

Report To

# The Mississippi Legislature



## A Review of the Mississippi Military Department's Armory and Military Unit Funds

September 12, 1995

During fiscal years 1991 through 1995, the Military Department violated state budget and accounting laws by spending at least \$18,058 on rifle team travel and office equipment and decorations. The Legislature appropriated the money for contractual services (utilities, rent, etc.), not for travel, equipment, or decorations.

The Department of Finance and Administration exempted armory funds from normal pre-audit procedures that apply to state agencies and did not approve armory checking accounts as required by state law.

## The PEER Committee

## **PEER: The Mississippi Legislature's Oversight Agency**

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

**A Review of the Mississippi Military Department's  
Armory and Military Unit Funds**

**September 12, 1995**

**The PEER Committee  
Mississippi Legislature**

The Mississippi Legislature

**Joint Committee on Performance Evaluation and Expenditure Review**

PEER Committee

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September 12, 1995

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At its meeting of September 12, 1995, the PEER Committee authorized release of the report entitled **A Review of the Mississippi Military Department's Armory and Military Unit Funds.**

  
\_\_\_\_\_  
Representative Alyce Clarke, Chairman

**This report does not recommend increased  
funding or additional staff.**

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# A Review of the Mississippi Military Department's Armory and Military Unit Funds

## *Executive Summary*

September 12, 1995

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### ***Introduction***

PEER received complaints that general funds in the Military Department's rifle team bank account were not returned to the State Treasury at the end of FY 1992 as required by state law, but were transferred to a new bank account to be used for headquarters refurbishment. During this review, PEER sought to determine the expenditures of the rifle team fund, in particular, and whether the Military Department had operated that fund and other military unit bank accounts in accordance with the statutes of the State of Mississippi.

### **Background**

For more than twenty years the Military Department has provided state general funds to national guard armory units bank accounts. As of January 1995, the Military Department was overseeing 104 military unit bank accounts and 140 military units, including national guard armories, the Mississippi Military Academy, and the State Guard.

### **Overview**

The Military Department used monies appropriated for armory contractual services for other purposes such as rifle team travel and office equipment and decorations. Besides disbursing funds contrary to legislative intent, the Military Department violated budgetary and financial control statutes by:

- misusing state general funds in violation of MISS. CODE ANN. § 27-104-17, which restricts agencies from changing the budget categories of legislative appropriations;
- depositing general funds into armory bank accounts that were not authorized by the Department of Finance and Administration (DFA) as required by MISS. CODE ANN. § 7-7-59; and,

- not following internal control regulations that DFA has established to comply with MISS. CODE ANN. § 7-7-3 (6) (d).

DFA made possible the Military Department's expenditure of funds contrary to legislative appropriations by disbursing funds without ensuring that goods and services had been received. DFA's actions violated MISS. CODE ANN. § 7-9-41. DFA's lack of oversight has also allowed the Military Department to use appropriations in one fiscal year for expenditures in the next fiscal year, a violation of Section 64 of the MISSISSIPPI CONSTITUTION.

### ***Findings***

**The Military Department has violated budgetary control statutes by using state general funds contrary to purposes outlined in legislative appropriation bills, depositing such funds into unauthorized armory bank accounts, and managing these accounts without proper internal controls (see page 9).**

The Military Department disburses state general funds to the armories that it supervises and has violated laws which the Legislature developed to help ensure oversight of those funds.

- ***The Military Department spent monies appropriated for armory contractual services expenditures on other purposes, such as rifle team travel and office fund equipment and decorations, in violation of MISS. CODE ANN. § 27-104-17 (see page 9).***

In FY 1991 through FY 1993, the Military Department distributed a portion of the contractual services funds appropriated by the Legislature to the department's rifle team bank account to be used for non-contractual services expenditures, including travel and commodities. On September 18, 1992, the Military Department closed the rifle team bank account and transferred the balance to a new

Headquarters Fund. Since August 1992, the Military Department has used the Headquarters Fund as an office fund, paying for items such as a headquarters vacuum and a television, office decor items (such as a plant rental service), landscaping plants, and holiday decorations.

The Military Department's violation of MISS. CODE ANN. § 27-104-17, which restricts expenditures in excess of budget categories of appropriation bills and prohibits additional equipment spending, occurred because:

— *Military Department managers intended to use armory contractual services funds for rifle team / headquarters non-contractual services expenditures.* Minutes of the HQS MSARNG Armory Fund Council's July 22, 1992, meeting show that the council discussed changing the rifle team fund to a headquarters fund that would "secondarily" support marksmanship teams. The council also discussed purchasing office decor items and made the decision not to designate the Riverside Drive Headquarters building as an armory.

— *Military Department regulations allow contractual services funds not spent on utilities to be expended for other (non-contractual services) items.* The Military Department has not written its regulations in a way to prohibit armory personnel from spending state contractual services funds on commodities or equipment, but in a way that encourages the practice. Military Department Regulation No. 230-1-1, paragraph 7.b., states that armory/activity funds not spent on utilities may be spent for items such as letterhead stationery or photographic support of accident and survey reports.

- ***The Military Department has deposited state general fund money into bank accounts that have not been approved by the State Fiscal Officer as required by MISS. CODE ANN. § 7-7-59 (see page 15).***

MISS. CODE ANN. § 7-7-59 states that the Department of Finance and Administration may allow agencies to have commercial bank accounts in some cases, but these must be approved and monitored by the State Fiscal Officer. The Military Department has not requested DFA's approval to

establish and operate 104 armory bank accounts. DFA knew about these accounts but did not require the Military Department to submit them for approval and monitoring. Therefore, DFA has not exercised the level of oversight and accountability required by state law relative to state general funds held in commercial bank accounts.

- ***The Military Department has not followed internal control regulations that DFA has established to comply with MISS. CODE ANN. § 7-7-3 (6) (d) (see page 16).***

In carrying out the requirements of MISS. CODE ANN. § 7-7-3, the Department of Finance and Administration has established internal control regulations that agencies must follow. The *Mississippi Agency Accounting Policies and Procedures Manual* requires "division of duties," which means that no one individual is to have complete control of any type of assets. The Military Department's Regulation 230-1-1 (3) and (4) violates state internal control regulations by requiring the custodian of each armory fund to perform both receipt and deposit functions, as well as all disbursement and bookkeeping activities.

**In violation of MISS. CODE ANN. § 7-9-41, the Department of Finance and Administration made possible the Military Department's expenditure of contractual services funds contrary to legislative appropriations by disbursing funds without ensuring that goods and services have been received (see page 18).**

As shown in Exhibit A, page ix, the Department of Finance and Administration normally issues warrants made payable to specific vendors for goods sold and services performed and mails them to the state agencies to be distributed to their vendors. However, DFA deviates from this procedure for military units by allowing the units to receive lump-sum contractual services amounts through warrants made to the order of each armory or unit. The military units then may spend the funds at their own discretion with no further pre-audit control exercised by DFA for any expenditure amount or by the Military Department for expenditures totaling \$500 or less. Such practice is contrary to MISS. CODE ANN. § 7-9-41 (1), which specifically prohibits lump-sum withdrawals from the State Treasury to pay for operating expenses of agencies, requiring that warrants be issued separately to pay directly for goods sold and services performed.

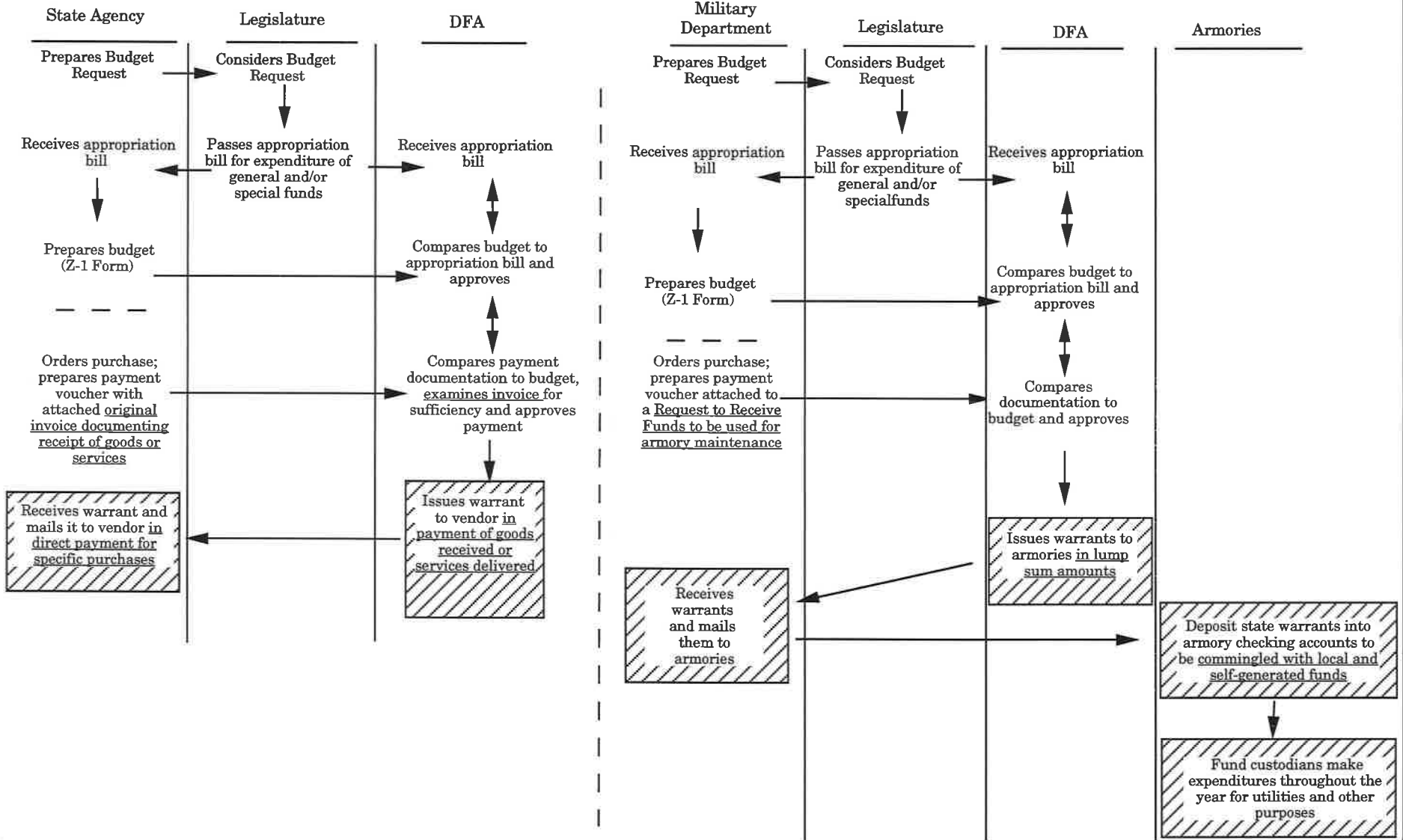


## Exhibit A

### Flow of Funds: State Agencies vs. Armories

#### *Appropriations Process through Disbursement to State Agencies*

#### *Appropriations Process through Disbursement to Armories*



Although previous Department of Finance and Administration managers established the current lump-sum procedures for disbursing funds to armories many years ago, current DFA managers have not reviewed the procedures and tested them against good management principles and legal requirements. Also, by disbursing funds to armories without ensuring that goods or services have been received, DFA actually enables the Military Department to disburse funds appropriated for one fiscal year to the military units to be used for expenditures during the following year, a practice which violates Section 64 of the MISSISSIPPI CONSTITUTION.

### **Recommendations**

1. The Military Department should immediately return all state general funds in the "HQ MSARNG Armory Fund" (Headquarters Fund) to the State Treasury. PEER calculated the amount of these funds to be \$10,518 as of June 30, 1995.
2. The Department of Finance and Administration should handle the disbursements for the Military Department armories in the same manner in which disbursements from other state agencies are handled. DFA should control the expenditures from contractual services account number 61770 in one of the following ways, as deemed appropriate. DFA should either:
  - pre-audit the expenditures as required by MISS. CODE ANN. Section 7-7-33, by requiring the Military Department to provide an original invoice showing that goods have been received or services performed; or
  - handle the expenditures as petty cash under MISS. CODE ANN. Section 7-7-59, by requiring the Military Department to request reimbursement from its petty cash account using DFA-approved procedures.
3. The Military Department should submit the armory and military unit bank accounts to the Department of Finance and Administration for approval, as required by MISS. CODE ANN. Section 7-7-59. DFA should establish a maximum balance for each account as outlined in the *Mississippi Agency Accounting Policies and Procedures Manual*.
4. Military Department management should comply with MISS. CODE ANN. Section 27-104-17, which restricts expenditures in excess of budget categories of appropriation bills and prohibits additional equipment spending.
5. The Military Department should revise its internal Regulation 230-1-1 to state that general fund contractual services appropriations cannot be spent on equipment, commodities, or other non-contractual services expenditures. The regulation should also be revised to state that the division of duties regarding receipt, disbursement, and accounting of funds will be the policy of the department.
6. The Military Department should not violate MISSISSIPPI CONSTITUTION Section 64 by expending appropriations from one fiscal year for expenditures of the next fiscal year. For example, general funds appropriated for contractual services during Fiscal Year 1996 that are not earmarked for expenditures incurred by June 30, 1996, must be returned to the State Treasury.
7. If the Military Department wishes to continue disbursing funds to armory accounts without the statutorily-required controls, the Military Department should present its request for funds to the Joint Legislative Budget Committee as a request for grants to armories, not for contractual services expenditures. According to the statutes discussed in this report, only the Legislature can determine that funds can be granted to armories without budgetary and financial controls.

In the event the Legislature, in response to a Military Department request, decides to appropriate grant funds for armories, the Legislature should specify that the grants can only be spent on certain items, such as utilities, and should place accounting, audit, and reporting conditions on the disbursement of the grants to the armories.
8. The Department of Audit should perform periodic audits of the armory accounts until:
  - DFA begins routine pre-audit or petty cash procedures required by MISS. CODE ANN. Section 27-104-17 and MISS. CODE ANN. Section 7-7-59, respectively, handling disbursements for armories in the same manner as for other agencies; or,

- the Military Department requests and the Legislature approves that disbursements to armory accounts will be made from the Subsidies, Loans, and Grants budget category.
9. The Military Department should require that general funds disbursed to armories be placed in bank accounts designated for state general funds only. Local revenues and self-generated funds should be placed in separate bank accounts so that the state general funds may retain their identity.

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# **A Review of the Mississippi Military Department's Armory and Military Unit Funds**

## ***Introduction***

### **Authority**

In accordance with MISS. CODE ANN. Section 5-3-57 (1972), the PEER Committee reviewed the Mississippi Military Department's rifle team fund and armory and military unit maintenance funds to determine whether the funds had been managed in accordance with state law.

### **Scope and Purpose**

PEER initially received complaints that general funds in the Military Department's rifle team bank account were not returned to the State Treasury at the end of FY 1992 as required by state law, but were transferred to a new bank account to be used for headquarters refurbishment. During this review, PEER sought to determine the expenditures of the rifle team fund, in particular, and whether the Military Department had operated that fund and other military unit bank accounts in accordance with the statutes of the State of Mississippi.

### **Method**

In conducting this review, PEER:

- reviewed Mississippi Military Department statutes and regulations;
- reviewed state financial and budgetary control statutes;
- analyzed and reviewed Military Department financial and other records;
- reviewed documents and computer-generated transaction reports of the Department of Finance and Administration (DFA) and records of the Department of Audit;
- compiled cash-basis financial statements of the rifle team account and headquarters office account from Military Department financial records; and,
- interviewed personnel of the Military Department, Department of Finance and Administration, and Department of Audit.

## Overview

The Military Department used monies appropriated for armory contractual services expenditures for other purposes such as rifle team travel and office fund equipment and decorations. Besides disbursing funds contrary to legislative intent, the Military Department violated budgetary and financial control statutes by:

- misusing state general funds in violation of MISS. CODE ANN. § 27-104-17, which restricts agencies from changing the budget categories of legislative appropriations;
- depositing general funds into armory bank accounts that were not authorized by the Department of Finance and Administration (DFA) as required by MISS. CODE ANN. § 7-7-59; and,
- not following internal control regulations that DFA has established to comply with MISS. CODE ANN. § 7-7-3 (6) (d).

DFA made possible the Military Department's expenditure of funds contrary to legislative appropriations by disbursing funds without ensuring that goods and services had been received. DFA's actions violated MISS. CODE ANN. § 7-9-41. DFA's lack of oversight has also allowed the Military Department to use appropriations in one fiscal year for expenditures in the next fiscal year, a violation of Section 64 of the MISSISSIPPI CONSTITUTION.

## ***Background***

### **Legal Authority of State Regulatory Agencies over Expenditure of State General Funds**

When the Legislature appropriates general fund money (funds generated from taxes) to state agencies and other entities, the Legislature expects agencies and entities to expend the money in accordance with legislative intent, as specified in appropriation bills, and in accordance with good management principles and sound accounting practices.

The MISSISSIPPI CODE gives authority to the Office of the State Treasury and the Department of Finance and Administration to handle and manage state funds. The Legislature requires DFA to process the receipt of funds and then transfer those receipts to the State Treasury. DFA must also set operating budgets in accordance with appropriation bills and ensure that agencies adhere to the budgets, regulate purchasing and travel, pre-audit (review for accuracy) disbursement warrants and issue them through the State Treasury, and prescribe all related forms to facilitate these duties. The CODE requires the State Treasury to manage and invest the general funds held by the Treasury.

Thus state regulatory agencies, acting through legislative mandates, exercise ultimate authority over the disbursement of state funds to agencies and over the expenditure of those funds by agencies. In addition, the Legislature gives more specific authority to individual agencies to perform state services and manage and expend state funds. The following section outlines some of the specific duties of the Military Department.

### **Legal Authority of the Mississippi Military Department**

MISS. CODE ANN. Section 33-3-11 (1972) outlines the duties of the adjutant general, who is the director of the Mississippi Military Department. CODE section 33-3-11 (15) states:

The adjutant general with the approval of the governor shall provide for and be responsible for the organization, training, tactical employment, and discipline of the Mississippi National Guard, Mississippi State Guard, and the unorganized militia when called to active state duty.

The adjutant general's duties also include appointing employees of the Military Department, keeping records of militia members in the state, and overseeing the care of weapons, equipment, and other property of the state and the United States.

In addition, Section 33-11-3 states that:

The adjutant general shall be the state custodian of training facilities.

Section 33-11-5 states that:

The adjutant general shall be responsible for the proper maintenance of training facilities and is authorized to expend funds appropriated for this purpose.

### **Flow of Funds from State General Fund to Armory Bank Accounts**

In keeping with the Military Department's statutory mission to maintain training facilities, the Military Department provides funds to the national guard armories and military units for upkeep of their facilities. (Armories are buildings for storing weapons and military equipment that serve as headquarters for military reserve personnel.)

The Military Department has since the 1960's or early 1970's provided state general funds to national guard armory units bank accounts. As of January 1995, the Military Department was overseeing 104 military unit bank accounts and 140 military units, including national guard armories, the Mississippi Military Academy, and the State Guard.

Exhibit 1 - Part B, page 7, outlines the flow of the state general funds through the appropriation process and the Department of Finance and Administration's oversight procedures to the disbursement of funds to armory bank accounts. As shown in Exhibit 1 - Part A, page 6, the normal procedures for disbursing funds to state agencies are different from the procedures used to disburse funds to the armories. State agencies must provide invoices to DFA to show that goods have been received or services delivered. When DFA approves the payment, it issues a warrant made payable to the vendor in direct payment of the goods or services received. In the case of the armories, as shown in Exhibit 1 - Part B, DFA does not receive an invoice from the Military Department, but a request to receive funds to be used for armory maintenance. DFA then issues lump-sum warrants to each armory twice a year that the armories may then use for expenditures throughout the year.

The armory fund council at each armory location is responsible for overseeing the bank account and the fund custodian is responsible for all bookkeeping and account maintenance activities. The armory personnel place all armory revenues into their armory bank accounts, including city and county grants, self-generated funds such as building rental and fund-raising, and state general funds. In effect, the state general funds lose their identity in the commingling of the various types of revenues.

Because each year the Military Department requests the Legislature to approve armory maintenance funds in the contractual services budget, the Department of Finance and Administration has created a special

contractual services account for the disbursement of the maintenance funds to the armories entitled "National Guard Unit Armory Operations," minor object of expenditure code 61770. Exhibit 2, page 8, outlines the trend in expenditures from this account from Fiscal Year 1990 to May 31, 1995, totaling \$2,698,832. The yearly expenditures have fluctuated over the period from a high of \$503,506 in fiscal year 1992 to a low of \$397,286 in fiscal year 1993. For the eleven months ended May 31, 1995, expenditures had reached \$400,458. Assuming a steady rate of expenditure, Fiscal Year 1995 expenditures will total approximately \$436,000, or approximately the same as Fiscal Year 1994.

### **Complaints Regarding Expenditures from the Rifle Team Fund**

During the 1980's and 1990's, the Military Department distributed contractual services funds appropriated by the Legislature to a "rifle team" account in the same manner as distributions to armories for maintenance and utilities. (Military Department managers intended for the rifle team account to be used to fund expenses of the department competition rifle team, such as travel expenses and competition entry fees.) PEER received complaints regarding the Military Department's handling of the rifle team fund as follows:

- unspent general funds in the Military Department's rifle team bank account were not returned (lapsed) to the Treasury at the end of each fiscal year through 1992 as required by state law; and,
- in fiscal year 1993, unspent funds were transferred to a new headquarters office fund bank account to be used for headquarters refurbishment.

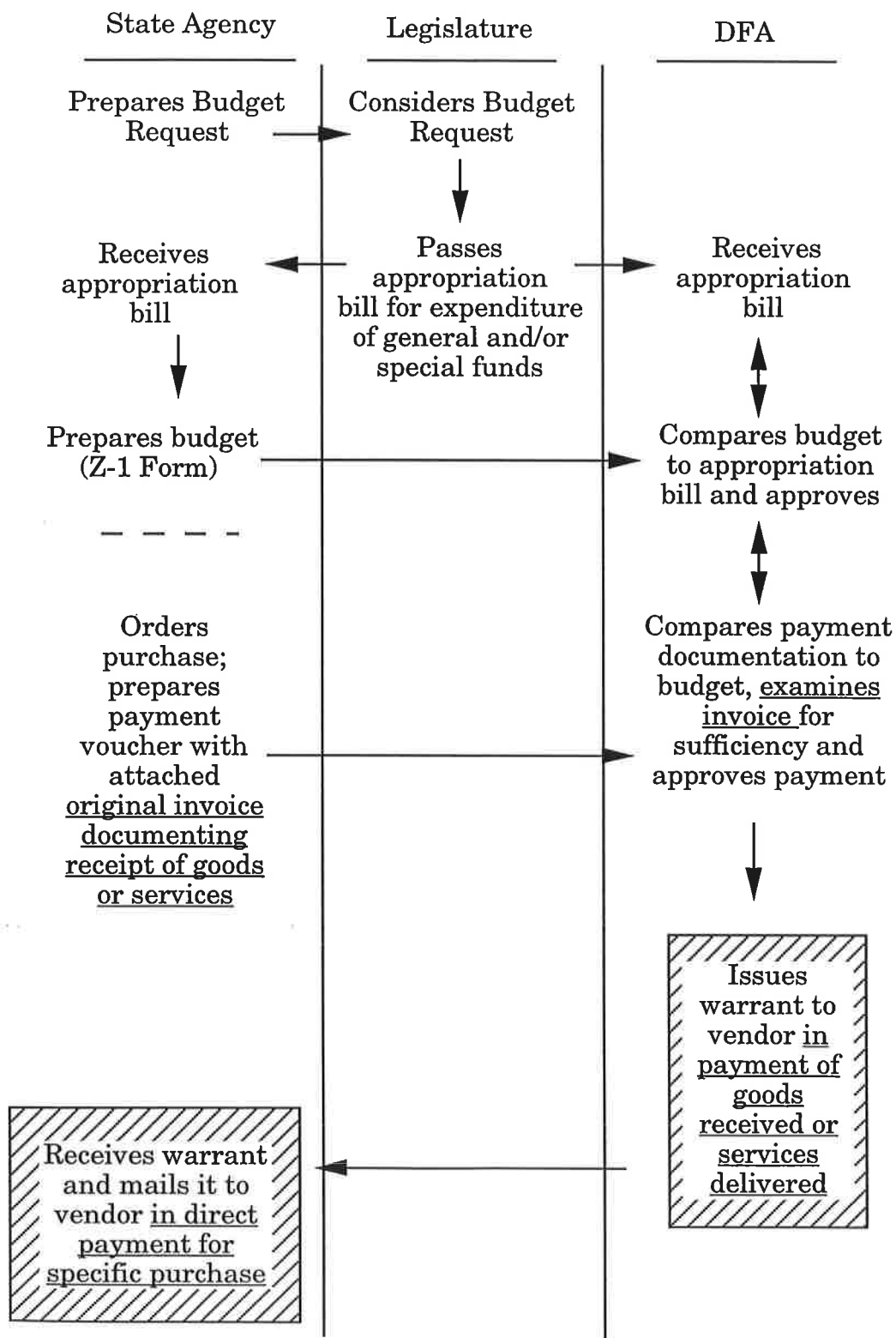
PEER also obtained information on an investigation from the Department of Audit, which received complaints on April 26, 1994, regarding the handling of the rifle team and headquarters office funds. Department of Audit investigators focused their review on the accounting for disbursements from the headquarters office fund bank account. Their investigation revealed that no funds had been unaccounted for.

As did the Department of Audit, PEER staff found that Military Department files properly documented the purpose and amounts of headquarters office fund disbursements in almost all cases. However, PEER's review also included reviewing in detail the disbursements from the rifle team fund beginning with fiscal year 1991. PEER's review of both the rifle team fund and headquarters office fund focused on a broader purpose and sought to determine whether the Military Department had violated state laws in expending general funds.



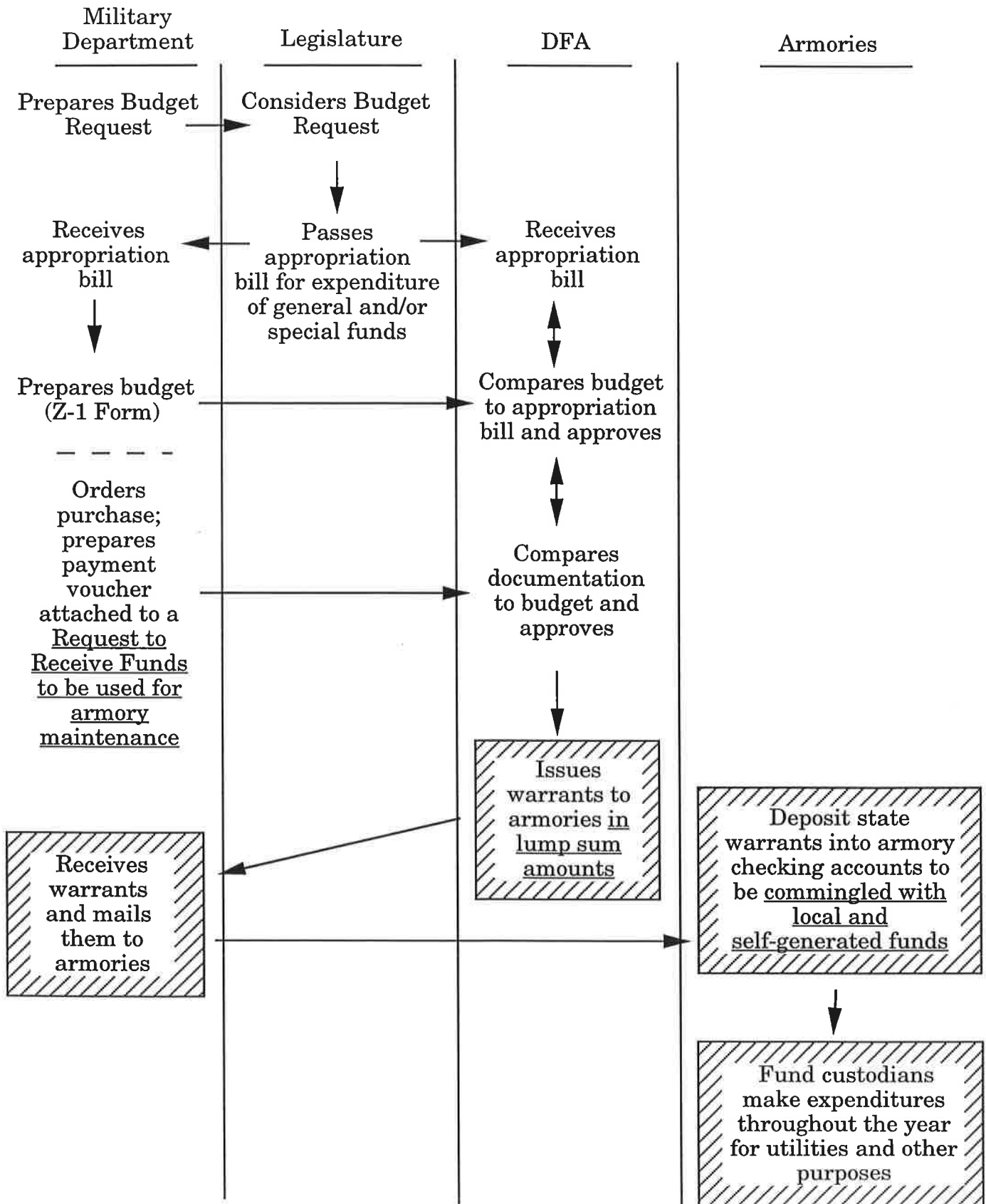
## Exhibit 1 - Part A

### Flow of Funds - Appropriations Process through Disbursement to State Agencies



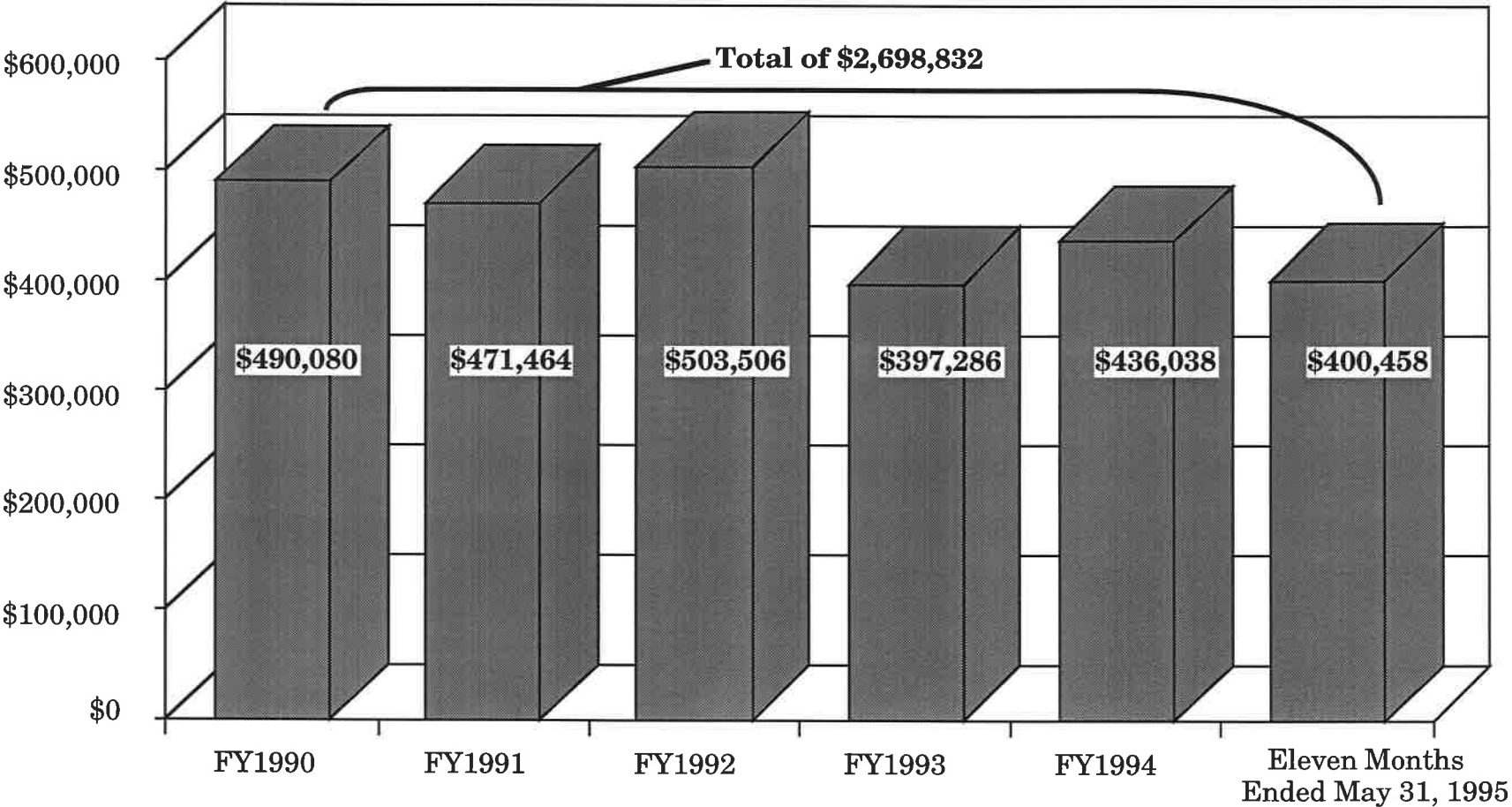
SOURCE: Mississippi Accounting and Policy Procedures Manual, Department of Finance and Administration and Mississippi Military Department records

## Exhibit 1 - Part B Flow of Funds - Appropriations Process through Disbursement to Armories



**Exhibit 2**

**Trend in General Fund Expenditures for Armory and Military Unit Operations  
Fiscal Year 1990 through the Eleven Months Ended May 31, 1995**



NOTE: The Military Department expended the funds from the contractual services expenditure account, "National Guard Unit Armory Operations," code 61770.

SOURCE: Department of Finance and Administration transaction report

## *Findings*

**The Military Department has violated budgetary control statutes by using state general funds contrary to purposes outlined in legislative appropriation bills, depositing such funds into unauthorized armory bank accounts, and managing these accounts without proper internal controls.**

The Legislature has developed laws to govern expenditures of funds from the State Treasury (general funds) and from special funds available from other sources such as the federal government. The laws have been developed to promote efficiency in government and to help avoid wasteful spending practices. Some of the statutes charge all state agencies with certain minimum levels of responsibility. Other statutes require the Department of Finance and Administration, the state's financial regulatory agency, to control and oversee the expenditure of funds by all state agencies.

The Military Department disburses state general funds to the armories that it supervises. This section of the report outlines how the Military Department has violated laws written to oversee the expenditure of those funds.

- ***The Military Department spent monies appropriated for armory contractual services expenditures on other purposes, such as rifle team travel and office fund equipment and decorations, in violation of MISS. CODE ANN. § 27-104-17.***

FY 1991 through FY 1993 budget request documents presented to the Joint Legislative Budget Committee show that the Military Department requested contractual service funds from the Legislature to assist in the payment of armory "utilities, maintenance and minor construction." As shown in Exhibit 3, page 10, the Military Department distributed a portion of the contractual services funds appropriated by the Legislature to the department's rifle team bank account to be used for non-contractual services expenditures, including:

- \$3,841 on travel and \$85 on commodities in fiscal year 1991;
- \$5,090 on travel and \$1,056 on commodities in fiscal year 1992; and,
- \$1,912 on travel and \$439 on commodities in fiscal year 1993.

(The department's practice of distributing a portion of contractual services funds intended for armory utilities and maintenance to the rifle team bank account had been ongoing since the late 1980s.)

**Exhibit 3**  
**Financial Statements for the Rifle Team and Headquarters Office Funds**  
**Fiscal Years 1991 to 1995**

	FY1991	FY1992	FY1993	FY1994	FY1995	TOTAL
<b>Beginning Balance</b>	\$5,128	\$9,921	\$12,585	\$11,616	\$10,027	
<b>Revenues</b>						
<b>Rifle Team Fund:</b>						
General Fund Appropriations	\$10,000	\$10,000	\$5,000			\$25,000
<b>Headquarters Office Fund:</b>						
Interest Earned (a)			293	266	267	826
Vending Machine Receipts			1,015	767	704	2,486
<b>TOTAL REVENUES</b>	<b>\$10,000</b>	<b>\$10,000</b>	<b>\$6,308</b>	<b>\$1,032</b>	<b>\$971</b>	<b>\$28,311</b>
<b>Expenditures</b>						
Travel and Subsistence						
Rifle Team Travel-- Meals and Lodging	\$3,841	\$5,090	\$1,912			\$10,843
Contractual Services						
Rifle Competition Entry Fees	\$1,161	\$1,181	\$582			\$2,924
Other (Rifle Team)	48					48
Headquarters Plant Rental			550	500		1,050
Other (Headquarters Office)			495	265		760
Total	\$1,209	\$1,181	\$1,627	\$765		\$4,782
Equipment (Headquarters Office)			\$596	\$202	\$280	\$1,078
Commodities						
Rifle Team Purchases	\$85	\$1,056	\$439			\$1,580
Headquarters Purchases			2,702	1,654	\$200	4,557
Total	\$85	\$1,056	\$3,142	\$1,654	\$200	\$6,137
Unidentified Expenditures (b)	\$72	\$10				\$82
<b>TOTAL EXPENDITURES</b>	<b>\$5,207</b>	<b>\$7,336</b>	<b>\$7,277</b>	<b>\$2,621</b>	<b>\$480</b>	<b>\$22,921</b>
<b>Ending Balance</b>	<b>\$9,921</b>	<b>\$12,585</b>	<b>\$11,616</b>	<b>\$10,027</b>	<b>\$10,518</b>	

NOTE: The Military Department spent \$18,058 for non-contractual services items over the five-year period (from Total Column above, \$10,843 [travel & subsistence] plus \$1,078 [equipment] plus \$6,137 [commodities]).

(a) Bank statements for May and June 1993 are missing. As a result, a balance of \$55.23 is unidentified. The \$55.23 balance is included in Interest Revenue in this compilation because the amount is believed to be the actual interest income based on historical monthly data.

(b) No invoices were found in file for these expenditures; therefore, the purposes of the expenditures cannot be determined.

SOURCE: PEER staff compilation of Military Department financial records on the cash basis of accounting

During July 1992, Military Department managers decided to close the rifle team bank account and transfer the remaining general funds to a new bank account entitled the HQS MSARNG Armory Fund ("Headquarters Mississippi Army National Guard"). The Military Department officially established the HQS MSARNG Armory Fund (or Headquarters Fund) on August 27, 1992, with the deposit of a state general fund warrant that had been made to the order of the rifle team. The custodian of the rifle team endorsed the warrant written to the rifle team over to the Headquarters Fund. On September 18, 1992, the Military Department closed the rifle team bank account and transferred the \$12,051.68 balance to the Headquarters Fund. Since August 1992, the Military Department has used the Headquarters Fund as an office fund, paying for items such as a headquarters vacuum and a television, office decor items (such as a plant rental service), landscaping plants, and holiday decorations. (See Exhibit 3, page 10, for major objects of expenditure of the "headquarters office" fund during this period.)

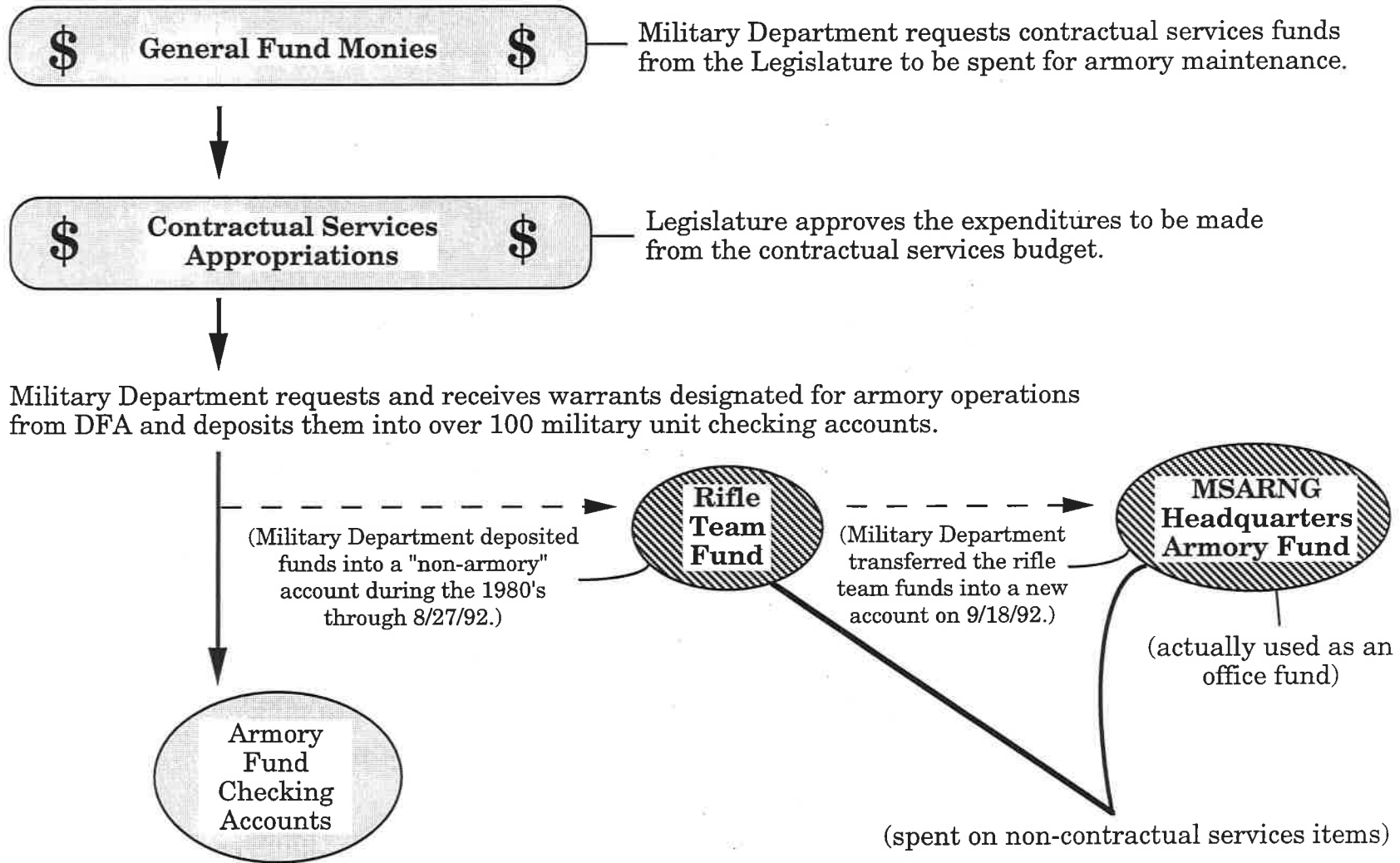
Exhibit 4, page 12, outlines the flow of general funds that the Military Department represented to the Legislature that would be spent for armory utilities and maintenance and that the Legislature appropriated to be spent for armory contractual services. The chart shows the Military Department's diversion of the funds from armory accounts, their intended purpose, to the rifle team fund and their subsequent conversion to a headquarters fund used for office expenditures.

The Military Department's use of armory contractual services funds for non-contractual services rifle team/headquarters fund expenditures violates state budgetary controls. Specifically, MISS. CODE ANN. § 27-104-17 (2) requires that:

**Unless otherwise specified in the agency appropriation bill, in the event any emergency or unforeseen circumstances shall arise, the agency head may authorize an increase in one (1) major object of expenditure within each specific budget within each appropriation bill in an amount not to exceed ten percent (10%), provided that other major objects of expenditure are decreased by a corresponding dollar amount. No transfers shall be authorized which increase or decrease the major object of expenditure "Salaries, Wages and Fringe Benefits," or which increase the major object of expenditure "Capital Outlay - Equipment." The agency head shall submit written justification for the transfer to the Legislative Budget Office, the Department of Finance and Administration, and the State Auditor, on or before the fifteenth of the month prior to the effective date of the transfer.**  
[Emphasis added]

The language in this CODE section prohibits the agency from spending more for equipment than was appropriated by the Legislature. State law also prohibits expenditures for items in excess of each of the other major objects of expenditure outlined in appropriation bills unless certain conditions are met. Specifically, the budgets for travel, contractual

**Exhibit 4**  
**Flow of Armory Operations Contractual Services Funds to the Rifle Team Fund and Headquarters Armory (Office) Fund**



SOURCE: Records of the Legislative Budget Office, Department of Finance and Administration, and Mississippi Military Department

services, commodities, capital outlay for items other than equipment, and subsidies, loans, and grants:

- cannot be increased more than 10%; and,
- if increased, must be approved by the Legislative Budget Office, DFA, and the State Auditor (represented in practice through the Fiscal Review Committee, consisting of officials of the three agencies).

The Military Department requested funds for armory operations in Fund 2701, the Support Fund; the Legislature then approved appropriations for the armory funds in Fund 2701 by major objects of expenditure. PEER reviewed Military Department financial reports generated by the Department of Finance and Administration showing the actual amounts spent in each budget category of legislative appropriations for Fund 2701 during fiscal year 1991 through fiscal year 1994. PEER compared these actual expenditures to the appropriated amounts in each budget category and to the expenditures in the rifle team/headquarters fund and determined that the Military Department had violated MISS. CODE ANN. § 27-104-17 (2) by spending more on equipment than had been budgeted and by increasing the travel budgets by more than 10%, as detailed in Exhibit 5, page 14. The Military Department did not obtain permission from the Fiscal Review Committee to increase budgets by 10%, which otherwise would have been allowable under the law. Consequently, the budgeting process was impaired because the Legislature did not know what the Military Department purchased with the money appropriated for armory contractual services.

The Military Department's violation of MISS. CODE ANN. § 27-104-17 (2) occurred for the following reasons.

- *Military Department managers intended to use armory contractual services funds for rifle team/headquarters non-contractual services expenditures.* Minutes of the HQS MSARNG Armory Fund Council's July 22, 1992, meeting show that the council discussed changing the rifle team fund to a headquarters fund that would "secondarily" support marksmanship teams. The council discussed purchasing hallway plants, office signs, and a hallway office directory for the headquarters and determined to use the fund as a "quick-fix' account for minor expenditures. . .ordinarily. . .delayed due to purchase order requirements." Military Department personnel later acquired these items with the funds in the account. The council also discussed whether to designate the Riverside Drive headquarters building as an armory, but decided that it was not necessary. (Although the HQS MSARNG Armory Fund continues to retain the word "armory" in its name, Military Department personnel confirmed to PEER on June 14, 1995, that the headquarters



**Exhibit 5**

**Rifle Team/Headquarters Fund Expenditures in Violation  
of MISS. CODE ANN. § 27-104-7**

	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>
Travel expenditures in excess of the 10% transfer limit	\$3,086	\$3,516	\$1,062
Equipment expenditures greater than the amount budgeted			431
Subtotal	\$3,086	\$3,516	\$1,493
Less:			
Vending machine receipts paid into the headquarters fund which could be used to cover the illegal expenditures			(1,015)
Total Illegal Expenditures	\$3,086	\$3,516	\$ 478
Actual increase over \$6,000 travel budget	61%	69%	*28%
Actual increase over combined travel and equipment budget of \$13,000			**8%

\*(\$1,062 + \$600 transfer limit, divided by \$6,000)

\*\*(\$1,493 + \$600 transfer limit minus \$1,015, divided by \$13,000)

SOURCE: Military Department records and Department of Finance and Administration reports.

location on Riverside Drive had never been designated as an armory by the federal National Guard Bureau.)

-- *Military Department regulations allow contractual services funds not spent on utilities to be expended for other (non-contractual services) items. Military Department Regulation No. 230-1-1, paragraph 7.b., states that armory/activity funds not spent on utilities may be spent for items such as:*

- meals for the Rifle Team while participating in match firing or athletic team expenses;
- letterhead stationery;
- any article deemed necessary by the fund council for unit operation not to exceed \$500; and,
- photographic support of accident and survey reports.

Because state general funds are commingled with other funds at the armory level, contractual services funds could easily be spent on commodities or equipment. Nevertheless, the Military Department has not written its regulations in a way to prohibit armory personnel from spending state contractual services funds on commodities or equipment, but has written its regulations in a way that encourages the practice. In addition, because only contractual services general funds were deposited into the rifle team fund, the Military Department regulations directly authorized violation of MISS. CODE ANN. § 27-104-17 by authorizing the general funds in the rifle team account to be spent on rifle team meals.

- ***The Military Department has deposited state general fund money into bank accounts that have not been approved by the State Fiscal Officer as required by MISS. CODE ANN. § 7-7-59.***

MISS. CODE ANN. § 7-7-59 states that the Department of Finance and Administration:

. . .may by regulation provide for the establishment of commercial bank accounts by any state agency, which shall serve as the depository for self-generated funds and custodial funds not required by law to be deposited in the State Treasury. . . Each such account established shall have a maximum balance to be fixed by the State Fiscal Officer.

DFA has established procedures to authorize private bank accounts of state agencies and monitor their maximum and minimum balances as provided by CODE § 7-7-59. Although the Military Department has requested and received approval from DFA to operate six agency bank accounts, the Military Department has not requested DFA's approval to

establish and operate the 104 armory bank accounts. DFA knew about these accounts but did not require the Military Department to submit them for approval and monitoring. Therefore, DFA has not exercised the level of oversight and accountability required by state law relative to state general funds held in commercial bank accounts.

DFA personnel contend that armories and their bank accounts are not part of the state entity as defined for purposes of the state's Comprehensive Annual Financial Report (CAFR). DFA also contends that the bank accounts are not subject to state control because the armories employ federal rather than state employees. DFA's position regarding the armory bank accounts is not well supported, given the following:

- MISS. CODE ANN. § 33-11-3 and 33-11-5 require the adjutant general of the Military Department to "be the state custodian of" and be "responsible for the proper maintenance of training facilities" [including armories] and authorize the adjutant general to "expend funds appropriated for this purpose." This CODE section in effect extends state control over the armory funds.
  - The Military Department, a state agency, promulgates rules for, oversees, and post-audits the armory bank accounts.
  - The Department of Finance and Administration includes the armory buildings in the Comprehensive Annual Financial Statements for the State of Mississippi.
  - The general funds disbursed to the armory bank accounts are required as outlined in CODE § 7-7-33 to be pre-audited by DFA, a state regulatory agency.
- ***The Military Department has not followed internal control regulations that DFA has established to comply with MISS. CODE ANN. § 7-7-3 (6) (d).***

MISS. CODE ANN. § 7-7-3 (6) (d) states that the Department of Finance and Administration shall:

Require of each state agency, through its governing board or executive head, the maintaining of continuous internal audit covering the activities of such agency affecting its revenue and expenditures, and an adequate internal system of preauditing claims, demands and accounts against such agency as to adequately ensure that only valid claims, demands and accounts will be paid.

In carrying out the requirements of this CODE section, the Department of Finance and Administration has established internal control regulations that agencies must follow. The *Mississippi Agency Accounting Policies and Procedures Manual* (MAAPP), Section 30.10.25,

states that a basic concept to be accomplished in establishing agency internal controls is "division of duties," described as follows:

. . .no individual is to have complete control over any type of assets in any agency, department or division of the State. The work of employees handling public assets should be complementary to or checked by other employees. This will not only decrease the chance of loss by means of fraud or dishonesty, but will also provide a means to detect errors.

The Military Department's armory bank account procedures violate state internal control regulations by concentrating personnel duties in handling of funds. The Military Department's Regulation 230-1-1 (3) and (4) requires the custodian of each armory fund to:

- maintain documentation of the receipt and deposit of funds;
- write checks;
- maintain accounting records;
- reconcile the bank statements; and,
- prepare and maintain the minutes of all fund council meetings.

These regulations involve the bank account custodian in both the receipt and deposit functions, since the custodian must maintain the documentation of those activities. The Military Department procedures listed above are in direct violation of the MAAPP manual Section 30.40, which requires that:

- a person other than the receivable bookkeeper makes the bank deposit;
- the person mailing the checks does not record the disbursements; and,
- bank statements are to be reconciled by an employee who is not involved in cash receipt or disbursement procedures.

Because the Department of Audit considers the approximately \$450,000 in annual disbursements to armory bank accounts to be "immaterial" in comparison to the Military Department's annual expenditures from federal, state, and other sources (\$26,745,021 in FY 1994), the department has not audited internal controls used by custodians of the armory bank accounts. Despite the absence of audit oversight, the Military Department has chosen not to follow DFA's regulations, but has allowed the improper procedures to continue.

The Military Department's regulations require ongoing internal auditing procedures for armory funds; however, the Military Department

should not use these post-audit activities as a substitute for management controls for daily handling of assets. Furthermore, the risk of asset loss increases when an entity that is not being audited has inadequate daily internal controls. For example, the risk of loss is increased for thirteen armory funds that Military Department internal review reports show have not been properly audited as required by regulations during fiscal year 1994.

**In violation of MISS. CODE ANN. § 7-9-41, the Department of Finance and Administration made possible the Military Department's expenditure of contractual services funds contrary to legislative appropriations by disbursing funds without ensuring that goods and services have been received.**

As shown in Exhibit 1 - Part A, page 6, the Department of Finance and Administration normally issues warrants made payable to specific vendors for goods sold and services performed and mails them to the state agencies to be distributed to their vendors. However, DFA deviates from this procedure for military units by allowing the units to receive lump-sum contractual services amounts through warrants made to the order of each armory or unit. The military units then may spend the funds at their own discretion with no further pre-audit control exercised by DFA for any expenditure amount or by the Military Department for expenditures totaling \$500 or less. (See Exhibit 1 - Part B, page 7.) As a result, at the point that DFA issues a warrant made to the order of a particular armory, DFA loses control of the manner in which the funds will be spent, whether for contractual services as appropriated or for unauthorized purposes.

No records exist at the Military Department or DFA to document the origination of the current lump-sum disbursement practice. However, such practice is contrary to MISS. CODE ANN. § 7-9-41 (1), as illustrated below:

**(1) All support and maintenance funds appropriated for the operating expenses of all departments, institutions, agencies, boards and commissions, supported wholly or in part by the state, shall be drawn from the State Treasury only upon the issuance of individual warrants by the State Fiscal Officer in direct payment for goods sold or services performed, except where specifically provided otherwise in these statutes. [NOTE: Exceptions noted in this section relate to the Institutions of Higher Learning and the Department of Human Services.]**

MISS. CODE ANN. § 7-9-41 (1) specifically prohibits lump-sum withdrawals from the State Treasury to pay for operating expenses of agencies, requiring that warrants be issued separately to pay directly for goods sold and services performed. The CODE specifically exempts the Board of Trustees of Institutions of Higher Learning and the Department of Human Services from the language in the section but does not exempt the Military Department.

As a result of the lack of controls associated with the lump-sum disbursement method, the Military Department's central office expended from the Headquarters Fund at least \$18,058 of contractual services funds over the five-year period on non-contractual services items. (See "Note" on Exhibit 3, page 10.) (Due to commingling of state general funds with other funds at the armories, it is not possible to determine the amount of non-contractual services expenditures made by the armories with general funds appropriated for contractual services.) When DFA issues a lump-sum payment to a military unit, the disbursement to that unit in effect becomes a grant rather than a contractual services expenditure. By definition, less control is exercised with a grant than with direct payment of an expenditure. DFA's leniency in disbursing funds on a lump-sum basis has resulted in \$2,698,832 in state general funds being disbursed from July 1, 1989, through May 31, 1995, in effect as grants to armories rather than for contractual services expenditures as intended by the Legislature.

Although previous Department of Finance and Administration managers established the current lump-sum procedures for disbursing funds to armories many years ago, current DFA managers have not reviewed the procedures and tested them against good management principles and legal requirements. Military Department and DFA staff contend that excessive paperwork and a need for additional personnel would result should DFA strictly adhere to MISS. CODE ANN. § 7-9-41 (1) for the disbursement of contractual services funds to military units.

By disbursing funds to armories without ensuring that goods or services have been received, DFA actually enables the Military Department to disburse funds appropriated for one fiscal year to the military units to be used for expenditures during the following year. This practice violates Section 64 of the MISSISSIPPI CONSTITUTION, which requires that:

No bill . . .to make appropriations of money out of the state treasury [appropriation bill] shall continue in force more than two months after the expiration of the fiscal year. . . .

Despite the constitutional provision, the Military Department routinely distributes to the armories the contractual services funds budgeted and available at each fiscal year-end so that the armories may spend the funds in the succeeding year on utilities and other obligations. DFA normally is able to control against this practice, for example, by requiring a state agency's budget year 1995 purchase orders to be processed prior to June 30, 1995, and requiring that the related payment voucher and invoice detailing the purchase be processed by August 31, 1995. However, DFA requires that armories provide only a certification document stating that the requested funds will be used for certain purposes. Therefore, when DFA issues warrants payable to the armory funds, the department has no knowledge of the year in which the related charges payable to vendors are incurred. The Military Department is thus able to continue its practices in violation of the law without interference from DFA.

As a result of the Military Department's use of prior year funds for current year expenditures, the Military Department has increased its availability of funds in any given year in excess of the amounts appropriated by the Legislature for that budget for the year. For example, the Military Department:

- disbursed \$17,294 from Fiscal Year 1993 appropriations to thirteen armories to be used for the first six-month allotment of Fiscal Year 1994 utility expenditures; and,
- disbursed \$27,666 from Fiscal Year 1994 appropriations to thirty-five armories to be used for the first six-month allotment of Fiscal Year 1995 utility expenditures.

## *Recommendations*

1. The Military Department should immediately return all state general funds in the "HQ MSARNG Armory Fund" (Headquarters Fund) to the State Treasury. PEER calculated the amount of these funds to be \$10,518 as of June 30, 1995.
2. The Department of Finance and Administration should handle the disbursements for the Military Department armories in the same manner in which disbursements from other state agencies are handled. DFA should control the expenditures from contractual services account number 61770 in one of the following ways, as deemed appropriate. DFA should either:
  - pre-audit the expenditures as required by MISS. CODE ANN. Section 7-7-33, by requiring the Military Department to provide an original invoice showing that goods have been received or services performed; or
  - handle the expenditures as petty cash under MISS. CODE ANN. Section 7-7-59, by requiring the Military Department to request reimbursement from its petty cash account using DFA-approved procedures.
3. The Military Department should submit the armory and military unit bank accounts to the Department of Finance and Administration for approval, as required by MISS. CODE ANN. Section 7-7-59. DFA should establish a maximum balance for each account as outlined in the *Mississippi Agency Accounting Policies and Procedures Manual*.
4. Military Department management should comply with MISS. CODE ANN. Section 27-104-17, directing its employees to spend within the limits of legislative budget authority, as follows:
  - obtaining approval from the Fiscal Review Committee when attempting to increase disbursements from an object of expenditure budget category (e.g., travel, commodities) greater than the amount set by an appropriation bill (limit of 10% increase);
  - keeping total equipment purchases appropriated for equipment in each budget in an appropriation bill; and,
  - seeking to spend appropriated funds for the purposes represented to the Legislature.
5. The Military Department should revise its internal Regulation 230-1-1 to state that general fund contractual services appropriations cannot



be spent on equipment, commodities, or other non-contractual services expenditures. The regulation should also be revised to state that the division of duties regarding receipt, disbursement, and accounting of funds will be the policy of the department. The regulations should be written so that the armory fund custodian is not required to perform all financial duties of the armory. The regulations should require different existing personnel to perform the following duties to the extent possible given the limitations of availability of personnel at each armory or unit.

6. The Military Department should not violate MISSISSIPPI CONSTITUTION Section 64 by expending appropriations from one fiscal year for expenditures of the next fiscal year. For example, general funds appropriated for contractual services during Fiscal Year 1996 that are not earmarked for expenditures incurred by June 30, 1996, must be returned to the State Treasury.
7. If the Military Department wishes to continue disbursing funds to armory accounts without the statutorily-required controls, the Military Department should present its request for funds to the Joint Legislative Budget Committee as a request for grants to armories, not for contractual services expenditures. According to the statutes discussed in this report, only the Legislature can determine that funds can be granted to armories without budgetary and financial controls.

In the event the Legislature, in response to a Military Department request, decides to appropriate grant funds for armories, the Legislature should specify that the grants can only be spent on certain items, such as utilities, and should place accounting, audit, and reporting conditions on the disbursement of the grants to the armories.

8. The Department of Audit should perform periodic audits of the armory accounts until:
  - DFA begins routine pre-audit or petty cash procedures required by MISS. CODE ANN. Section 27-104-17 and MISS. CODE ANN. Section 7-7-59, respectively, handling disbursements for armories in the same manner as for other agencies; or,
  - the Military Department requests and the Legislature approves that disbursements to armory accounts will be made from the Subsidies, Loans, and Grants budget category.
9. The Military Department should require that general funds disbursed to armories be placed in bank accounts designated for state general funds only. Local revenues and self-generated funds should be placed in separate bank accounts so that the state general funds may retain their identity.



*Agency Response*  
**STATE OF MISSISSIPPI  
MILITARY DEPARTMENT**

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THE ADJUTANT GENERAL'S OFFICE  
POST OFFICE BOX 5027  
JACKSON, MISSISSIPPI 39296-5027

September 11, 1995

Mr. James Barber  
Chief Analyst  
PEER Committee  
222 North President  
Jackson, Mississippi 39201

Dear Mr Barber:

We have reviewed the Draft PEER Committee report and offer the following comments on each recommendation.

1. RECOMMENDATION: The Military Department should return HQ MSARNG armory funds

We non-concur

Since the HQ MSARNG is an armory, we view this fund as we do all armory funds. An armory is a facility where guardsmen meet at least one time a month to train for their federal and state missions.

2. RECOMMENDATION: The Department of Finance and Administration should handle disbursements etc.

The Department of Finance and Administration should respond to this recommendation.

3. RECOMMENDATION: The Military Department should submit bank accounts for approval.

The Department of Finance and Administration should respond to this recommendation.

4. RECOMMENDATION: Military Department management should comply with MISS CODE ANN. Section 27-104-17

We concur-all expenditures should conform to budget restrictions.

Historically, armory units have been considered to be other than State entities. The unit fund administrators have deposited the State check into an account that also contains receipts from rentals, city governments, county governments and vending operations. On at least two occasions during the last ten years they received some federal revenue which was deposited into these accounts. This method of controlling all revenue in one account has been in effect for at least twenty years.

5. RECOMMENDATION: The Military Department should revise its internal regulation 230-1-1

We concur

6. RECOMMENDATION: The Military Department should not Violate Mississippi Constitution Section 64.

We concur

General funds that are not expended should lapse on 30 June of that Fiscal Year. Our response to recommendation four also applies to this recommendation.

7. RECOMMENDATION: The Military Department should disburse funds to armories as Grants

We concur

Based upon a PEER Committee recommendation, the Military Department requested that its FY 1997 Armory fund grants be appropriated through the Subsidies, Loans and Grants category.

8. RECOMMENDATION: The Department of Audit should perform audits of the armory accounts until the Military Department starts making disbursements from Subsidies, Loans Grants.

We neither concur or non-concur.

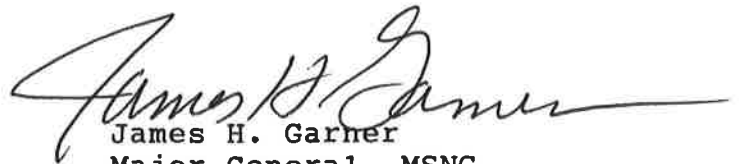
Beginning with the FY 1997, all disbursements to armory funds will be made from Subsidies, Loans and Grants.

9. RECOMMENDATION: The Military Department should require bank accounts for all general funds disbursed to armorys.

We non-concur

Because of the expenses involved in minimum volume checking accounts we will create new regulations to control expenditures of state funds. We will provide a sub-account which will direct and control those items that can be purchased or paid with these funds.

Sincerely,

A handwritten signature in cursive script, appearing to read "James H. Garner", written in dark ink.

James H. Garner  
Major General, MSNG  
The Adjutant General



**STATE OF MISSISSIPPI**  
**DEPARTMENT OF FINANCE AND ADMINISTRATION**  
**EDWARD L. RANCK**  
EXECUTIVE DIRECTOR

September 8, 1995

John W. Turcotte, Director  
Joint Committee on Performance Evaluation and  
Expenditure Review  
Post Office Box 1204  
Jackson, Ms. 39215

Dear Mr. Turcotte:

This letter is in response to the draft report issued by your agency entitled A Review of the Mississippi Military Department's Armory and Military Unit Funds. Enclosed you will find the Department of Finance and Administration's response to be included with your final report.

If you have additional questions or concerns, you may contact Leila Malatesta at 359-3504.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward L. Ranck".

Edward L. Ranck

Enclosure

## Response to PEER Report

### A Review of the Mississippi Military Department's Armory and Military Unit Funds

The Department of Finance and Administration (DFA) has historically treated the armory units as entities other than state agencies. Both DFA and the Military Department have been audited with no audit findings being issued related to the policies and procedures concerning the armories.

DFA has never required that the armory checking accounts be approved. Payments made to the armories are considered to have left "State hands" when issued, therefore relinquishing the State's control of how the money is spent. The Military's budget request breaks out the amounts to be paid to the armories using the specific contractual code 61770 - National Guard Unit Armory Operations rather than using object codes such as utilities, rent, phone, supplies or equipment.

The payments to the armories have been treated as a grant because of the nature of the payment. In our opinion, this is not contrary to Miss Code Ann. 7-9-4 (1) which prohibits lump-sum withdrawals from the State Treasury to pay for "*operating expenses of agencies*" because the armories are not considered state agencies. The payments to the armories have been handled in this manner for at least twenty years.

Beginning in fiscal year 1997, the Military Department has requested that these payments be appropriated as subsidies. According to the PEER recommendation, this will bring this matter into compliance with the findings of this report.

A review as to whether or not the armories should be considered state agencies was done by DFA as recently as 1988. In addition, DFA will conduct another evaluation based on current conditions. Upon completion of this evaluation, new policies and procedures will be developed if applicable.

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## PEER Staff

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