

EXECUTIVE DIGEST

DEPARTMENT OF MILITARY AFFAIRS

INTRODUCTION

This report contains the results of our financial audit, including the provisions of the Single Audit Act, of the Department of Military Affairs for the period October 1, 1993 through September 30, 1995.

AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The Department is responsible for training the Michigan National Guard to ensure military preparedness and for operating and maintaining military training sites and support facilities. In addition, the Department oversees grants to 12 veterans' service organizations in accordance with appropriations acts.

The Department is also responsible for the supervision and direction of the two State veterans' homes which provide domiciliary and nursing care to aged and disabled military veterans.

In addition, the Department is responsible for the supervision and direction of the Michigan Veterans' Trust Fund, which was transferred to the Department in September 1995 by Executive Order 1995-15. The Fund provides grants to assist veterans and their dependents. The Fund also provides administrative support for the Vietnam Veterans' Memorial Monument Fund.

For fiscal year 1994-95, the Department's total General Fund expenditures and operating transfers were \$72,013,626. The Michigan Veterans' Trust Fund expenditures for fiscal year 1994-95 were \$3,399,765. As of September 30, 1995, the Department had 1,036 employees.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the adequacy of the Department's internal control structure*, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses*. However, we noted reportable conditions* related to payroll and personnel transactions, federal revenue and accounts receivable, cost-of-care assessment revenue, cash control, inventory control, and encumbrances (Findings 1 through 7).

Also, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess the Department's compliance with both State and federal laws and regulations that could have a material effect on either the Department's financial schedules and financial statements or any of its major federal financial assistance programs.

Conclusion: Our assessment of the Department's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Department's financial schedules, its financial statements, or its major federal financial assistance programs. However, our assessment disclosed reportable conditions related to charging utility costs to federal grants (Finding 8) and obtaining veterans' service organizations' financial statements (Finding 9).

Audit Objective: To audit the Department's General Fund financial schedules and the Michigan Veterans' Trust Fund's and the Vietnam Veterans' Memorial Monument Fund's financial statements for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed an unqualified opinion on the financial schedules and on the financial statements.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Military Affairs for the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of the Department's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

**AGENCY
RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 9 findings and 13 corresponding recommendations. The Department's preliminary response indicated that it agreed and would comply with all of the 13 recommendations. However, the Department disagreed with item a. of Finding 2.

The Department had complied with the 11 prior audit recommendations included within the scope of our current audit.