OLA

**OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Audit Division Report

# Department of Military Affairs
## Fiscal Years 2001 through 2003

**JUNE 10, 2004** **04-25**

## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

**OFFICE OF THE LEGISLATIVE AUDITOR**
**State of Minnesota • James Nobles, Legislative Auditor**

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Major General Larry W. Shellito, Adjutant General
Department of Military Affairs

We have audited selected programs of the Department of Military Affairs for the period July 1, 2000, through June 30, 2003. Our audit scope included general financial management and budgeting, employee payroll, travel, and other administrative expenditures. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the Department of Military Affairs for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission as our criteria to evaluate department controls.

The standards also require that we plan the audit to provide reasonable assurance that Military Affairs complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the Department of Military Affairs' financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

*/s/ James R. Nobles*

James R. Nobles
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 12, 2004

Report Signed On: June 7, 2004

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## Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

| | |
|---|---|
| Claudia Gudvangen, CPA | Deputy Legislative Auditor |
| David Poliseno, CPA, CISA | Audit Manager |
| Michael Hassing, CPA | Auditor-in-Charge |
| Ching-Huei Chen, CPA | Auditor |
| April Snyder | Auditor |
| Titima To | Auditor |

## Exit Conference

We discussed the results of the audit with the following staff of the Department of Military Affairs at an exit conference on May 18, 2004:

| | |
|---|---|
| Larry Shellito | Adjutant General |
| Terrence Palmer | Comptroller |
| Nanette Martinek | Accounting Supervisor |

# Report Summary

**Key Conclusions:**

- The department processed transactions in accordance with state guidelines and its cooperative agreement with the federal government. In addition, it properly controlled the financing related to state emergency executive orders. However, we identified a concern regarding compliance with travel guidelines.

**Key Finding:**

- The department reimbursed one employee at an improper rate resulting in the employee receiving $856 more than allowed for mileage reimbursement. (Finding 2, page 14)

The audit report contained two findings relating to internal control and legal compliance. The department resolved all findings included in our prior audit report.

**Audit Scope:**

Audit Period:
Fiscal Years 2001 – 2003

Selected Audit Areas:
- Financial Management
- Employee Payroll
- Travel
- Rent and Utilities
- Repair and Maintenance
- Supplies and Equipment
- Tuition Reimbursement

**Agency Background:**

The Department of Military Affairs consists of the military forces of the state of Minnesota, the Office of the Adjutant General, civilians employed for administrative and maintenance services, and state owned military installations. The department's total state budget is about $36 million. The state budget is funded primarily through cooperative agreements with the federal government, which reimburses the state between 60 and 75 percent of allowable charges. The federal government provides additional direct funding for other military operations in the state, such as Camp Ripley operations.

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# Chapter 1. Introduction

The Department of Military Affairs consists of the military forces of the state of Minnesota, the Office of the Adjutant General, all state controlled military installations, and civilians employed for administrative and maintenance services. The Adjutant General, as commander of the Minnesota National Guard, heads the Department of Military Affairs. The Adjutant General accepts federal monies on behalf of the state for military forces and executes related agreements and contracts for armory construction, improvements, and maintenance programs. Major General Eugene Andreotti retired in June 2003 after serving 15 years as the Adjutant General. Governor Tim Pawlenty appointed Major General Larry W. Shellito as the state's new Adjutant General in November 2003.

The Minnesota National Guard has three missions – federal, state, and community. The members of the Minnesota Air and Army National Guard are reserve members of the U.S. Army and Air Force and may be called into active service by the President of the United States. Minnesota's National Guard provides support to local law enforcement agencies during natural disasters and other emergencies declared by the Governor. The guard is also involved in community support projects throughout the state.

There are approximately 12,000 military members of the Minnesota National Guard. The department manages many military facilities within the state, including Camp Ripley, an Army aviation flight facility in St. Paul, federally owned and operated air bases in Duluth and at the Minneapolis-St. Paul International Airport, and 64 training and community centers (armories).

The department has 278 staff members, including 20 military service employees. The department's total state budget is about $36 million. The state budget is funded primarily through cooperative agreements with the federal government and state appropriations. The federal government provides additional direct funding for other military operations in the state, such as Camp Ripley operations.

Table 1-1 summarizes the department's sources and uses of funds related to state military operations for fiscal year 2003.

**Table 1-1**
**Sources and Uses of Funds**
**Fiscal Year 2003**

| | General Fund | Federal Fund | Special Revenue Fund |
|---|---|---|---|
| **Sources:** | | | |
| State Appropriation (Note 1) | $14,442,696 | $ 0 | $ 0 |
| Appropriation Reduction (Note 2) | (2,399,000) | 0 | 0 |
| Cancellation | (801,000) | 0 | 0 |
| Receipts | 25,047 | 23,543,593 | 623,185 |
| Transfers In | 0 | 0 | 0 |
| Balance Forward In | 2,583,725 | 1,098,354 | 0 |
| Total Sources | $13,851,468 | $24,641,947 | $623,185 |
| **Uses:** | | | |
| Administrative Expenditures: | | | |
| Payroll and Benefits | $ 3,249,068 | $ 9,522,660 | $565,820 |
| Rent and Utilities | 2,791,445 | 359,925 | 22,983 |
| Repair and Maintenance | 237,939 | 7,578,452 | 0 |
| Supplies and Equipment | 440,312 | 1,183,342 | 0 |
| Travel (In-State & Out-State) | 203,476 | 311,513 | 11,135 |
| Professional Contracts | 4,569 | 2,333,273 | 0 |
| Tuition Reimbursements | 4,468,130 | 0 | 0 |
| Grants – (Non-Government) | 89,500 | 740,000 | 0 |
| Other Expenditures | 420,699 | 1,504,854 | 23,247 |
| Total Administrative Expenditures | $11,905,138 | $23,534,019 | $623,185 |
| Balance Forward Out (to FY04) | $ 1,579,030 | $ 1,107,928 | $ 0 |
| Transfer Out | 367,300 | 0 | 0 |
| Total Uses | $13,851,468 | $24,796,713 | $623,185 |

Note 1: State appropriations include $421,696 that was added to the $75,000 initial appropriation for Military Forces Emergency Services, as needed to support the activities of the Minnesota National Guard authorized by Emergency Executive Orders from the Governor. See Minnesota Laws (2001), 1st Special Session, Chapter 10, Art. 1, Sec. 17, Subd. 5 and Minnesota Statute Section 192.52.

Note 2: Appropriation reduction specified in Minnesota Laws (2002), Chapter 220, Art. 10, Sec. 17.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2003, as of December 31, 2003.

# Chapter 2. Financial Management

## *Chapter Conclusions*

***The department processed transactions in accordance with the federal cooperative agreement and controlled the financing related to state emergency executive orders. However, we noted in Finding 1 that the department incorrectly coded some receipt transactions as negative expenditures in the accounting system. We also noted that the department did not always use the correct object codes or record dates to record some of its transactions. For the items tested, the Department of Military Affairs complied with applicable legal provisions.***

## Audit Objective

The primary objective of our review of financial management was to answer the following questions:

- Did the Department of Military Affairs properly authorize and record transactions in the accounting system?
- Did the Department of Military Affairs operate within its available resources?
- Did the Department of Military Affairs process transactions in accordance with the Master Cooperative Agreement?
- Did the Department of Military Affairs properly account for the State Active Duty emergency funding financial activity?
- Did the Department of Military Affairs comply with material legal provisions related to its financial activities?

### Background Information

The Department of Military Affairs coordinates the state's military activity and oversees the state's readiness to provide protection of persons and property in emergency situations. The department is responsible for a number of military and training facilities throughout the state. The department interacts with a variety of federal, state, and local offices. The headquarters in St. Paul serve as the primary administrative office for the department.

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The Adjutant General has the overall responsibility for the department's budget. The department's operations are funded through a combination of federal and state funds. The federal grant funds are provided through a Master Cooperative Agreement with the National Guard Bureau. The Master Cooperative Agreement provides approximately 60 to 75 percent of allowable charges. State General Fund finance appropriations finance the majority of the remaining costs. We obtained copies of the Master Cooperative Agreement related to the audit period and tested compliance with some provisions.

The department works with the Minnesota State Armory Building Commission (MSABC) to obtain the necessary funds for construction of new facilities. The MSABC is an independent entity outside of the Department of Military Affairs. The Facilities Management Office at Camp Ripley is responsible for procuring the design and construction contractors to build new facilities. The MSABC issues bonds to finance the construction. After the debt on the armory is paid off, the MSABC turns ownership of the buildings over to the state to manage and maintain. According to the audited financial statements of the MSABC, the amount of debt as of June 30, 2003, was about $6,030,000.

The state's National Guard is ready to serve the nation and the state in times of war or natural disasters. If a unit of the Guard is called to federal military service, the obligation becomes federal in nature. During a state emergency, the Governor has the authority to issue an emergency executive order. The soldiers called for state active duty provide a service to the citizens of the state. The department is responsible to provide the necessary funds to complete the mission. We reviewed the process for funding emergency executive orders for state active duty service.

As part of our financial management review, we also gained an understanding of the Starbase Educational Program. Starbase is a federally funded program that provides learning opportunities to students in math, science, and technology. The program is a registered nonprofit organization, which has its own board of directors. The department serves as a pass-through agent to advance funds that are later reimbursed by the federal government. The Starbase Program receives an independent audit by a CPA firm.

## Audit Finding and Recommendation

**1. The department incorrectly coded various transactions in the state's accounting system.**

The Department of Military Affairs coded over $1 million of federal reimbursements as negative expenditures, rather than revenue transactions in the state's accounting system (MAPS) during the audit period. The department funds most of its operations according to the terms of the Master Cooperative Agreement with the National Guard Bureau. The state incurs the initial costs, and then obtains reimbursement for its share of the costs from the federal government. The department usually records the reimbursements as receipts in the Federal Fund.

Rather than recording the federal reimbursements as receipts in MAPS, the department recorded a total of over $1 million as negative expenditures in the General and Federal Funds. Minn. Stat.

## Department of Military Affairs

Section 190.32 authorized the department to deposit reimbursement receipts into a General Fund account. However, the department did not set up its General Fund appropriation accounts in MAPS to accept dedicated receipts.

The department also coded various transactions in the accounting system with incorrect record dates and object codes. Record dates identify when the state incurred an obligation and should represent the date it received the goods or services. In addition, the department coded some property tax payments, certain meals, and utilities as other expenditures. Object codes should accurately identify the nature of the expenditure. The department uses the accounting system to produce summary reports for budgetary planning and financial analysis. Incorrect coding of information would impact the report totals and could have a potential impact on management's decisions.

*Recommendations*

- *The department should work with the Department of Finance to establish an appropriate and consistent method to record cash receipts and federal reimbursements.*

- *The department should ensure that all financial activity is accurately reported in the accounting system with the correct record dates and object codes.*

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# Chapter 3. Payroll Expenditures

### *Chapter Conclusions*

***The Department of Military Affairs' internal controls provided reasonable assurance that employee and state active duty payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions, personnel plans, and management's authorization. For the items tested, the department complied with material finance-related legal provisions.***

## Audit Objectives

We focused on the following areas during our audit of payroll expenditures:

- Did the Department of Military Affairs design internal controls to provide reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions, personnel plans, and management's authorization?

- For the items tested, did the department comply with material finance-related legal provisions?

## Background Information

The Department of Military Affairs administers payroll for state employees and state activated duty military personnel. The department incurred approximately $44 million of payroll costs, representing about 41 percent of the department's expenditures, during the audit period. Currently, the department employs 278 state employees. The number of state active duty personnel varies depending on the nature and extent of emergency services provided.

The department's state employees consist of civilian and military personnel. The department processes payroll for all employees through the state's payroll system (SEMA4) on a biweekly basis. Funding for state employees comes from federal, state, and local sources. Civilian personnel belong to the various state bargaining units and are paid according to their respective compensation plans. Most of the department's state employees belong to the American Federation of State, County, and Municipal Employees (AFSCME). The Adjutant General has designated 20 members of the National Guard as essential state military service personnel. The department provides compensation for state military personnel in accordance with Minn. Stat. Section 190.08. The rate of pay for state military employees is based on their rank and years of military service, as determined from the federal "Complete Active Duty and Reserve Monthly Drill Pay Table."

The Governor has the authority to declare state emergencies during natural disasters and issue emergency executive orders. The executive orders allow the Adjutant General to call the Minnesota National Guard to state active duty. The department works with the finance clerk of the activated guard units to administer, calculate, and verify the payroll costs for the soldiers on active duty. The department processes the National Guard payroll through the state's accounting system (MAPS).

Table 3-1 provides an overview of the department's payroll expenditures for state employees (civilian and military) and state active duty personnel for fiscal years 2001 through 2003.

**Table 3-1**
**Payroll Expenditures**
**For Fiscal Years 2001 to 2003**

| Type: | 2001 | 2002 | 2003 |
|---|---|---|---|
| State Employee | $13,778,603 | $13,531,986 | $12,963,305 |
| State Active Duty Personnel | 814,462 | 3,036,463 | 374,244 |
| Total Payroll | $14,593,065 | $16,568,449 | $13,337,549 |

Note: The amount for state active duty personnel significantly increased in 2002 due to a large number of state emergencies.

Source: Minnesota Accounting and Procurement System (MAPS), as of December 31, 2003.

There were no findings related to payroll expenditures.

# Chapter 4. Other Expenditures

## *Chapter Conclusions*

***The Department of Military Affairs' internal controls provided reasonable assurance that administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, the department does not always use the most appropriate object codes for all transactions or use the correct record date.***

***For the items tested, the Department of Military Affairs complied with significant financial-related legal provisions concerning administrative expenditures, except that the department reimbursed one employee for out-of-state trip mileage at an improper rate.***

## Audit Objective

The primary objective of our audit was to answer the following questions:

- Did the Department of Military Affairs' internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the Department of Military Affairs comply with the significant financial-related legal provisions concerning administrative expenditures?

## Background Information

The Department of Military Affairs incurred over $61 million of nonpayroll administrative expenditures during the audit period. The department manages many military installations throughout the state. The state shares the costs of operations with the federal government. Each facility is responsible for managing its own operations and securing goods and services. However, the department processes all invoices for state purchases and travel reimbursements at the central office in St. Paul.

Table 4-1 provides an annual summary of the department's nonpayroll expenditures during the audit period.

**Table 4-1**
**Other Expenditures**
**Fiscal Years 2001 – 2003**

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| Repair and Maintenance (Note 1) | $ 4,075,797 | $10,547,037 | $ 7,816,391 |
| Rent and Utilities | 3,157,937 | 2,774,580 | 3,174,353 |
| Tuition Reimbursement | 2,065,047 | 3,518,103 | 4,468,130 |
| Supplies and Equipment | 1,575,986 | 1,337,765 | 1,623,654 |
| Professional Contract Services | 1,197,473 | 1,825,571 | 2,337,842 |
| Travel (In-State/Out-State) | 499,039 | 1,120,405 | 526,124 |
| Grants | 383,521 | 740,013 | 829,500 |
| Other | 1,877,774 | 2,337,499 | 1,948,799 |
| Total | $14,832,574 | $24,200,973 | $22,724,793 |

Note 1: The increase in repair and maintenance expenditures between fiscal years 2001 and 2002 relate to additional federal funding for a major construction project of a training and community center in Mankato.

Source: Minnesota Accounting and Procurement System (MAPS) as of December 31, 2003.

## Rent and Utilities

The Department of Military Affairs leases or has shared agreements for many of its facilities. The department leases facilities at the Duluth International Airport, Minneapolis/St. Paul International Airport, Camp Ripley, St. Cloud, and St. Paul. Also, the department pays its share of utility costs in state-owned buildings. The department processes payments based on invoices received from the individual facilities and allocates costs to the federal and state accounts based on the terms of the Master Cooperative Agreement.

## Repair and Maintenance

Repair and maintenance represents the department's largest nonpayroll expenditure. The Facilities Management Office (FMO) at Camp Ripley is responsible for maintaining the state's military facilities. The FMO schedules repair and maintenance projects and is instrumental in the design and construction of any new facilities. The FMO follows the appropriate state bidding procedures and procurement regulations when obtaining services. The FMO approves project invoices for payment by the department. The FMO monitors the funding allocation of contracts, depending on the source or the funds.

## Travel Expenditures

Employees of the department incur travel costs while conducting state business. Due to the federal nature of much of the department's mission and funding, employees travel to Washington, D.C. and other military installations.

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The department's personnel plan establishes the criteria for when an employee is eligible to receive reimbursement for travel costs, including transportation, meals, lodging, and other miscellaneous expenses. The department requires employees to document the purpose and approval for out-of-state travel in advance of each trip. At the end of a travel assignment, the employee completes an expense report and submits it to the central office for reimbursement. The finance office reviews and enters the data from the employee expense report into the state's personnel and payroll system, which provides the reimbursement on the employee's next payroll warrant.

The department also pays for travel costs for those members of the National Guard called to state active duty. The finance clerk for each activated unit is responsible for reviewing and approving travel costs. Most of the costs for meals and lodging are paid directly to the vendor. The department reimburses military personnel for mileage incurred to report to their initial duty station.

The 20 state military employees are also entitled to basic housing and subsistence military allowances. These benefits are authorized by the federal military pay schedule and are coded as other travel benefits on the state's accounting system.

### Supplies and Equipment

The department purchases most of the supplies and equipment for operations at Camp Ripley and the training and community centers (armories). The department uses state purchase orders to procure items. The department spent over $4.5 million during the three-year audit period on supplies and equipment.

### Tuition Reimbursement

The tuition reimbursement program is a way to attract and retain active personnel in the Army and Air National Guard. The program provides reimbursement of tuition charges incurred by guard members at higher education institutions. The current reimbursement rate is 80 percent of the standard full-time tuition paid at the University of Minnesota. The department reimburses eligible members based on an approved application, authorized by their unit commanders, fee statements, and grade transcripts.

### Grant Expenditures

The department provides pass-through federal funding for the Starbase Education Program. During fiscal year 2003, the department paid $740,000 for the program. State military regulations (Minn. Stat. Section 192.49) also provide for annual military allowances to be paid to each guard unit and detachment. The units are responsible for the funds. The funds are to be used by the units for miscellaneous supplies and necessities not otherwise reimbursed.

## Department of Military Affairs

## Audit Finding and Recommendations

**2. The department reimbursed one employee for out-of-state travel at improper rates.**

The department paid one employee for out-of-state mileage at an inappropriate rate and without proper supporting documentation, resulting in an $856 overpayment. The state allows employees to be reimbursed when using a personal vehicle for business travel. The state established two reimbursement rates and will reimburse an employee at the higher rate if certain conditions are met, such as no state vehicle available. However, our review of one employee's out-of-state trips disclosed the following:

- The department reimbursed this employee for all out-of-state trips at the higher mileage rate. The department reimbursed the employee $4,405 for 12,236 miles on four trips during fiscal year 2003, with individual trip mileage ranging between 840 miles and 5,525 miles.

- In three of four instances, the department did not comply with the state travel policy by comparing the expected mileage costs to the lowest available airfare prior to the trip.

- The department did not consider the costs of employee time, meals, and lodging in determining the appropriate reimbursement.

The department generally denied other employees who sought the higher mileage reimbursement rate for similar out-of-state travel. In addition, the department has 14 state vehicles at Camp Ripley that could be available for some trips. We do not feel that the higher mileage reimbursement was justifiable, nor was it the most cost-effective method for this employee to travel.

*Recommendations*

- *The department should seek reimbursement of $856 from the employee due to overpayment of travel expenses.*

- *The department should ensure that employees use the most cost-effective method when traveling. The department should explore other less expensive alternatives such as rental cars or department fleet cars prior to authorizing an employee to take their personal vehicle on an out-of-state trip.*

- *The department should review other significant out-of-state travel expenditures to determine if other employees were inappropriately reimbursed.*

# Status of Prior Audit Issues
# As of March 12, 2004

## Most Recent Audits

On February 13, 2003, we issued a closure letter to the Department of Military Affairs related to our audit of a federal program administered by the department, which was included in the financial and compliance report on federally assisted programs of the State of Minnesota for the year ended June 30, 2002. The objective of our audit was to ensure that the department complied with the federal requirements applicable to the National Guard Military Operations and Maintenance Projects, CFDA #12.401, as described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. Our audit work did not identify any findings or recommendations related to this program for fiscal year 2002. We did not perform federal Single Audit compliance work on this program as part of our current audit at the department.

**State of Minnesota Audit Follow-Up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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DEPARTMENT OF MILITARY AFFAIRS
MINNESOTA ARMY AND AIR NATIONAL GUARD

OFFICE OF THE ADJUTANT GENERAL VETERANS SERVICE BUILDING
STATE OF MINNESOTA
20 WEST 12TH STREET ST. PAUL, MINNESOTA 55155-2098

June 7, 2004

The Adjutant General

Mr. James Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Below is the official response to the findings and recommendations noted on the Department of Military Affairs audit for the period July 1, 2000 through June 30, 2003. We thank you and your staff for the professional manner in which they conducted the audit and for their thoroughness in auditing and reviewing our department policies and procedures.

**Finding 1: The department incorrectly coded various transactions in the state's accounting system.**

The $1 million in cash receipts, which appear to have caused negative expenditures, for the most part, represent on-going activities:

1. Federal reimbursements for materials drawn from the department's state warehouse at Camp Ripley. These items were originally purchased with state general fund dollars.
2. Lease payments/room rental charges for facilities at Camp Ripley. These payments must be credited to our federal claims because these facilities are federally supported.
3. Utility/solid waste charges that must be credited to federal accounts for non-federal use of buildings where the federal government makes these payments.
4. Various reimbursements for general fund and federal dollars that are not official business related (telephone charges, etc).
5. Refunds and rebates from various sources (insurance, utility charges, etc).

We also had a transaction related to a lawsuit against one of our contractors who failed to pay his employees at the correct wage rate as required by law. By court order, the department received the funds and then had to issue payments to the affected employees.

We concur that we may have incorrectly coded transactions in MAPS. The department accounts for these transactions in this manner to ensure that the money is deposited back into the accounts from which they are expended. At year end close, these transactions cancel the corresponding expenditure transactions at the appropriation level. The department also feels it is important to retain some visibility on these transactions even though many have to do with federally supported facilities, as they pertain to state owned buildings. The comptroller and the accounting supervisor will officially meet with agency assistance at the Department of Finance no later than July 31, 2004 to ensure we are correctly capturing and coding all these transactions in the state's accounting system.

We also concur that we should make sure that transactions are coded to accurately reflect department financial activities. The accounting supervisor has already taken steps to educate all our employees involved in recording transactions to ensure they enter the correct record dates and object codes into MAPS.

**Finding 2. The department reimbursed one employee for out-of-state travel at improper rates.**

The Department of Military Affairs has multiple agreements (called cooperative agreement appendices) with the federal government to conduct work that in many cases is fully reimbursed by the federal government. There are 12 separate appendices to this master agreement, each having its own source of funding separately budgeted and accounted for by this agency. The employee in this instance is a 100% federally reimbursed employee working under the Camp Ripley site agreement.

There are 14 vehicles controlled at Camp Ripley by various divisions of the department. Even though these vehicles may not have been in use during a particular part of this employee's travel periods, they may not have been available for the entire trip period nor are they necessarily suitable for this type of travel. Only 4 of these are automobiles – the rest are larger vans and four-wheel drive pickups. Seven of the vehicles are paid for by the Facilities Management Office using state appropriated dollars. Six of the vehicles are assigned to the Environmental Division and paid for using federal dollars through the Environmental Appendix and the other one belongs to Camp Ripley Security and is paid for with federal dollars under the Security Appendix. The security vehicle is reserved for emergency travel to repair vault security systems.

If any of these vehicles were to be used by this site agreement employee, the appropriate mileage and prorated monthly lease costs would have to be credited from the site agreement to the appropriate federal or state accounts. Additionally, if the vehicle used by this employee was then needed for other official business, we could create a situation where the other federal agreement or the state's general fund would have to reimburse its employees at the higher rate because they had no vehicle available when they needed to travel.

A review of the travel documents involved does indicate that there is no explicit discussion of the total trip costs as required. The employee did, however, indicate that the government was also saving the costs for vehicle rental to travel from the airports to the final destinations, which are sometimes a great distance from an airport. The airfare costs were reported on the request for travel when they were submitted; however, the supporting documents were not requested until the actual employee expense reports were submitted. There is an official federal travel office located at Camp Ripley. Employees typically call this office to find the lowest contracted airfare rate and report it on their travel requests, but in this instance, the employee failed to provide written proof when requesting travel. This procedure will be changed.

We also note that this employee's work location is in Little Falls, MN. The nearest state contracted vehicle rental location is in Brainerd. Any additional time required to acquire a leased vehicle would also have to be considered in determining the most cost effective method of travel. Additionally, the current state contract for vehicle leasing only allows for use in Minnesota, Wisconsin, Iowa, and North and South Dakota. The employee trips were substantially conducted outside this area.

We have reviewed the state policy on out of state travel using personal vehicles as it currently exists at the DOA/TMD web site. We agree that all costs should be considered for developing a total cost model. In his emails requesting approval for these trips, the employee correctly indicates that the cost to take his own vehicle actually saves the government (in this case federal) money because he does not have to fly into the nearest large airport and then rent a car and pay for gasoline for that portion of the trip, often to less accessible locations.

The discussion on using meals and lodging costs in computing the airfare costs actually appears in the *SEMA4 Employee Business/Travel Expenses Policy – Combined Business and Personal Travel*. That policy states that the lodging and meals expenses should be used in addition to the airfare costs to determine their effects on the total costs if the lowest airfare is obtained by adding days to the trip. It states, "If additional hotel accommodations and/or meals are included in computing the lowest airfare, these additional costs must be itemized and attached to the out-of-state authorization." Thus, they are added to the lowest airfare costs to correctly identify the allowable personal vehicle reimbursement.

To the best of our knowledge, when we denied the higher rate for out-of-state travel by other department employees, it was because the employee(s) was either combining official business and personal travel, or was using their own vehicle because they did not want to abide by the no-smoking policy. Thus, in these instances, the travel was not for the convenience of the government.

We also note that there is no absolute requirement to pay the lower rate. The current state policy related to this issue is quoted:

"An agency may authorize out-of-state travel for employees requesting travel who use their personal vehicle under special circumstances. The total reimbursement is limited to the LOWEST ROUND TRIP AIRFARE based on the number of days the employee would have attended if he/she had flown. An airfare itinerary from the travel agency must be attached to the out-of-state authorization form. The lowest round trip airfare should be listed on the Employee Expense Report. The Travel Management Division of the Department of Administration will not issue control numbers for this type of travel and, therefore, the lower mileage rate normally prevails. *However, if the state can substantially benefit from an employee reducing normal travel* *expenses and the total cost of the trip using the higher mileage rate is less than the lowest round trip airfare, then the higher mileage rate can be used without obtaining a control number*. An explanation regarding the use of the higher mileage rate is required on the Employee Expense Report. Miscellaneous expenses for tolls, parking at the destination, local business mileage at destination, etc., may be reimbursed as long as total travel expense does not exceed the lowest round-trip airfare." (Italics added).

We concur that our policy on out-of-state travel needs further study and revision. The current separate travel policy indicates that the first line supervisor, who may be a federal employee, is declaring there are no vehicles available when they approve the higher mileage rate. Similar language does not appear in our out-of-state travel policy. This was highly unusual travel as most of our department out-of-state travel is by air. Control numbers for paying the higher mileage rate are only required by the state for employees who work in the 7 county metro area, thus there should be some other controlling mechanism in place. The comptroller will revise the out-of-state travel policy no later than July 31, 2004.

However, we disagree on seeking reimbursement for this mileage paid at the higher rate. We still believe that in these instances noted, the total costs paid for these trips were still in the best interest of the government. In many instances, in addition to attending conferences, the employee traveled to deliver either computer hardware or demonstrate computer software. Not only were additional costs for rental vehicles between arrival locations and reporting locations avoided, additional costs for delivery of this equipment to multiple locations were also avoided.

The comptroller and the accounting supervisor have reviewed other out-of-state travel expenditures and found no evidence of inappropriate reimbursement. This was a highly unusual mode of travel for out-of-state travel in our agency and it will receive greater scrutiny in the future.

Sincerely,

*/s/ Larry W. Shellito*

Larry W. Shellito
Major General, Minnesota
Army National Guard
The Adjutant General