

**DEPARTMENT OF MILITARY AFFAIRS
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989**

APRIL 1990

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

90-26

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

DEPARTMENT OF MILITARY AFFAIRS

FINANCIAL AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1989

Public Release Date: April 27, 1990

No. 90-26

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: policies, procedures, payroll, and administrative disbursements associated with various state and federal programs.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

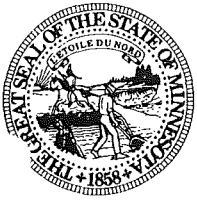
CONCLUSIONS:

We found the internal control structure to be effective.

We found one area where the department had not complied with finance-related legal provisions:

- The department spent some of its appropriation for the maintenance of training facilities to pay for general support expenses.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Brig. General Eugene Andreotti
Adjutant General
Department of Military Affairs

Audit Scope

We have conducted a financial related audit of the Minnesota Department of Military Affairs for the two years ended June 30, 1989. We have issued a separate management letter dated February 1989 as part of our Statewide Financial and Single Audit work in the department for fiscal year 1988, which was limited to the activities of the Military Construction, Army and Air National Guard Reimbursements program (CFDA #12.000).

Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of Minnesota Department of Military Affairs, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Military Affairs in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Department of Military Affairs are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Minnesota Department of Military Affairs' compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Department of Military Affairs is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- federal grant reimbursements,
- military construction, (CFDA #12.00)
- other receipts,
- disbursements, and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

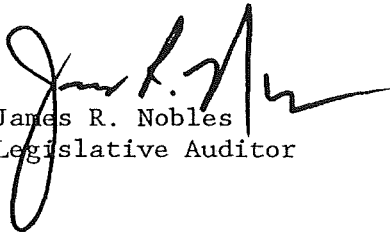
In our opinion, the internal control structure of the Minnesota Department of Military Affairs in effect at June 30, 1989, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Minnesota Department of Military Affairs.

The results of our tests indicate that, except for the issues discussed in finding 1, with respect to the items tested, the Minnesota Department of Military Affairs complied, in all material respects, with the legal provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Military Affairs had not complied, in all material respects, with those legal provisions.

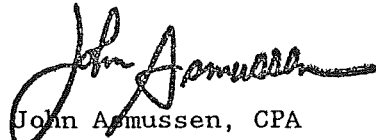
Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Brig. General Eugene Andreotti
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This report is intended for the information of the Legislative Audit Commission and management of the Department of Military Affairs. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 27, 1990.

We would like to thank the Minnesota Department of Military Affairs' staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Amussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 6, 1990

REPORT SIGNED ON: April 23, 1990

DEPARTMENT OF MILITARY AFFAIRS

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Thomas Donahue	Audit Manager
Cecile Ferkul, CPA	Audit Supervisor
Jean Mellett, CPA	Audit Staff

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Military Affairs on March 9, 1990:

Eugene Andreotti	Adjutant General
Thomas Ryan	Comptroller
Marlene Anderson	Senior Accounting Officer
Terry Palmer	Executive Director, State Armory
	Building Commission
Gary Bloedel	Military Auditor

DEPARTMENT OF MILITARY AFFAIRS

I. INTRODUCTION

The Department of Military Affairs consists of the military forces of the state of Minnesota, the Office of the Adjutant General, civilians employed for administration and maintenance, and state owned military installations.

The Minnesota Army and Air National Guard are the organized militia of the State of Minnesota, under the command of the Governor. The national guard is a reserve component of the active U.S. Army and Air Force, and may be called into federal service by the President of the United States. The Minnesota National Guard provides units that are organized, equipped and trained to function efficiently at existing strength, in the protection of life and property and the preservation of peace, order and public safety under orders of the Governor. The federal mission of the guard is to augment the active Army and Air Force, providing units for mobilization in time of war or national emergency.

The following schedule summarizes the department's expenditures during the two years ended June 30, 1989.

	<u>FY 1988</u>	<u>FY 1989</u>
General Fund		
Maintenance	\$5,523,574	\$5,302,535
General Support	1,284,588	1,273,929
Reenlistment/Tuition Programs	0	1,764,327
Other	<u>15,015</u>	<u>192,535</u>
Total General Fund	\$6,823,177	\$8,533,326
Federal Fund	\$9,014,183	\$9,139,138
Other Funds	<u>\$2,266,715</u>	<u>\$1,056,761</u>
Departmental Total	<u>\$18,104,075</u>	<u>\$18,729,225</u>

Source: Statewide Accounting System Disbursement Summary.

In addition to the programs shown above, the Army National Guard operates 71 armories, 10 vehicle maintenance and storage buildings, the Camp Ripley Reservation, and an Army air base at the St. Paul downtown airport. The Air National Guard is stationed at a state owned air base in Duluth and at a federally owned and operated air base at the Minneapolis-St. Paul international airport.

The adjutant general, as military chief of staff to the Governor, heads the Department of Military Affairs and is responsible for the guard fulfilling its state and federal missions. 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. General Eugene R. Andreotti has served as adjutant General since June 20, 1988.

DEPARTMENT OF MILITARY AFFAIRS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Appropriations for the maintenance of training facilities were used for general support expenses.

The Department of Military Affairs paid for General Support expenditures out of the Maintenance of Training Facilities appropriation. We tested a June 1989 payment batch and noted \$422 in General Support expenditures, such as for spring water and telephone services, were paid from the wrong account. This resulted from a lack of available funds in the General Support appropriation.

Minnesota 1989 Laws, Chapter 404, Section 35 appropriated specific amounts for each program account. Section 53 further addresses Military Affairs ability to transfer funds between appropriations. It specifies that Department of Finance approval and legislative notification is required to ensure that the legislative intent of the appropriation is not violated. Payment of General Support expenditures out of the Maintenance of Training Facilities appropriation bypassed this control procedure.

RECOMMENDATION

- State funds should only be used for their appropriated purpose. If transfers between appropriations are necessary, the proper process should be followed.



STATE OF MINNESOTA, DEPARTMENT OF MILITARY AFFAIRS
MINNESOTA ARMY AND AIR NATIONAL GUARD
OFFICE OF THE ADJUTANT GENERAL
Veterans Service Building
Saint Paul, Minnesota 55155-2098



April 11, 1990

The Adjutant General - Minnesota

Mr. James R. Nobles
Legislative Auditor
Veterans Service Bldg.
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following comments are furnished relative to the draft audit report summarizing the results of your audit work for this agency for the two years ending June 30, 1989.

Current Findings, Recommendations and Response

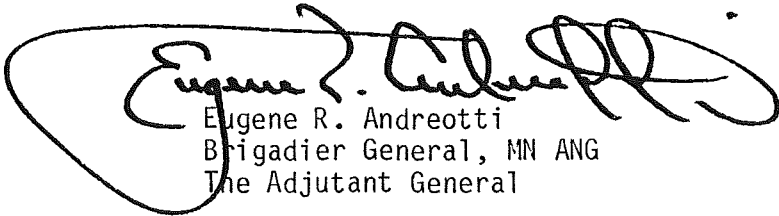
Recommendation:

State funds should only be used for their appropriated purpose. If transfers between appropriations are necessary, the proper process should be followed.

Department Reponse:

Agency personnel were unaware of the 1989 law prohibiting payment of bills from either of the departments appropriations. Personnel have now been informed of this law and the procedures to use if a transfer of funds is needed.

Sincerely,


Eugene R. Andreotti
Brigadier General, MN ANG
The Adjutant General