

**STATEWIDE AUDIT
DEPARTMENT OF MILITARY AFFAIRS
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

JANUARY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

General James G. Sieben
Adjutant General
Department of Military Affairs
Veterans Service Building
St. Paul, Minnesota 55155

Dear General Sieben:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and material federal programs. The scope of our work has been limited to:

- the federal programs included in the Single Audit scope, specifically the Military Construction, Army National Guard Program (CFDA #12.400); and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985. The federal government is ultimately responsible for determining resolution of Single Audit recommendations. The appropriate federal program agency staff will contact your agency to review your efforts toward corrective actions for 1985 and prior years. They will also notify you of their final resolution.

Attached to your management letter is a summary of the progress on all audit recommendations developed during our financial audit of Minnesota's fiscal year 1984 financial statements. The recommendation included in this letter is presented to assist you in improving accounting procedures and controls. Progress on implementing this recommendation will be reviewed during our audit next year.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Written procedures are needed for administering the Military Construction Program (CFDA #12.400).

The Department of Military Affairs (DMA) does not maintain adequate written procedures for the administration of its' agreements with the National Guard Bureau (NGB). Adequate accounting control over transactions includes the establishment and maintenance of relevant, up-to-date, written procedures. Written procedures standardize the process as it should operate, provide a means of assessing performance, and serve as a valuable training tool for new employees, especially when only one person is familiar with the process. Effective internal control over the program should include a detailed description of all procedures pertaining to the four National Guard contracts.

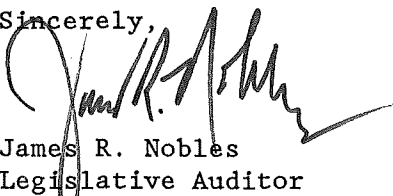
During fiscal year 1985, the DMA began developing written procedures. However, more work is needed to make these procedures a useful management tool. The procedures should set forth the administering of the National Guard program, defining the position responsible for each task, and outlining the steps taken to complete the task. The process should be documented entirely from NGB approval of the contract amounts to the deposit of federal reimbursements.

RECOMMENDATION:


1. *The DMA should complete a written procedures manual for the administration of agreements with the U.S. National Guard Bureau.*

Thank you for the cooperation extended our staff during this audit.

Sincerely,



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

Attachment

January 27, 1986

MINNESOTA DEPARTMENT OF MILITARY AFFAIRS

Attachment

STATUS OR PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

The Military Construction Program (CFDA #12.400) is not administered in accordance with U.S. Office of Management and Budget (OMB) Circular A-102.

1. The Department of Military Affairs should comply with applicable provisions of the Single Audit Act of 1984.

Recommendation Implemented. A waiver dated February 28, 1985 was obtained from the National Guard Bureau (NGB) exempting the DMA from certain provisions of the Single Audit Act of 1984. We consider the action taken by the NGB to represent final acceptance of implementation.

Indirect costs incurred under the Military Construction Program (CFDA 12.400) are not being collected.

2. The Department of Military Affairs should continue to work with the appropriate federal agencies to obtain formal approval of their indirect cost plan.
3. Military Affairs should develop and institute procedures to ensure the recovery of both statewide and departmental indirect costs.

RECOMMENDATION WITHDRAWN. Since our last audit, the DMA has developed and submitted an indirect cost plan for fiscal year 1985 to the U.S. Department of Defense. The Minnesota Department of Finance has approved the plan which was prepared in accordance with OMB Circular A-87 rules and regulations. However, the National Guard Bureau (NGB) has not approved the plan and refuses to pay DMA requests for indirect costs incurred. The NGB has stated that funds will be provided as specified in Federal Management Circular (FMC) 74-4 and only if funds become available.

Recently, the Attorney General's Office explored legal means to collect indirect costs from the federal government. The Attorney General's Office concluded that it would be unprofitable to pursue collection further. Based on this conclusion, the Department of Finance has granted a waiver to the DMA for 30 Fund indirect cost payments. As a result, we withdraw our recommendations to DMA and commend them for their continued efforts in this area.

The Training Site Cooperative Funding Agreement with the National Guard Bureau needs to be clarified.

4. Military Affairs should consult with the USPFO and NGB to review and clarify its responsibility and accountability over contract expenditures paid under the subcontract provisions of the Training Site Agreement.

Recommendation Implemented. In March 1985, the DMA began receiving payment certification vouchers from Camp Ripley which lists the contract amount and payments made to each contractor. This implementation has not received final acceptance by the federal agency.

There are no written procedures for administering the Military Construction Program (CFDA #12.400).

5. The Department of Military Affairs should develop a written procedures manual for the administration of agreements with the U.S. National Guard Bureau.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current recommendation #1.

The Department of Military Affairs outstate employees are not signing their time sheets.

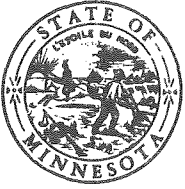
6. The Department of Military Affairs should require all employees to sign their time sheets before submitting them to their supervisors.

Recommendation Implemented. A memorandum dated February 15, 1985 was issued to all employees concerning the signing of timesheets. The memo outlined procedures to be followed by both the employee and supervisor and the consequences for noncompliance. Our current testing of DMA payroll indicated that timesheets were being signed by both the employee and employer. This implementation has not received final acceptance by the federal agency.

Military Affairs has used its state match accounts to pay non-program expenditures.

7. The Department of Military Affairs should utilize its state match allotment accounts only for the payment of federal program costs requiring the match.

Recommendation Implemented. The DMA maintains a manual recordkeeping system for all expenditures by allotment account. Non-program expenditures paid out of the state match accounts are properly adjusted out at year-end to accurately reflect the state match amount on the financial schedules. This implementation has not received final acceptance by the federal agency.



STATE OF MINNESOTA
DEPARTMENT OF MILITARY AFFAIRS
OFFICE OF THE ADJUTANT GENERAL
VETERANS SERVICE BUILDING
SAINT PAUL, MN 55155-2098

January 27, 1986

Mr. James Nobles
Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

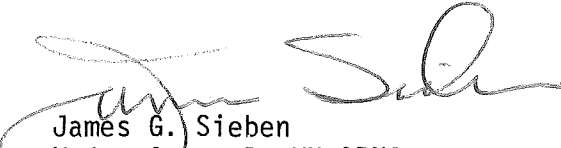
Reference is made to your letter of January 21, 1985, and the attached draft 1985 Single Audit. The following is our response to the recommendation contained in the draft audit:

Prior Recommendation Partially Implemented: Written procedures are needed for administering the Military Construction Program (CFDA #12.400).

Recommendation: The DMA should complete a written procedures manual for the administration of agreements with the U.S. National Guard Bureau.

Response: The partially written procedures manual will be completed. This manual will encompass all tasks and responsibilities necessary in the total administration of the four federal reimbursement contracts. Tasks and responsibilities will be written in detail by the individual charged for that particular part of the contracts administration. Individual procedures will be reviewed internally for detail, accuracy, and completeness. Upon completion of this review, appropriate personnel in the office of the Legislative Auditor will be requested to review and approve. At such time as these steps are completed, the manual will be published for use in final form. CW4 Thomas Ryan will have the responsibility to accomplish this recommendation. The date projected for completion is September 1, 1986.

Sincerely,


James G. Sieben
Major General, MN ARNG
The Adjutant General