



FINANCIAL AUDIT DIVISION REPORT

**Department of
Military Affairs**

Federal Compliance Audit

Year Ended June 30, 2013

March 6, 2014

Report 14-05

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 6, 2014

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 a federal financial assistance program administered by the Department of Military Affairs during fiscal year 2013. 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.

This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Sandy Ludwig (Auditor-in-Charge).

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

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 internal controls to ensure compliance with certain legal requirements applicable to its major federal program for fiscal year 2013. However, the department had a weakness in its internal controls to ensure the accuracy of payroll transactions.

Finding

- The Department of Military Affairs did not review a key report to ensure the accuracy of payroll transactions it charged to the federal National Guard Military Operations and Maintenance Projects program. ([Finding 1, page 5](#))

Audit Scope

- National Guard Military Operations and Maintenance Projects (CFDA 12.401, award number W912LM-10-2-1000)¹ with total fiscal year 2013 federal expenditures of \$35,020,979, of which about 98 percent was administered by the Department of Military Affairs.²

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

² Two other state agencies administered portions of this federal program - the Board of Water and Soil Resources expended \$730,181, and the Department of Natural Resources expended \$89,121.

Department of Military Affairs

Federal Program Overview

The Department of Military Affairs administered one federal program, National Guard Military Operations and Maintenance Projects (CFDA 12.401), that was a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.³ The program's fiscal year 2013 federal expenditures totaled \$35,020,979.

The purpose of this federal program was to provide money to support the Army and Air National Guard in "minor construction, maintenance, repair or operation of facilities, and mission operational support."⁴ The Department of Military Affairs used the money to pay for salaries, travel, equipment, minor construction, and supplies.

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 2013. 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 major federal programs.⁵ In addition to specific program requirements, we examined the department's compliance with general 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*, dated March 2013.

³ We defined a major federal program for the State of Minnesota, in accordance with a formula prescribed by the U.S. Office of Management and Budget and Budget Circular A-133, as a program or cluster of programs whose expenditures for fiscal year 2013 exceeded \$30 million.

⁴ National Guard Regulation 5 – 1.

⁵ 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 18, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2013. 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 14-04, *Report on Internal Control Over Financial Reporting*, issued February 14, 2014.)

Conclusion

The Department of Military Affairs generally complied with and had internal controls to ensure compliance with certain legal requirements applicable to its major federal program for fiscal year 2013. However, the department had a weakness in its internal controls to ensure the accuracy of payroll transactions, as noted in the following *Finding and Recommendation* section.

We will report this weakness to the federal government in the *Minnesota Financial and Compliance Report on 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 ensure the accuracy of payroll transactions it charged to the federal National Guard Military Operations and Maintenance Projects program.⁶

Finding 1

The department did not review the payroll register report to ensure the accuracy of payroll transactions. This report shows the payroll and personnel data used to process employees' paychecks for each biweekly pay period, such as hours worked, leave taken, and pay rates.

One of the Department of Management and Budget's statewide payroll policies (PAY0028) requires, "Agency payroll and human resources designees must review the payroll register to verify that time and amounts were paid at the correct rate and any necessary adjustments were processed." Without a review of the report, there is an increased risk that payroll costs charged to the federal grant could be incorrect. The Department of Military Affairs used about 45 percent of its National Guard Military Operations and Maintenance Projects grant for payroll costs.

Recommendation

- *The Department of Military Affairs should review the payroll register each pay period to ensure the accuracy of payroll transactions.*

⁶ CFDA 12.401, Grant W912LM-10-2-1000.



DEPARTMENTS OF THE ARMY AND THE AIR FORCE

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March 3, 2014

The Adjutant General

James R. Nobles, 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 a federal financial assistance program administered by the Department of Military Affairs during fiscal year 2013. 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 ensure the accuracy of payroll transactions it charged to the federal National Guard Military Operations and Maintenance Projects program.

Audit Recommendations

The Department of Military Affairs should review the payroll register each pay period to ensure the accuracy of payroll transactions.

Agency Response to Recommendation

The department concurs with the recommendation. The agency will implement a payroll process to ensure that the payroll personnel will conduct a comprehensive review of the "Payroll Register" report. Also, the report will be reviewed by the agency's military auditor during the auditor's internal payroll audits.

Person Responsible: CPT Eric Athman, Military Auditor, Department of Military Affairs
Estimated Completion Date: March 30, 2014

If you have any further questions or concerns, please do not hesitate to contact me.

Sincerely,

/s/ Richard C. Nash

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

CF:
Donald Kerr, Executive Director
CPT Eric Athman, Military Auditor
CW3 Ben LaBelle, Comptroller
David Polisen