



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

FINANCIAL AUDIT DIVISION REPORT

Department of Military Affairs

Federal Compliance Audit

Year Ended June 30, 2012

June 6, 2013

Report 13-09

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

June 6, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Major General Richard C. Nash, 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 2012. 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 May 22, 2013. This audit was conducted by David Poliseno, CPA, CISA, CFE, (Audit Manager) and Reidar Gullicksrud, 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 June 6, 2013.

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

A handwritten signature in black ink that reads "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink that reads "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 2012. However, the department had one weakness, as noted in the finding presented in this report.

Audit Finding

- The Department of Military Affairs did not review a key report to validate self service time entry payroll transactions. ([Finding 1, page 5](#))

Audit Scope

Program material to the State of Minnesota's federal program compliance for fiscal year 2012.

- National Guard Military Operations and Maintenance Projects (CFDA 12.401¹).

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

Department 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 and Maintenance Projects, CFDA 12.401. The program's fiscal year 2012 federal expenditures totaled about \$49,200,000.²

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 2012. 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*.

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 2012. However, the department had some weaknesses, as noted in the following *Finding and Recommendation* section.

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 2012 exceeded \$30 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 March 20, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2012. 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 13-06, *Report on Internal Control Over Financial Reporting*, issued May 17, 2013.)

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.

Finding and Recommendation

The Department of Military Affairs did not review a key report to validate certain payroll transactions (CFDA 12.401, Grant W912LM-04-2-1000).

The department did not review the self service time entry audit report for any of the pay periods in fiscal year 2012. The report identifies two types of time reporting exceptions – employees who did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. State policy states that “the best control over the integrity of employees’ payroll information is achieved when employees prepare their own timesheets and supervisors, who have direct knowledge of employees’ work, review and approve timesheets.”⁴

To mitigate the risk that the payroll hours included on the self service time entry audit report may not reflect hours actually worked or authorized for payment, the policy requires state agencies to review, at a minimum, a representative sample of transactions appearing on the report each pay period and perform a comprehensive review of the report each quarter.

Payroll costs comprise about 30 percent of the National Guard Military Operations and Maintenance Projects. Review of the self service time entry audit report is an important control to ensure the accuracy of the department’s payroll costs.

Recommendation

- *The Department of Military Affairs should review the self service time entry audit report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*

Finding 1

⁴ Minnesota Management and Budget Policy PAY0017.



DEPARTMENTS OF THE ARMY AND THE AIR FORCE

JOINT FORCE HEADQUARTERS MINNESOTA
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May 28, 2013

The Adjutant General

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the recommendation outlined in 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 finding and recommendation outlined in the draft audit report.

Audit Finding #1

The Department of Military Affairs did not review a key report to validate certain payroll transactions (CFDA 12.401, Grant W912LM-04-2-1000).

Audit Recommendation #1

The Department of Military Affairs should review the self service time entry report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.

Agency Response to Recommendation #1

The department concurs with the recommendation. We have implemented a review process for the payroll personnel to perform a comprehensive review of the "Self Service Time Entry Audit Report" each pay period. Moreover, the report will be reviewed by the agency's military auditor during the auditor's internal payroll audits.

Person Responsible: CW2 Ben LaBelle, Comptroller, Department of Military Affairs
Estimated Completion Date: Completed

Again, thank you for the opportunity to review and respond to the department's audit finding. If you have any further questions or concerns, please do not hesitate to contact me.

Sincerely,



Richard C. Nash
Major General, Minnesota
Army National Guard
The Adjutant General

CF:
Donald Kerr
Ben LaBelle
David Poliseno