

# **COMPLIANCE AND CONTROL AUDIT REPORT**

**Adjutant General's Department**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
July 1998**

# Legislative Post Audit Committee

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## Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (in-

cluding the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

### LEGISLATIVE POST AUDIT COMMITTEE

Senator Lana Oleen, Chair  
Senator Anthony Hensley  
Senator Pat Ranson  
Senator Chris Steineger  
Senator Ben Vidricksen

Representative Eugene Shore, Vice-Chair  
Representative Richard Alldritt  
Representative Doug Mays  
Representative Ed McKechnie  
Representative Dennis Wilson

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The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS  
**LEGISLATIVE DIVISION OF POST AUDIT**

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July 1, 1998

To: Members, Legislative Post Audit Committee

Senator Lana Oleen, Chair  
Senator Anthony Hensley  
Senator Pat Ranson  
Senator Chris Steineger  
Senator Ben Vidricksen

Representative Eugene Shore, Vice-Chair  
Representative Richard Alldritt  
Representative Doug Mays  
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Representative Dennis Wilson

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Adjutant General's Department.

This report includes several recommendations for improving the oversight monitoring of subrecipients. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton  
Legislative Post Auditor



**EXECUTIVE SUMMARY**  
**LEGISLATIVE DIVISION OF POST AUDIT**

**Question 1: Did the Adjutant General Department's  
Financial-Management Practices Ensure That It  
Complied With State and Federal Spending Restrictions?**

**The Department has established adequate procedures to ensure that it complies with spending restrictions.** ..... page 2  
*These practices include identifying restrictions on the use of moneys, accounting for each type of restricted moneys separately, and providing supervisory oversight to ensure proper spending. Further, our tests showed the Department effectively applied these procedures during fiscal year 1997.*

**Question 2: Did the Adjutant General Department's  
Procedures Ensure That Local Agencies  
Spent Moneys Appropriately?**

**The Department's oversight practices generally are adequate to ensure that local agencies spend grant moneys appropriately.** ..... page 3  
*During the year the Department transferred about \$4.9 million in Disaster Assistance moneys and \$740,000 in Emergency Preparedness moneys to local agencies. Its oversight of the Disaster Assistance moneys generally was adequate to ensure that local agencies spent these moneys appropriately.*

**Some improvements are needed in the Department's oversight of Emergency Preparedness moneys.** ..... page 4  
*Although Department staff received documentation for the amount of wages local agencies paid their emergency preparedness coordinators, the Department didn't require documentation of the number of hours the coordinators actually worked on applicable activities. This information is required to ensure proper amounts are paid. Further, staff didn't advise the subrecipients of the need to submit audit reports to the Department. Because the Department didn't do these things, it couldn't be sure that local agencies were properly spending moneys they received from the Department, and could be held responsible for repayment if any funds are misspent.*

**Recommendation** ..... page 5

**Question 3: Did the Adjutant General's Department Comply  
With Legal and Procedural Requirements Applicable to  
Its Locally Administered Funds, and Provide Adequate  
Internal Control Over Those Funds?**

**The Department complied with all requirements applicable to locally administered funds.** ..... page 6  
*It requires armories to submit annual reports of funds the armories administer. Further, Department staff have established*

*procedures for reviewing these funds, and have performed annual audits on all armories. Any violations of armory regulations found during these reviews were reported and corrected.*

**APPENDIX A: Agency response** ..... page 7

This audit was conducted by Jerry Fair. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Fair at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: **LPA@mail.ksleg.state.ks.us**.

## ADJUTANT GENERAL'S DEPARTMENT

The Legislative Division of Post Audit has conducted compliance and control audit work at the Adjutant General's Department covering fiscal year 1997. Compliance and control audits identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Adjutant General's Department ensures that restricted moneys are properly used, and on its oversight of grants to local agencies. We also addressed the question of whether the Department adequately reviewed its locally administered funds. The audit addresses the following specific questions:

- 1. Did the Department's financial-management practices ensure that it complied with State and federal spending restrictions?**
- 2. Did the Department's procedures ensure that local agencies spent moneys appropriately?**
- 3. Did the Department comply with legal and procedural requirements applicable to its locally administered funds, and provide adequate internal control over those funds?**

To answer these questions, we identified applicable legal spending restrictions and standard financial-management practices. We also reviewed the Department's written procedures, interviewed appropriate personnel, and reviewed a sample of grants to local agencies to see if the Department's procedures were consistent with those practices. We reviewed and evaluated the procedures for overseeing locally administered funds. In conducting this audit work, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

Our findings are discussed on the following pages.

## **Did the Adjutant General's Department's Financial-Management Practices Ensure That It Complied With State and Federal Spending Restrictions?**

The Department's financial-management practices generally were well designed, and were being applied in a way that should ensure its expenditures complied with State and federal restrictions. Among other things, the Department's procedures identified restrictions on the use of federal moneys and allocated costs shared by different programs or funds on a logical and consistent basis. The basis for our conclusions is presented below.

### **The Department Has Established Adequate Procedures to Ensure That It Complies with State and Federal Spending Restrictions**

During 1997, the Department spent more than \$1.4 million of Emergency Management-State and Local Assistance moneys and more than \$4.9 million of Disaster Assistance moneys. These moneys came from the Federal Emergency Management Agency. Emergency management moneys are used to develop comprehensive disaster preparedness and assistance plans, on both the State and local levels. Most disaster assistance moneys were transferred to local communities as part of continuing efforts to recover from the 1993 floods, while the State's share was spent to administer the program.

To comply with applicable restrictions and to limit the State's potential future financial liability for misspending any federal funds, the Department should take steps to ensure that these restricted moneys are spent properly. To do this, the Department should have put in place certain financial-management practices, including the following:

- identifying any restrictions on the use of its moneys, particularly those restrictions imposed by law or regulation
- accounting for each type of restricted money separately from other moneys, so that the Department knows how each type of restricted money is spent
- requiring supervisory oversight to ensure that costs charged to a program actually were incurred by that program
- allocating joint costs shared by several programs or funds on a logical, consistent basis, so that each program or fund pays only its proper share of those costs.

To find out the Adjutant General's practices in this area, we interviewed appropriate officials, reviewed written procedures, and examined a sample of applicable documents. We found that the Adjutant General's Department's financial-management practices include all of the "good-practices" noted above.

## **Did the Adjutant General's Department's Procedures Ensure That Local Agencies Spent Moneys Appropriately?**

Federal regulations require the Department to ensure that local agencies it gives federal moneys to are aware of requirements imposed on them by federal laws and regulations. Those regulations also require the Department to monitor each local program, function, or activity supported by its federal grant moneys to ensure that this entity complies with applicable federal requirements. The Adjutant General's Department generally did what was required, but some improvements are needed in its oversight of Emergency Preparedness moneys. Our findings are summarized below.

### **The Department's Oversight Practices Generally Are Adequate to Ensure That Local Agencies Spend Grant Moneys Appropriately**

During fiscal year 1997, the Department transferred about \$750,000 of Emergency Preparedness-State and Local Assistance moneys and most of its \$4.9 million in Disaster Assistance moneys to local agencies. Emergency preparedness moneys were used to reimburse salaries of the local emergency preparedness coordinator. Disaster assistance payments provided aid to cities and counties in the continuing cleanup of the 1993 floods.

The Department is responsible for ensuring that local entities properly use these federal moneys. To do so, the Department should have put in place certain oversight practices. Those practices would include the following, as applicable:

- reviewing and approving local spending plans
- reviewing supporting documentation for local expenditures
- conducting on-site reviews to determine how the local agencies are using moneys they get from the Department
- requiring the local agencies to obtain periodic independent audits
- following up on and resolving any noncompliance or misspending noted by the reviews and audits

To find out the Department's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on whether oversight procedures existed, and their likely effectiveness in revealing any misspending.

We found the Disaster Assistance program had good practices for ensuring that subrecipients spent moneys appropriately. Some improvements are needed, however, in Department oversight of the way local agencies spend Emergency Preparedness moneys.

### **Some Improvements are Needed In the Department's Oversight of Emergency Preparedness Moneys**

Although the way the Emergency Preparedness grant was managed included some of the above practices, such as reviewing program activities and reviewing and approving local spending plans, some other necessary practices weren't done.

**Staff didn't request documentation of the time the local emergency preparedness coordinator actually spent doing activities applicable to the grant.** In many cases the local emergency preparedness coordinator is an employee of a local agency, such as a sheriff's department. The Department will reimburse that agency for 50% of the coordinator's wages for the time he or she spent on emergency preparedness activities, up to the total amount of the grant.

Most of the time, in order to be reimbursed the agency sends in a copy of the employee's payroll report. This payroll report gives the amount the coordinator was paid, but doesn't show how many hours he or she worked on emergency preparedness. The Department reimburses the agency based on the percent of time the agency said the coordinator worked on those activities, usually 50% of full time. The Department then pays half the wages for that time. For example, if an employee was paid \$500 for the period, and reported half the time as emergency preparedness activities, the Department would reimburse the local agency \$125.

Department staff told us that, in most cases, there isn't enough federal funding to pay the full 50% of the Emergency Preparedness coordinator's wages, and there isn't any specific requirement in the agreement with the federal agency to review how subgrantees account for a coordinator's time. Further, staff told us, when the program review is done, they can tell whether adequate time has been spent on activities. If all the program requirements aren't met, the Department reduces the amount of the reimbursement. These two conditions could reduce the likelihood the Department is paying for time not actually spent on grant activities.

However, the general requirement of federal grants is that expenses paid by federal moneys must be documented. If payments are made without the required documentation, the State may be held liable to the federal agency for the entire payment. Staff told us that they intend to start reviewing the way local agencies keep track of time spent on grant activities.

**Department staff didn't make subrecipients aware of the audit requirements or request copies of audit reports.** The Department is required to obtain au-

dit reports on subgrantees and review them for applicable comments. If the audit shows that the subgrantee didn't comply with requirements or that money was misspent, the Department must follow-up on and resolve those matters, or the State may be liable for any misspent funds.

The emergency preparedness grant manager knew audits were required, but didn't have a procedure in place for requesting copies of the audit reports. Although the agreements with local agencies outline the required activities, they don't have any references to when audits are required. Some local agencies voluntarily send in their audit reports, and the Department reviews them, but no record is kept of which agencies send them in and which don't.

### **Recommendation**

1. To provide for adequate oversight of federal funds it distributes to local agencies, the Adjutant General's Department should do the following:
  - a. establish a procedure requiring the subrecipients to submit a record of the time the coordinator spent on emergency preparedness activities, and reimburse them for only that time.
  - b. institute a method for ensuring that all subrecipients submit copies of any required audits to the Department.

## **Did the Adjutant General's Department Comply With Legal and Procedural Requirements Applicable to Its Locally Administered Funds, and Provide Adequate Internal Control Over Those Funds?**

The Department is authorized by K.S.A. 48-309 to establish local funds for administering the moneys national guard armories receive from cities, counties, armory rentals, and the like. These moneys are deposited into local bank accounts and are used to maintain armory equipment and facilities. We found that the Department complied with legal and procedural requirements and maintained adequate internal controls. Our conclusions were based on the following.

### **The Department Complied With All Requirements Applicable to Locally Administered Funds**

During fiscal year 1997, the State's 63 national guard armories reported having 97 separate funds with a total of more than \$247,000 in revenues and about \$257,000 in expenses. The Department must establish procedures to ensure that these moneys are spent appropriately and that armories correctly record and report them.

During this audit, we reviewed the procedures the Department uses to ensure armories comply with applicable requirements and determine whether those procedures are being followed. We found the Department has established procedures to ensure locally administered funds comply with all requirements. Among these practices are the following:

- Armories are required to report their income and expense in detail on an annual basis. Department staff reviews these reports to ensure that expenses are classified correctly, and are paid from the correct fund.
- All armories are audited annually using an in-depth checklist which the Department has revised for clarity. Any noncompliance is reported to the commander of the armory as well as to the Department's comptroller.
- All revenue and expense of the armories is included in the annual budget of the Department.

We found that the Department followed its established procedures for the armories we reviewed. Further, we found that even minor violations of armory regulations were reported during those audits, and were corrected by the Department.

## **APPENDIX A**

### **Agency Response**

On June 19, 199 we provided copies of the draft audit report to the Adjutant General's Department. Its response is included as this appendix.



Bill Graves,  
Governor

STATE OF KANSAS  
THE ADJUTANT GENERAL

2800 S.W. TOPEKA BLVD.  
TOPEKA, KANSAS 66611-1287



Major General James F. Rueger  
Adjutant General

June 26, 1998

Barbara J. Hinton  
Legislative Post Auditor  
Mercantile Bank Tower  
800 SW Jackson St., Suite 1200  
Topeka, KS 66612-2212



Dear Ms. Hinton:

In response to the completed Legislative Division of Post Audit's compliance and control audit of the Adjutant General's Department, we offer the following comments regarding recommendations addressed to the agency.

**Recommendations 1. (a) Submission of records of time the coordinator spends on emergency preparedness.**

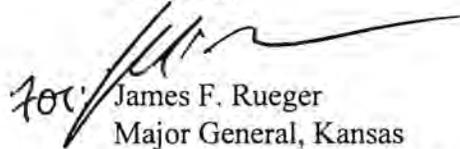
The Division of Emergency Management (DEM) requires those counties receiving funds through the State and Local Assistance (SLA) grant from the Federal Emergency Management Agency (FEMA) to submit a report summarizing time and salary dedicated to emergency management activities. Time sheets are kept on file at the county. DEM is scheduling audits with all SLA recipients for this summer. The Adjutant General's auditing staff will audit time sheets as a part of this audit with focus on the time reported by the coordinators and their staff.

We think it is reasonable to consider the agency's audit and review of the County's SLA program as evidence of the county's fulfillment of the required time dedicated to emergency management. It appears additional documentation from the counties would be redundant.

**Recommendations 1. (b) Subrecipients submission of required audits.**

Attached is a copy of the county's notification by DEM of audit requirements under A-133. The audits will be reviewed by agency's internal auditor. Any findings will be reported to DEM and FEMA. The counties are requested to notify DEM if they do not meet the requirement for an audit under A-133.

Sincerely,

A handwritten signature in black ink, appearing to read 'JFR', is written over the typed name.

James F. Rueger  
Major General, Kansas  
Army National Guard  
The Adjutant General

STATE OF KANSAS  
THE ADJUTANT GENERAL  
DIVISION OF EMERGENCY MANAGEMENT  
2800 S.W. TOPEKA BLVD  
TOPEKA, KANSAS 66611-1287

May 14, 1998

Chairperson  
Brown County Commission  
County Courthouse  
Hiawatha, KS 66434

Dear Chairperson

Brown County Emergency Preparedness has been awarded \$5,800 for FFY-98. This letter outlines the terms of the grant for State and Local Assistance (SLA) funding. Following are the terms of this grant:

1. Your county is scheduled for an *update\** of your Local Operations Plan in Federal Fiscal Year 98 (FFY 98). The 4-year upgrade schedule is in KDEM Form 100, copy attached. The completed update must be received in KDEM by September 30, 1998. If the county does not complete and submit a update, the county's award will be reduced by 20%. This amount will be withheld from the final semi-annual payment for the FFY 98 grant.. And the county may be designated a *high risk grantee\*\** by KDEM for FFY 99.
2. All SLA counties shall complete the annual *update\** of the Title III (SARA) portion of the local emergency operations plan by September 30, 1998.
  - a. If the Title III (SARA) update is not received by KDEM by September 30, 1998, the county's award will be reduced by 20%. This amount will be withheld from the final semi-annual payment for the FFY 98 grant.
  - b. If the county does not complete and submit a Title III (SARA) update, the county will not be awarded the full grant amount for FFY 99 and may be designated a *high risk grantee\*\** by KDEM for FFY 99.
3. All SLA counties shall complete an annual exercise, as described in the SLA standards, by September 30, 1998.
  - a. If the county does not complete an exercise by September 30, 1998, the county's award will be reduced by 20%. This amount will be withheld from the final semi-annual payment for FFY 98. Exercises conducted by September 30, 1998, have until October 15, 1998, to be reported on FEMA Form 95-44 (enclosed) to KDEM.
  - b. In order to receive an extension for exercise conduct to December 1, 1998, the county will be required to justify in writing why the regularly scheduled exercise for that fiscal year had to be reassigned to the first quarter of FFY 99. The change in exercise schedule must be approved by KDEM.

If the county does not conduct and report an exercise using FEMA Form 95-44, Emergency Management Exercise Reporting System (EMERS), by December 1, 1998, the county will not receive the full grant amount for FFY 99 and it may be designated a high risk grantee, by KDEM, for FFY 99.
4. SLA counties that have applied to receive FFY 98 funds shall complete the tasks on the Performance Standard Report (KDEM Form 100) (copy attached), submit report and supporting documentation to KDEM by October 15, 1998.
  - a. Provided the major items (items #1, #2, and #3 of this letter) are complete, the remaining tasks on the

- Performance Standard Report which are not completed by September 30, 1998, will be reviewed by KDEM. The SLA reimbursement will be pro-rated, using the percentages in the attached FFY 98 Performance Spreadsheet, according to those tasks completed.
- b. If the report is not submitted by October 15, 1998, the county will not receive the last six month reimbursement, and it may be designated a high risk grantee, by KDEM, for FFY 99.
5. SLA counties that have applied to receive FFY 98 funds shall complete and submit financial forms FEMA Form 85-21 and Form 15 (copies attached) to KDEM, by October 15, 1998.
- a. If FEMA Form 85-21 and Form 15 are not submitted by October 15, 1998, the county will not receive the last six month reimbursement, and the county may be designated a high risk grantee, by KDEM, for FFY 99.
6. There are only two exemptions to the above:
- a. If the county should be involved in a Small Business Administration (SBA) Declaration between May 1, 1998, and September 30, 1998, (agricultural reasons are not eligible) or
  - b. A Presidential Declaration between May 1, 1998, and September 30, 1998.

KDEM would then negotiate individually with those counties affected.

7. KDEM utilizes the salaries as the documented 50% required match. In other words, KDEM reimburses qualifying counties not more than 50% of emergency management coordinator and emergency management staff salary such as assistant coordinators and office support staff.
8. Office of Management and Budget (OMB) A-133 Regulation states that if your county expends more than \$300,000 in total federal dollars (not just SLA funds, but all federal grants) you are subject to an A-133 Single Audit. Please provide KDEM with a copy of the audit report. If your county does not fall under these audit requirements please submit a letter stating so to KDEM.

KDEM is establishing an audit schedule for SLA funds received by your county. We will contact you to schedule an audit. For audit purposes, your county is required to keep documentation of grant activity for three years after the close of the grant.

- The difference between an *upgrade* and an *update*, as defined by KDEM is:

*Upgrade:* making major changes; bringing value, importance, and quality to your plan; This would include Planning Team members defining roles, responsibility, authorities; incorporating new laws, changes, standards; examining every word, paragraph, and page for quality and content. This process also includes brings in your plan in compliance with Kansas Planning Standards.

*Update:* involves making a few minor changes, such as a new signature, new date, new phone number, ensuring plan is current with new authorities.

- \*\* *High risk grantee* is defined in CFR 44 13.12. Being placed in this status, may result in reduction or suspension of FFY 99 SLA funds.

If you have any questions regarding this policy, please feel free to call me or a member of the staff for assistance.

Sincerely,



LLOYD E. KRASE  
Deputy Director

cc: County Emergency Management Coordinator  
KDEM Staff

enclosures

Completed KDEM 1998 Cooperative Agreement Program Submission  
1998 Performance Report (KDEM Form 100)  
Emergency Management Exercise Reporting System (FEMA Form 95-44)  
SLA Payroll Summary (KDEM Form 15, JAN 98)  
Local Expenditures (KDEM Form 21, JAN 98)  
FFY 98 Performance Spreadsheet

