A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Military Affairs

For the Two Fiscal Years Ended June 30, 2010

January 2011

Legislative Audit
Division

10-25

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

January 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2010. Included in this report are recommendations related to internal controls, federal compliance and accounting issues.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Table of Contents

Figures and Tables

Tables

Appointed and Administrative Officials

Department of Military Affairs

Brigadier General John Walsh, Adjutant General

Karen Revious, Administrator, Centralized Services Division

Ed Tinsley, Administrator, Disaster and Emergency Services Division

Joseph Foster, Administrator, Veterans Affairs Division

Janice Thomson-Rouse, Director, Youth Challenge Program

Mike Stone, Director, STARBASE

Board of Veterans' Affairs Executive Committee

Bob Pavlovich, Chairman

Sylvia Beals, Vice Chairman

Joseph Foster, Administrator, Veterans Affairs Division

		Term Expires
Sylvia Beals	Forsyth	8/01/2014
Mary Creech	Butte	8/01/2014
Charlie Crookshanks	Missoula	8/01/2011
James English	Helena	8/01/2014
Byron Erickson	Helena	8/01/2013
Lesa Evers	Helena	8/01/2013
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James Heffernan	Helena	8/01/2011
Lloyd Jackson	Ronan	8/01/2011
Bernard Jacobs	Helena	8/01/2014
Don Kettner	Glendive	8/01/2012
Teresa Bell	Fort Harrison	8/01/2010
Harry Lafriniere	Florence	8/01/2014
Bob Pavlovich	Butte	8/01/2011

Harvey Rattey	Glendive	8/01/2011
Joe Tropila	Great Falls	8/01/2010
Brigadier General John Walsh	Fort Harrison	8/01/2013
Bruce Knutson, representing Senator Tester		8/01/2012
Lindsay Bell, representing Senator Baucus		8/01/2012
Lawrence Anderson, representing Representative Rehberg		8/01/2012

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Montana Legislative Audit Division

Financial-Compliance Audit

Department of Military Affairs

For the Two Fiscal Years Ended June 30, 2010

January 2011 | 10-25 | Report Summary

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

Context

The department has 193 Full-Time Equivalent Employees (FTE) to carry out its mission. Approximately 40 percent of the total FTE supports the Army and Air National Guard programs and 25 percent of the total provides educational opportunities to at-risk youth. The remaining 35 percent of FTE consists of administration to support the functions at the department, assistance in disaster and emergency situations, and assistance to veterans and their families.

Over 70 percent of the department's operations are federally funded. The department received $19 million in Homeland Security Grant Funds and granted approximately 95 percent of these to state agencies and local governments.

Results

The department does not have adequate internal controls to ensure it complies with federal regulations for four different federal programs. The first five report sections discuss where the department should implement effective internal controls. We identified five instances where the department did not comply with federal regulations. Three of these instances relate to the department not monitoring any Homeland Security subrecipients; not providing required Homeland Security funds to local entities, instead spending those local funds on state activities; and charging personal services to federal programs for which the employees did not work.

In addition we found the department made a significant accounting error, resulting in a qualified opinion on its fiscal year 2010 Schedule of Changes in Fund Balances opinion. The remaining schedules are fairly presented.

Recommendation Concurrence	
Concur	10
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine department compliance with selected laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the department for each of the fiscal years ended June 30, 2010, and June 30, 2009.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #1 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

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

Table 1
Summary of Control Deficiencies

Subject	Significant Deficiency	Material Weakness	Page
Retainage Internal Controls	Yes	No	14

This report contains ten recommendations to the department. In accordance with §5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

Background

The department was created under the Executive Reorganization Act of 1971. The department consists of the following programs and authorized full-time equivalent positions (FTE) for fiscal year 2009-10.

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

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

Disaster and Emergency Services Division (DES) (23 FTE) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response and recovery plans. DES provides technical support for civil defense shelters, exercises, and radiological defense and monitoring. The division also receives, records, and disburses federal funds to eligible government entities.

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

Veterans Affairs Division (30 FTE) is responsible for assisting Montana's veterans and dependents in obtaining veterans benefits and managing the State Veterans Cemetery program. The division provides information on benefits, guidance on completing veterans administration forms, and referral to other agencies. The division is attached to the department for administrative purposes. The division administrator is hired by, and reports to, the Board of Veterans Affairs, a 20-member board, of which 17 are appointed by the Governor and three represent the members of Montana's congressional delegation.

Montana STARBASE Program (2 FTE) is for elementary school aged children. Its goals include raising interest and improving the knowledge and skills in math, science, and technology by exposing the students and their teachers to real world applications of math and science. The program uses positive role models found on military bases and installations to implement its experimental learning, simulations, experiments in aviation and space-related fields. This science and math based program also addresses drug use prevention, health, self-esteem, and life skills issues.

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

Montana Guard Scholarship Program was established by the 56th Legislature to assist in recruiting and retention efforts for the Montana Air and Army National Guard. The program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in training programs.

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2008. The report contained eight recommendations, of which the department implemented six and did not implement two. The recommendations not implemented concern subrecipient monitoring which is discussed again on page 5, and obligation of Homeland Security funds which is discussed again on page 10.

Chapter II – Findings and Recommendations

Internal Control

Federal regulations require the department to maintain internal control over federal programs to provide reasonable assurance it manages its federal awards in compliance with laws, regulations, or grant agreements. Without adequate internal control the department has a greater risk of noncompliance with federal laws and regulations or improper use of federal funds resulting in unallowable or questioned costs. The following five report sections discuss instances where the department did not have adequate internal control over its federal programs.

Subrecipient Monitoring

The department did not monitor any of its Homeland Security subrecipients in fiscal years 2009 or 2010.

Over the past three years the department received Homeland Security grant awards amounting to approximately $19 million, of which all but approximately $0.5 million was granted to state agencies and local governments. The previous audit recommended the department implement effective monitoring controls to ensure subrecipients comply with federal requirements. The department established monitoring controls; however, it did not monitor any of its subrecipients.

Federal regulations require the department to monitor subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and grant agreements. Without adequate monitoring, there is an increased risk Homeland Security funds are not being spent in accordance with federal laws, regulations or the grant agreement, creating unallowable costs.

Department personnel indicated they did not have adequate staff to perform monitoring in fiscal year 2009. In fiscal year 2010, the department hired new staff and established monitoring controls, but did not implement the monitoring controls due to staff reorganization.

Recommendation #1

We recommend the department implement its established internal controls by monitoring its subrecipients in accordance with federal regulations.

Prevailing Wages

The department's internal controls over prevailing wages are not adequate to detect noncompliance.

Contractors are required to pay prevailing wages in accordance with federal regulations on American Recovery and Reinvestment Act (ARRA) construction contracts.

The department requires contractors to submit payrolls certifying the contractor paid prevailing wages. However, the department does not have controls in place to review the payrolls they receive to verify if prevailing wages were, in fact, paid.

Department personnel believe it is not necessary to review the payrolls because the contractors certify they paid the required prevailing wages. By not reviewing the payrolls, the department does not know if the contractors are actually paying correct wages. In fiscal year 2010, the department spent $1.5 million of its $2.8 million ARRA grant on 23 construction contracts.

The department should establish controls that include review of the certified payrolls, to verify prevailing wages are being paid for ARRA projects as required by federal regulations.

Recommendation #2

We recommend the department establish effective internal controls to ensure contractor's pay prevailing wages in accordance with federal regulations.

Unallowable Personal Services Costs

The Disaster and Emergency Services Division internal controls over charging time are not adequate, resulting in unallowable personal services costs.

According to federal regulations, for costs to be allowable to a federal program they must be necessary for the performance or the administration of the federal program. We identified the following two instances where the Disaster and Emergency Services Division (division) employees charged time to federal grants that was not supported by actual work performed.

- Three employees are budgeted and paid entirely from the Emergency Management Performance Grant (EMPG). While a portion of their time is spent working on EMPG, these employees also perform duties in other federal or state programs. Division management stated with the variety of tasks they perform, it is easier to charge EMPG rather than track the hours on the variety of programs.

- Division fiscal personnel provided the current four Homeland Security program staff codes to charge their time for work performed. Program management assumed these codes charged all five of the federal Homeland Security grants. However, these codes only charge two of the five grants in the Homeland Security program.

During fiscal years 2009 and 2010, the division charged $1.85 million to federal programs. Since division policy and procedures do not provide a system to ensure only actual time worked on a federal program is charged to that program, and some of these costs are not allowable, we believe questioned costs charged to federal programs could exceed $10,000.

RECOMMENDATION #3

We recommend the department establish internal controls to ensure only allowable personal service costs are charged to federal programs in accordance with federal regulations.

Army National Guard Operations and Maintenance

The department did not have adequate internal controls to ensure the Army National Guard appropriately paid expenditures after the grant period closed.

National Guard regulations require the department to submit a listing of unliquidated obligations to the United States Property and Fiscal Officer (USPFO) within 90 days of the end of the federal fiscal year. The USPFO approves or denies the department's request to liquidate these obligations from the previous federal fiscal year's grant.

In December 2008, the department submitted its listing of unliquidated obligations against its 2008 federal fiscal year grant to the USPFO. The USPFO approved the listing except for five obligations amounting to $18,336. Ninety days after federal fiscal year 2008 ended, the department paid three of the unapproved obligations, totaling $17,378, from the federal fiscal 2008 grant.

Department staff believed the USPFO approved all obligations not realizing unliquidated obligations could be denied. Since department staff did not review the listing, they did not notify program personnel that five obligations were denied. This lack of knowledge resulted in program personnel paying three denied obligations.

As a result of the above, we question the allowability of $17,378 charged to the federal fiscal year 2008 Army National Guard's Operations and Maintenance grant.

Recommendation #4

We recommend department establish internal controls to ensure it only pays approved unliquidated obligations in accordance with National Guard regulations.

Suspension and Debarment

The department does not have adequate documentation of its internal controls to ensure it does not contract with suspended or debarred architects and engineers.

Federal regulations do not allow the department to contract with any entities that are suspended or debarred by the federal government. The department does not have adequate controls in place to ensure the architects and engineers with whom it contracts are not suspended or debarred. Without adequate internal control, the department could contract with a suspended or debarred architects and engineers, resulting in unallowable costs charged to the federal program. Federal American Recovery and Reinvestment Act funds flow through this control structure.

Department management said the project managers periodically review the federal suspended and debarred list for contractors that are suspended or debarred. Management believes if a project manager found an architect or engineer in the list, they would let other project managers know of the suspension or debarment. This review process is not documented, and there is no established frequency for it to occur. Without documentation of these controls or a required frequency of review, the department cannot ensure it complies with federal suspension or debarment regulations. Additionally, firms could become suspended or debarred between the last time a project manager verified the federal list and the time the department enters into the contract with the architect and engineering firm.

Recommendation #5

We recommend the department establish and document adequate internal controls to ensure it complies with federal suspension and debarment regulations.

Contracting

The department did not follow state procurement policy when awarding a contract resulting in questioned costs of $22,500.

Federal regulations require the department to follow state policies and procedures when issuing federally funded contracts. State policy allows the department to use criteria other than cost when it awards a contract; however, vendors must be provided with all the criteria and their relative importance to the contract in writing.

The department sent a limited solicitation to vendors to assist in the development of the state's Disaster and Emergency plan. The solicitation requested the contractor have knowledge and experience in various areas. The solicitation did not specifically indicate the vendors needed knowledge and experience in all areas, nor did it state individuals would be ranked on their knowledge or experience in the requested areas of expertise. The department received two bids. The Disaster and Emergency Services Division management did not select the low bidder because they believed the low bidder was not as qualified as the higher bidder.

The department does have controls over procurement; however, in this instance management overrode the existing control structure and awarded the contract to the higher bidder. Through discussions with management, this appears to be an isolated instance. The department should follow state procurement policy when awarding contracts.

Since the department paid on a contract where it did not follow applicable regulations during the procurement process, we question the allowability of $22,500 charged to the Emergency Management Performance Grant.

Recommendation #6

We recommend the department follow its established control structure and state procurement policy when awarding contracts.

Obligation of Homeland Security Funds

The department did not obligate and spend funds in accordance with federal guidelines, resulting in questioned costs.

According to federal guidelines, the department is required to obligate at least 80 percent of Homeland Security funds to local governments within 45 days of receipt of the funds. Obligating funds requires the department to establish a firm, unconditional commitment on the part of the state, maintain documentation of the commitment, and communicate the award terms to the subrecipient.

In fiscal year 2010, the department did not obligate the required minimum 80 percent of Homeland Security funds to local governments. The department wanted to award $64,227 of local government funds to a group that did not meet the definition of a local government. Rather than awarding the funds to the group, the department expended $11,365 on behalf of the group. The department should not have expended these funds.

Through review of eight grant awards in fiscal years 2009 and 2010, we identified six instances where the department issued grant awards amounting to $3,646,103 to local governments after the required 45-day timeframe outlined in the Homeland Security grant guidelines. Department personnel were aware of the obligation requirement because it was a prior audit recommendation. Department staff indicated they were unable to obligate funds in the required timeframe because they were understaffed.

Since the department did not obligate homeland security funds in accordance with federal guidelines, we question $3,710,330 of the Homeland Security grant.

Recommendation #7

We recommend the department obligate and spend Homeland Security funds in accordance with federal guidelines.

Unexploded Ordnance Program

The Unexploded Ordnance program personnel are not aware of all administrative requirements resulting in non-compliance with state policy and inadequate program internal controls.

The department operates an Unexploded Ordnance program (UXO) which is charged with finding unexploded ordnances across the state of Montana from past National Guard firing ranges. This program is currently 100 percent federally funded. Program staff consists of two employees. To meet its mission the department currently has two contracts that cover four sites across the state, and one contract with a bomb expert to provide employee training.

Internal Controls

State policy requires the department to document its internal controls. The UXO program does not have its internal control procedures for contract monitoring documented. Program personnel stated the UXO program was formed in the past year and UXO program personnel were not aware of the requirement to document their internal controls. Program personnel stated there could be additional state or department policies they are not following due to their lack of knowledge of applicable requirements. The UXO program should document its internal controls and work with department personnel to determine whether there are other state and department policies and procedures that are applicable to the UXO program.

Contract Development and Authorization

For costs to be allowable to the UXO program, they must be in accordance with federal and state laws, regulations, and policies. The UXO program is also required to maintain internal control over the program to provide reasonable assurance it complies with laws, regulations, contracts, and grant agreements. Knowledge and training are an integral part of an adequate internal control structure.

Written contracts bind the state and its contractors to specific performance. If the department does not appropriately authorize contracts or clearly document expectations for its contractors, it may become liable for costs that are not allowable according to federal or state laws and regulations.

During our audit we identified the following instances in the training contract where the department's internal controls should be improved to ensure contracts are appropriately authorized and clearly document the department's needs.

- The signed UXO training contract was written as a fixed price contract to provide training over a 64-day period. Department personnel represented the cost of the contract was based on supplies and a specific number of training hours at an hourly rate. The contract does not reflect the number of training hours, the hourly rate, or the cost for supplies.
- The training contract required the contractor to provide a logbook documenting all training at the completion of the contract. The UXO program did not receive this logbook. Program personnel stated they did not require the logbook because they worked closely with the contractor.
- The contract was not clear on the time period of the training. The contract was valid for 64-days; however the contract stated that training was to cover a 90-day period.
- Department policy requires all contracts and amendments be signed by authorized personnel. We found one contract amendment was signed by a federal National Guard employee, who is not an employee of the department and is not authorized to sign on behalf of the department. Department personnel did not know why the contract was signed by an unauthorized person.

Program personnel stated the UXO is a new program, and they are not aware of all the regulations. They were relying on the procurement office at the department to ensure the contracts met procurement standards. It is the department's responsibility to ensure the contracts are appropriately authorized and clearly document the contractor's responsibilities to ensure costs are allowable in accordance with federal and state laws and regulations.

Recommendation #8

We recommend the department:

A. *Document its internal controls over contract monitoring in accordance with state policy.*

B. *Provide training to UXO personnel regarding state and department policies and regulations.*

C. *Follow its established procedures for contract authorization, and*

D. *Establish adequate internal control to ensure contracts are clearly developed for costs to be allowable in accordance with federal regulations.*

Accounting Issues

Section 17-1-102(4), MCA, requires the department to input transactions on the state's accounting system to present the receipt, use, and disposition of money and property for which it is accountable in accordance with generally accepted accounting principles (GAAP). However for budgetary control purposes, encumbrances must be recorded as expenditures and liabilities on the accounting records. Noncompliance with this law may lead to misstatements on the financial schedules and in the underlying accounting records.

The following two report sections identify instances where the department did not record its financial activity in accordance with state law.

Accruals

The department did not record required accruals and recorded other accruals in error.

State accounting policy requires the department to record accruals for liabilities that occur before the end of the fiscal year. In addition, state policy allows the department to accrue the full amount of legally binding contracts where performance is not complete by the end of the fiscal year. State accounting policy requires these two types of accruals be accounted for differently.

During fiscal years 2009 and 2010, the department did not record both types of accruals in accordance with state accounting policy, as discussed below:

- Construction and Facility Management Office (CFMO) personnel did not accrue liabilities of $1,289,672 and $185,402 that occurred before the end of fiscal years 2009 and 2010, respectively. CFMO personnel stated there could be up to 30 projects where they did not properly accrue expenditures. They believe that potential additional unrecorded accruals would not likely exceed $120,000 each year.
- CFMO personnel accrued $115,326 under a legally binding contract as though performance had not been completed by the end of the fiscal year; however, the work actually had been completed by June 30, 2009.
- CFMO personnel accrued $80,836 more expenditures in fiscal year 2009, than remained on an outstanding legally binding contract.
- Disaster and Emergency Services personnel accrued three outstanding grant award balances before fiscal year-end. The department paid $30,167 to the grantees during the fiscal year-end period without reducing this accrual.

Department personnel indicated that human error and lack of knowledge resulted in the department making the accrual errors.

Recommendation #9

We recommend the department record accruals in accordance with state law and accounting policy.

Internal Control Over Contractor Retainage

The department's internal controls over retainage are not adequate.

State accounting policy requires state agencies to implement internal control procedures to ensure that all transactions are recorded in accordance with generally accepted accounting principles. It also requires each agency develop internal control procedures based upon their individual business processes.

The department contracts for the construction of and repairs on buildings. It withholds a portion of each contractor's payment (retainage) until the project is completed to the department's satisfaction. Department personnel will release the retainage to the contractor after an inspection of the completed project.

In fiscal year 2010, a project manager released a portion of the retainage on a construction project. When accounting for this transaction, CFMO personnel increased rather than decreased retainage by $572,879. The individual reviewing and approving this transaction did not identify this error. Through review of the retainage account in the Capital Projects Fund, we identified additional errors in fiscal years 2010 and 2011. When we brought this to the department's attention, CMFO Management indicated their procedures were not adequate to ensure retainage was appropriately recorded on the state's accounting records and have since updated their procedures.

These errors overstated Budgeted Expenditures and understated Fund Balance as of June 30, 2010, by $1,188,757 in the Capital Projects Fund on the Schedule of Changes in Fund Balances. This resulted in the opinion qualification on page A-1.

Recommendation #10

We recommend the department implement effective internal control over its accounting for retainage transactions as required by state accounting policy.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the department of Military Affairs for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

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

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

During fiscal year 2010, the department recorded expenditures it had not incurred in the Capital Projects Fund. On the 2010 Schedule of Changes in Fund Balances, Budgeted Expenditures are overstated and Ending Fund Balance is understated by $1,188,757.

In our opinion, except for the matter discussed in the previous paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the department of Military Affairs for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 2, 2010

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2009	$ (378,524)	$ 2,020,424	$ (3,310,059)	$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	30,553	979,760	53,117,056	13,143,287
Nonbudgeted Revenues & Transfers-In	7,687	551		
Prior Year Revenues & Transfers-In Adjustments	54	49	187,142	(302,603)
Direct Entries to Fund Balance	6,781,901	80,244	(233,154)	7,066
Total Additions	6,820,195	1,060,604	53,071,044	12,847,750
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	7,230,481	1,236,053	55,209,856	14,294,238
Nonbudgeted Expenditures & Transfers-Out	(396)	(884)	(51,084)	
Prior Year Expenditures & Transfers-Out Adjustments	(2,695)	(6,890)	(2,214,689)	
Total Reductions	7,227,390	1,228,279	52,944,083	14,294,238
FUND BALANCE: June 30, 2010	$ (785,719)	$ 1,852,749	$ (3,183,098)	$ (1,446,488)

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

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2008	$ (359,066)	$ 2,283,521	$ (1,073,156)	$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	293,284	973,767	49,578,663	7,670,000
Nonbudgeted Revenues & Transfers-In	692	1,072		
Prior Year Revenues & Transfers-In Adjustments	28	102,208	6,807,221	(35,727)
Direct Entries to Fund Balance	5,982,857	30,872	(7,199,903)	43,381
Total Additions	6,276,861	1,107,919	49,185,981	7,677,654
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,302,545	1,366,594	51,467,784	7,677,654
Nonbudgeted Expenditures & Transfers-Out	(3,991)	(244)	51,084	
Prior Year Expenditures & Transfers-Out Adjustments	(2,235)	4,666	(95,984)	
Total Reductions	6,296,319	1,371,016	51,422,884	7,677,654
FUND BALANCE: June 30, 2009	$ (378,524)	$ 2,020,424	$ (3,310,059)	$ 0

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

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits		$ 553			$ 553
Taxes	$ 798		$ 1,095		1,893
Charges for Services	29,221	178,921	3,418		211,560
Investment Earnings		1,838			1,838
Rentals, Leases and Royalties		440			440
Grants, Contracts, and Donations		15,737			15,737
Transfers-in		782,489		$ 13,143,287	13,925,776
Capital Asset Sale Proceeds	167		4,014		4,181
Federal Indirect Cost Recoveries			100,896		100,896
Miscellaneous	8,108	382			8,490
Federal			53,194,775	(302,603)	52,892,172
Total Revenues & Transfers-In	38,294	980,360	53,304,198	12,840,684	67,163,536
Less: Nonbudgeted Revenues & Transfers-In	7,687	551			8,238
Prior Year Revenues & Transfers-In Adjustments	54	49	187,142	(302,603)	(115,358)
Actual Budgeted Revenues & Transfers-In	30,553	979,760	53,117,056	13,143,287	67,270,656
Estimated Revenues & Transfers-In	30,553	979,271	53,117,056	13,143,287	67,270,167
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (0)	$ 489	$ 0	$ (0)	$ 489
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services					
Investment Earnings					
Transfers-in		$ 489			$ 488
Federal Indirect Cost Recoveries			$ 1		1
Miscellaneous					
Federal			(1)		(1)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (0)	$ 489	$ 0	$ (0)	$ 489

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
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DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits		$ 40,590			$ 40,590
Taxes	$ 692		$ 1,427		2,119
Charges for Services	293,312	131,990	3,192		428,494
Investment Earnings		13,738			13,738
Rentals, Leases and Royalties		400			400
Grants, Contracts, and Donations		9,078			9,078
Transfers-in		881,251		$ 7,331,670	8,212,921
Federal Indirect Cost Recoveries			69,365		69,365
Federal			56,311,900	302,603	56,614,503
Total Revenues & Transfers-In	294,004	1,077,047	56,385,884	7,634,273	65,391,208
Less: Nonbudgeted Revenues & Transfers-In	692	1,072			1,764
Prior Year Revenues & Transfers-In Adjustments	28	102,208	6,807,221	(35,727)	6,873,730
Actual Budgeted Revenues & Transfers-In	293,284	973,767	49,578,663	7,670,000	58,515,714
Estimated Revenues & Transfers-In	293,285	923,770	49,578,669	7,670,001	58,465,725
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (1)	$ 49,997	$ (6)	$ (1)	$ 49,989
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	$ (1)	$ (1)	$ (1)		$ (3)
Investment Earnings		50,000			50,000
Transfers-in		(2)		$ (1)	(3)
Federal Indirect Cost Recoveries			(2)		(2)
Federal			(3)		(3)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (1)	$ 49,997	$ (6)	$ (1)	$ 49,989

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

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	AIR NATIONAL GUARD PROGRAM	ARMY NATIONAL GUARD PROGRAM	CENTRALIZED SERVICES DIVISION	CHALLENGE PROGRAM	DISASTER & EMERGENCY SERVICES	DISASTER FUND	MILITARY CAPITAL CONSTRUCTION	MONTANA MILITARY FAMILY RELIEF FUND	SCHOLARSHIP PROGRAM	STARBASE	VETERANS AFFAIRS PROGRAM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT												
Personal Services												
Salaries	$ 1,558,989	$ 1,917,491	$ 670,873	$ 1,603,593	$ 1,305,886	$ 12,759				$ 90,044	$ 1,046,805	$ 8,206,440
Hourly Wages						93						93
Employee Benefits	583,219	645,141	181,428	619,972	411,905	1,295				30,010	397,609	2,870,579
Total	2,142,208	2,562,632	852,301	2,223,565	1,717,791	14,147				120,054	1,444,414	11,077,112
Operating Expenses												
Other Services	740,452	6,405,399	19,342	457,389	326,597	2,644	$ 59,335			8,532	36,196	8,055,886
Supplies & Materials	140,928	327,378	25,161	350,614	151,372		2,375			19,575	96,251	1,113,654
Communications	920	337,686	15,462	71,746	59,636		788			1,873	64,435	552,546
Travel	4,101	81,626	13,764	76,276	163,008	1,669				31,303	27,731	399,478
Rent	(3,475)	615,648		237,688	8,346						85,239	943,446
Utilities	733,497	1,687,286		2,065	963						15,394	2,439,205
Repair & Maintenance	120,013	4,138,129		87,707	35,392		689,323				29,602	5,100,166
Other Expenses	11,876	59,531	23,510	75,498	60,259	264			$ 209,358	122,471	15,584	578,351
Goods Purchased For Resale		2,055										2,055
Total	1,748,312	13,654,738	97,239	1,358,983	805,573	4,577	751,821		209,358	183,754	370,432	19,184,787
Equipment & Intangible Assets												
Equipment		213,345										213,345
Total		213,345										213,345
Capital Outlay												
Buildings		946,333					18,544,901				(6,147)	19,485,087
Other Improvements		475					12,269					12,744
Total		946,808					18,557,170				(6,147)	19,497,831
Grants												
From State Sources					479,071	283,240		$ 27,500				789,811
From Federal Sources					11,063,079	44,283						11,107,362
From Other Sources					(51,084)							(51,084)
Total					11,491,066	327,523		27,500				11,846,089
Benefits & Claims												
To Individuals			2,281									2,281
Total			2,281									2,281
Transfers-out												
Fund transfers					729,258		13,143,287					13,872,545
Total					729,258		13,143,287					13,872,545
Total Expenditures & Transfers-Out	$ 3,890,520	$ 17,377,523	$ 951,821	$ 3,582,548	$ 14,743,688	$ 346,247	$ 32,452,278	$ 27,500	$ 209,358	$ 303,808	$ 1,808,699	$ 75,693,990
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	$ 362,489	$ 2,495,264	$ 634,009	$ 1,295,854	$ 1,053,908	$ 301,964			$ 209,358		$ 874,544	$ 7,227,390
State Special Revenue Fund		440		7,088	259,096			$ 27,500			934,155	1,228,279
Federal Special Revenue Fund	3,528,031	14,881,819	317,812	2,279,606	13,430,684	44,283	$ 18,158,040			$ 303,808		52,944,083
Capital Projects Fund							14,294,238					14,294,238
Total Expenditures & Transfers-Out	3,890,520	17,377,523	951,821	3,582,548	14,743,688	346,247	32,452,278	27,500	209,358	303,808	1,808,699	75,693,990
Less: Nonbudgeted Expenditures & Transfers-Out	(19)	(28)	(50)	(223)	(51,160)						(884)	(52,364)
Prior Year Expenditures & Transfers-Out Adjustments	7,987	(1,004,762)	177	(1,734)	(1,220,718)	2,644			(50)	(928)	(6,890)	(2,224,274)
Actual Budgeted Expenditures & Transfers-Out	3,882,552	18,382,313	951,694	3,584,505	16,015,566	343,603	32,452,278	27,500	209,408	304,736	1,816,473	77,970,628
Budget Authority	3,943,931	25,503,375	1,384,273	3,603,037	32,219,399	827,395	121,289,422	81,750	245,000	381,971	2,024,787	191,504,340
Unspent Budget Authority	$ 61,379	$ 7,121,062	$ 432,579	$ 18,532	$ 16,203,833	$ 483,792	$ 88,837,144	$ 54,250	$ 35,592	$ 77,235	$ 208,314	$ 113,533,712
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	$ 2,484	$ 700,759	$ 15,246	$ 2,384	$ 4,473	$ 59,512			$ 35,592		$ 3,150	$ 823,600
State Special Revenue Fund		19,560	89,961	788	123,135			$ 54,250			205,164	492,858
Federal Special Revenue Fund	58,895	6,400,743	327,372	15,360	16,076,225	424,280	$ 67,029,092			$ 77,235		90,409,202
Capital Projects Fund							21,808,052					21,808,052
Unspent Budget Authority	$ 61,379	$ 7,121,062	$ 432,579	$ 18,532	$ 16,203,833	$ 483,792	$ 88,837,144	$ 54,250	$ 35,592	$ 77,235	$ 208,314	$ 113,533,712

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

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	AIR NATIONAL GUARD PROGRAM	ARMY NATIONAL GUARD PROGRAM	CENTRALIZED SERVICES DIVISION	CHALLENGE PROGRAM	DISASTER & EMERGENCY SERVICES	DISASTER FUND	MILITARY CAPITAL CONSTRUCTION	MONTANA MILITARY FAMILY RELIEF FUND	SCHOLARSHIP PROGRAM	STARBASE	VETERANS AFFAIRS PROGRAM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT												
Personal Services												
Salaries	$ 1,567,756	$ 1,789,131	$ 646,044	$ 1,504,739	$ 1,034,087	$ 21,328	$ 1,482			$ 98,811	$ 939,929	$ 7,603,307
Hourly Wages					1,977	1,259						3,236
Employee Benefits	611,961	592,285	167,829	584,354	329,553	(739)	433			30,679	344,578	2,660,933
Total	2,179,717	2,381,416	813,873	2,089,093	1,365,617	21,848	1,915			129,490	1,284,507	10,267,476
Operating Expenses												
Other Services	751,188	6,324,730	22,196	396,935	172,260	71	124,131			7,917	41,425	7,840,853
Supplies & Materials	158,268	681,927	17,004	198,202	94,911	1,189	18,323			44,374	87,829	1,302,027
Communications	574	674,378	9,111	79,543	40,796		1,005			4,490	70,540	880,437
Travel	8,668	94,231	17,766	70,457	133,886	3,290				15,543	28,972	372,813
Rent	3,715	510,447		230,410	4,780		72				70,258	819,682
Utilities	731,990	1,934,298		645	101						13,609	2,680,643
Repair & Maintenance	75,429	2,949,281		77,547	50,555	10	647,535			274	73,666	3,874,297
Other Expenses	6,493	96,305	14,497	55,873	60,747	501			$ 249,969	132,806	38,689	655,880
Goods Purchased For Resale		615										615
Total	1,736,325	13,266,212	80,574	1,109,612	558,036	5,061	791,066		249,969	205,404	424,988	18,427,247
Equipment & Intangible Assets												
Equipment	8,513	940,019	222				189,805				13,300	1,151,859
Total	8,513	940,019	222				189,805				13,300	1,151,859
Capital Outlay												
Land & Interest In Land							250				350	600
Buildings							10,031,990				82,022	10,114,012
Other Improvements							5,912					5,912
Total							10,038,152				82,372	10,120,524
Grants												
From State Sources					425,406	516,114		$ 113,000				1,054,520
From Federal Sources					14,477,830	2,893,460						17,371,290
From Other Sources					51,084							51,084
Total					14,954,320	3,409,574		113,000				18,476,894
Benefits & Claims												
To Individuals			2,280									2,280
Total			2,280									2,280
Transfers-out												
Fund transfers			1,856		988,067		7,331,670					8,321,593
Total			1,856		988,067		7,331,670					8,321,593
Total Expenditures & Transfers-Out	$ 3,924,555	$ 16,587,647	$ 898,805	$ 3,198,705	$ 17,866,040	$ 3,436,483	$ 18,352,608	$ 113,000	$ 249,969	$ 334,894	$ 1,805,167	$ 66,767,873
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	$ 360,221	$ 1,425,747	$ 627,651	$ 1,286,821	$ 1,078,107	$ 540,007			$ 249,969		$ 727,796	$ 6,296,319
State Special Revenue Fund		3,911	5,000		171,734			$ 113,000			1,077,371	1,371,016
Federal Special Revenue Fund	3,564,334	15,157,989	266,154	1,911,884	16,616,199	2,896,476	$ 10,674,954			$ 334,894		51,422,884
Capital Projects Fund							7,677,654					7,677,654
Total Expenditures & Transfers-Out	3,924,555	16,587,647	898,805	3,198,705	17,866,040	3,436,483	18,352,608	113,000	249,969	334,894	1,805,167	66,767,873
Less: Nonbudgeted Expenditures & Transfers-Out	(96)	(150)	(607)	(968)	50,674	(1,368)					(635)	46,850
Prior Year Expenditures & Transfers-Out Adjustments	1,926	(85,793)	57		(9,416)					65	(393)	(93,554)
Actual Budgeted Expenditures & Transfers-Out	3,922,725	16,673,590	899,355	3,199,673	17,824,782	3,437,851	18,352,608	113,000	249,969	334,829	1,806,195	66,814,577
Budget Authority	4,822,386	26,006,454	1,370,254	3,305,132	32,246,103	4,248,759	134,958,030	400,000	250,000	350,000	2,037,211	209,994,329
Unspent Budget Authority	$ 899,661	$ 9,332,864	$ 470,899	$ 105,459	$ 14,421,321	$ 810,908	$ 116,605,422	$ 287,000	$ 31	$ 15,171	$ 231,016	$ 143,179,752
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	$ 8,479	$ 1,978,397	$ 200	$ 948	$ 233	$ 337,469			$ 31		$ 252	$ 2,326,009
State Special Revenue Fund		28,088	186,818		165,876			$ 287,000			230,764	898,546
Federal Special Revenue Fund	891,182	7,326,379	283,881	104,511	14,255,212	473,439	$ 80,788,131			$ 15,171		104,137,906
Capital Projects Fund							35,817,291					35,817,291
Unspent Budget Authority	$ 899,661	$ 9,332,864	$ 470,899	$ 105,459	$ 14,421,321	$ 810,908	$ 116,605,422	$ 287,000	$ 31	$ 15,171	$ 231,016	$ 143,179,752

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

Department of Military Affairs
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

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

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Homeland Security, National Guard, and Military Capital Construction.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for Construction related to the Army National Guard and Veteran's Cemeteries.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2009 and June 30, 2010.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue Fund, and Capital Projects, funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The Federal Special Revenue Fund direct entry fund balance decreased by $6.9 million in fiscal year 2010 since the department no longer receives the Federal Forest Fire Reimbursement Revenue.

4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Department of Military Affairs expects to receive federal funding from ARRA totaling approximately $2,865,000. Of this amount, $1,511,814 was received and $1,530,510 was spent by June 30, 2010. The department did not receive any other competitive or noncompetitive grants or nonmonetary assistance.

Department of Military Affairs

Department Response

DEPARTMENT OF MILITARY AFFAIRS

BRIAN SCHWEITZER
GOVERNOR

ARMED FORCES RESERVE CENTER
1956 MT MAJO STREET

STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL
BRIGADIER GENERAL JOHN E. WALSH
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P.O. BOX 4789
FORT HARRISON, MONTANA 59636-4789

December 28, 2010

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

Dear Ms Hunthausen,

In reply to the Financial Compliance Audit Report received by this office December 22, 2010, we are submitting the following comments:

Recommendation #1:
We concur with your recommendation. Systems have been implemented to support and sustain monitoring. As of December 2010, 50% of federal fiscal year 2010 Department of Homeland Security sub recipients have been monitored to meet federal regulations.

Recommendation #2:
We concur with your recommendation. The department has developed internal controls to ensure contractor's pay prevailing wages in accordance with federal regulations.

Recommendation #3:
We concur with your recommendation. Corrective measures have been established and time and effort are reviewed by supervisors to ensure personal service costs are charged to the appropriate federal program.

Recommendation #4:
We concur with your recommendation. The department has implemented internal controls to ensure it only pays approved unliquidated obligations in accordance with National Guard regulations.

Recommendation #5:
We concur with your recommendation. The department has implemented controls to ensure compliance with federal suspension and debarment regulations.

Recommendation #6:
We concur with your recommendation. The department will follow its established control structure and state procurement policy when awarding contracts.

Recommendation #7:
We concur with your recommendation: New systems have been developed to ensure timely obligation and expenditure in accordance with federal guidelines.

Recommendation #8:
We concur with your recommendation:

A. The department is in the process of documenting internal controls to ensure contracts are monitored in accordance with state policy.

B. The department will provide training for UXO personnel regarding state and department policies and regulation.

C. The department will follow its established procedures for contract authorization.

D. The department will establish adequate controls to ensure contracts are clearly developed for costs to be allowable in accordance with federal regulation.

Recommendation #9:
We concur with your recommendation. The department has established internal controls to ensure accruals are recorded in accordance with state law and accounting policy.

Recommendation #10:
We concur with your recommendation: The department has established internal controls to ensure retainage transactions are recorded in accordance with state accounting policy.

Sincerely,

Karen Revious

Karen Revious
Administrator
Centralized Services Division