## Audit Recommendations

This audit report contained 13 recommendations to improve the Office's financial and administrative activities. Specifically, the Office should work with Financial Management, Training and Controls to establish a comprehensive system of controls and periodically review this system to ensure procedures are followed and controls are working as intended. Controls should include authorizing and approving purchases; ensuring expenditures are recorded in the proper fiscal year and budget authority is not exceeded; properly recording all transactions in the state's accounting system; following contract solicitation requirements and other contracting requirements; providing work performance standards for all employees and conducting employee evaluations; monitoring approval, accumulation, and use of overtime; resolving payroll issues; and following state rules and Office policy for safeguarding fixed assets.

The Office accepted all 13 audit recommendations.

## Status of Recommendations

The Department of Administration submitted its six-month report on the status of the audit recommendations on July 11, 2002. The report indicated that all 13 recommendations were partially implemented.

The implementation of these recommendations has not progressed, according to Office of the Military officials as of the December 2002 Audit Subcommittee meeting. At that Subcommittee meeting, the Subcommittee requested the Office of the Military present an update on the implementation of the recommendations at the next meeting. We will continue to monitor the Office's progress toward implementing the recommendations during the legislative session.

## Results in Brief

The Office of the Military did not always carry out its financial and administrative activities in accordance with laws, regulations, and policies. Specifically, the Office did not follow rules for controlling expenditures, soliciting and managing contracts, administering personnel and payroll functions, or safeguarding assets. Failure to follow these rules contributed to unauthorized purchases, over expenditure of state funds, questionable contract awards, and improper personnel and payroll administration. These problems occurred because the Office has not established an adequate system of financial and administrative controls as required by state law.

## Principal Findings

Employees frequently made purchases without proper authorization and approval. Of 27 purchase orders tested, we found 14 totaling almost \$23,000 were not properly approved. Of these, seven were approved by individuals acting outside their scope of authority, and seven contained no evidence of approval. In addition, five purchase orders were prepared after the vendor provided services.

The Office overspent its budget for college tuition reimbursement by more than \$9,000 in fiscal year 2000. This occurred because staff recorded expenditures in the wrong fiscal year. To make up for overspending, the Office dropped its tuition reimbursement rate to Guard members from 42% in 1999 to 25% in 2000.

The Office overspent its authority for the operating category of its main budget account by more than \$11,000 in fiscal year 2001. This occurred because goods were purchased outside the state's accounting system and were never recorded as Office expenditures.

The Office did not follow the state's solicitation requirements for 5 of the 10 contracts we tested. For three contracts, the Office did not document it attempted to solicit and review at least three bids from vendors. Two contract solicitations were not advertised in local newspapers as required. Because of inadequate solicitation methods, it is questionable whether some contracts were awarded fairly.

Independent contractor services were not always obtained by contract when required. We identified 5 payments totaling over \$16,000 that should have been paid under a contract but were not.

The Office allowed 3 of 10 contractors to perform work prior to receiving approval from the Board of Examiners. In total, the Office made 15 payments of about \$19,000 for services rendered outside contract effective dates.

Of 15 employee personnel files reviewed, 14 did not contain current work performance standards or evidence that a performance evaluation had been completed during calendar year 2000. In addition, 3 of 10 supervisors of these employees had not attended the required training on performance appraisals.

The Office had significant problems related to the approval, accumulation, and use of overtime. Over 70% of the instances of overtime we tested showed no evidence of supervisory approval prior to being worked. Two employees accumulated more compensatory time than allowed under state regulations. Finally, employees did not use annual leave and accrued compensatory time in the order required.

Some employees did not complete their timesheets accurately. Three employees' timesheets showed major differences in the way they reported time when attending the same out-of-state conference. In addition, 6 employees on active military duty did not record leave on their timesheets 35 times in the 10 weeks we tested. We also identified 23 instances where overtime may not have been reported on timesheets. Finally, the Office allowed certain employees to trade shifts without state approval and without adequate controls in place.