



FINANCIAL AUDIT DIVISION REPORT

Department of Military Affairs
Federal Compliance Audit
Year Ended June 30, 2009

March 18, 2010

Report 10-09

FINANCIAL AUDIT DIVISION

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State of Minnesota • James Nobles, Legislative Auditor

March 18, 2010

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Legislative Audit Commission

Members of the Legislative Audit Commission

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

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Military Affairs during fiscal year 2009. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Military Affairs.

We discussed the results of the audit with the department's staff at an exit conference on March 8, 2010. This audit was conducted by David Poliseno, CPA, CISA, CFE, (Audit Manager) and Kayla Borneman, CPA, (Auditor-in-Charge).

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Military Affairs. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 18, 2010.

We received the full cooperation from the department's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Military Affairs generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2009. However, the department had some weaknesses, as noted in the two findings presented in this report.

Findings

- The Department of Military Affairs did not submit timely requests for reimbursement claims to the federal government for National Guard Military Operations & Maintenance Projects (CFDA 12.401, Grant #W912LM-04-2-1000). ([Finding 1, page 5](#))
- The Department of Military Affairs did not make timely requests to the federal government to extend the period over which it could use National Guard Military Operations & Maintenance Projects (CFDA 12.401, Grant #W912LM-04-2-1000) funds for federal fiscal year 2008. ([Finding 2, page 5](#))

Audit Scope

Program material to the State of Minnesota's federal program compliance for fiscal year 2009.

- National Guard Military Operations & Maintenance Projects (CFDA 12.401¹) with total fiscal year 2009 federal expenditures of \$67,881,929.

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Department of Military Affairs

Federal Program Overview

The Department of Military Affairs administered one federal program that was a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act – National Guard Military Operations & Maintenance Projects, CFDA 12.401, had total fiscal year 2009 federal expenditures of \$67,881,929.²

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Military Affairs complied with federal program requirements in its administration of this federal program for fiscal year 2009. This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.³ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

² We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2009 exceeded \$30.1 million.

³ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2009, on the State of Minnesota's basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division [Report 10-01](#), *Report on Internal Control Over Financial Reporting*, issued February 11, 2010.)

Conclusions

The Department of Military Affairs generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2009. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

Findings and Recommendations

Finding 1

The Department of Military Affairs did not submit timely requests for reimbursement claims to the federal government for National Guard Military Operations & Maintenance Projects (CFDA 12.401, Grant #W912LM-04-2-1000).

The department did not request reimbursement from the federal government for its program expenditures in a timely manner, resulting in significant negative cash balances in its federal appropriation account. Although the department had limited authorization from the Department of Management and Budget to have a negative balance in the account (not to exceed \$5 million and 45 working days), the department's delays in submitting reimbursement requests resulted in unauthorized negative balances in the account. In June 2009, the department submitted reimbursement requests for costs it had incurred from November 2008 through May 2009. Because the department did not receive the federal reimbursement until after year end, the account's balance at June 30, 2009, was a negative \$44.5 million. As of August 2009, the department had paid a total of about \$65.3 million for the federal share of program costs, but as of January 2010, the department had only received reimbursement of about \$37.3 million from the federal government. The federal program allows the department to submit reimbursement requests to the federal government on a monthly basis. Without the federal reimbursement, the department used other federal or state resources to cover the program's costs.

Recommendation

- *The Department of Military Affairs should request reimbursement from the federal government in a timely manner to minimize its negative federal account balance.*

The Department of Military Affairs did not make timely requests to the federal government to extend the period over which it could use National Guard Military Operations & Maintenance Project (CFDA 12.401, Grant #W912LM-04-2-1000) funds for federal fiscal year 2008.

Finding 2

The department did not submit to the federal government timely requests to extend the period for which program funds were available. The program's master cooperative agreements required the department to submit within 90 days of the end of the federal fiscal year either a final accounting of all funding and disbursements or a request to extend the period over which it can use those grant

funds.⁴ For five of the eleven agreement appendices the department did not submit requests for extensions within 90 days.⁵ For four of the appendices, the department submitted the extension requests about three months late, and the department submitted one request a year after the 90-day deadline. Without this authorization to spend funds after the end of the grant period, the state may incur costs that the federal government will not reimburse.

Recommendation

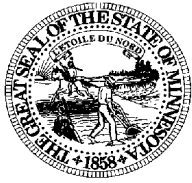
- *The Department of Military Affairs should comply with the master cooperative agreements and submit extension requests by the required deadline.*

⁴ The Department of Military Affairs entered into master cooperative agreements for Army National Guard Facilities Programs and Air National Guard Facility Operations & Maintenance Activities with the United States Department of Defense to provide federal support for services provided by Military Affairs.

⁵ Appendices represent separate sections or parts of the overall master cooperative grant agreement. Each appendix contains specific terms and conditions, allowable costs, reports, and approved budgets for the area.

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

March 12, 2010

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

Dear Mr. Nobles

We have received a copy of the draft audit report of the federal programs under CFDA 12.401, National Guard Military Operations & Maintenance Projects. This is our written response to the audit findings and recommendations outlined in the draft report.

AUDIT FINDINGS

Finding #1

The Department of Military Affairs did not submit timely requests for reimbursement claims to the federal government for National Guard Military Operations & Maintenance Projects (CFDA 12.401, Grant #W912LM-04-2-1000)

Recommendation

- *The Department of Military Affairs should request reimbursement from the federal government in a timely manner to minimize its negative federal account balance.*

Response

The department concurs with the recommendation. The Department of Military Affairs processes between 30 and 35 claims for reimbursement each month. The department experienced a series of "unusual" events that consumed staff time and a series of employee absences and turn-over that we mistakenly thought we could overcome and catch up on outstanding claims. Unfortunately, we discovered too late that this is actually the "new normal" pace of work for the department and we have to make further adjustments. We continue to be delinquent in submitting claims to the federal government for this federal fiscal year but will be caught up and back on schedule no later than April 1, 2010.

We are going to reassign staff supervisory responsibilities, ensure that we are more than one staff member deep in these critical areas and processes by cross-training other staff, and will more closely monitor the submission of the claims to the federal government. We will also engage our federal partners in discussions about how we compile these claims and what information they need to approve the requests.

Person Responsible

Terrence Palmer, Comptroller, Department of Military Affairs

Estimated Completion Date

We expect this to be accomplished over the next few months and will have this completed by September 30, 2010.

Finding #2

The Department of Military Affairs did not make timely requests to the federal government to extend the period over which it could use National Guard Military Operations & Maintenance Project (CFDA 12.401, Grant #W912LM-04-2-1000) for federal fiscal year 2008.

Recommendation

- *The Department of Military Affairs should comply with the master cooperative agreements and submit extension requests by the required deadline.*

Response

The department concurs with the recommendation. The Department of Military Affairs processes between 30 and 35 claims for reimbursement each month. Some of these deal with long-term construction projects that span more than one federal fiscal year. Because the state and federal fiscal years do not align and most of the other claims deal with state charges (workers compensation, e.g.) that span two federal fiscal years we are often required to keep the prior year claim for the respective appendix open until we have recognized the appropriate charges and applied them to the federal claims for that fiscal year. The problems created by finding number one above, also affected this requirement and our ability to complete them in a timely manner. Since the monthly claims are not processed it is difficult to determine the purposes for keeping the claims open and to list the outstanding charges as required on the appendices.

We are going to reassign staff supervisory responsibilities, ensure that we are more than one staff member deep in these critical areas and processes by cross-training other staff, and will more closely monitor the submission of these request for extensions to the federal government. We will also engage our federal program managers in discussions about how we request extensions to these claims at the end of the fiscal year, establish responsibilities for doing so, and establish a better method for monitoring those appendices that need to be extended beyond the normal periods.

Person Responsible

Terrence Palmer, Comptroller, Department of Military Affairs

Estimated Completion Date

We expect this to be accomplished over the next few months and will have this completed by September 30, 2010.

We hope this is responsive to your findings. If you have any further questions or concerns, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry W. Shellito". The signature is written in a cursive, flowing style with a large initial "L".

MG Larry W. Shellito, The Adjutant General

Cc: Terrence Palmer
Nan Martinek
David Poliseno
Kayla Borneman