

**DEPARTMENT OF MILITARY AFFAIRS
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

MAY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

SUMMARY

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

DEPARTMENT OF MILITARY AFFAIRS

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: May 13, 1992

No. 92-31

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: military construction, Army and Air National Guard reimbursements (CFDA #12.000), payroll, reenlistment incentive programs, administrative disbursements, and Minnesota State Armory Building Commission receipts and disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one weakness in the internal control structure:

- Controls over federal reimbursements need improvement.

We found no departures from finance-related legal provisions.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Major 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 as of and for the year ended June 30, 1991. This includes activities of the Military Construction, Army, and Air National Guard Reimbursement program (CFDA #12.000). We have also made a study and evaluation of the internal control structure of the Department of Military Affairs in effect at June 30, 1991.

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 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:

- military construction, Army and Air National Guard reimbursements (CFDA #12.000);
- payroll;
- reenlistment incentive programs;
- administrative expenditures; and
- Minnesota State Armory Building Commission receipts and disbursements.

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 also assessed control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding one involving the internal control structure of the Minnesota Department of Military Affairs. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Major General Eugene Andreotti, Adjutant General
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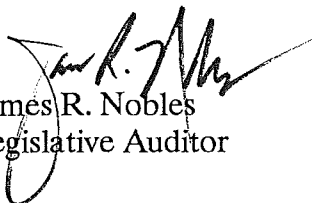
the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

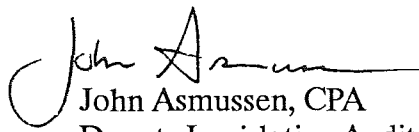
However, we noted certain matters, including finding 1, involving the internal control structure and its operation that we reported to the management of Military Affairs at the exit conference held on February 14, 1992.

The results of our tests indicate that, with respect to the items tested, the Minnesota Department of Military Affairs complied, in all material respects, with the 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 provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Department of Military Affairs. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 13, 1992.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 14, 1992

Report Signed On: May 6, 1992

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
Tom Donahue, CPA	Audit Manager
Ron Mavetz, CPA	Audit Supervisor
Dan Quandt, 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 February 14, 1992:

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

Department of Military Affairs

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 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 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 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 is the Adjutant General.

The following schedule summarizes the department's revenues and expenditures during the year ended June 30, 1991. The General Fund financed approximately \$9.1 million of those expenditures.

Revenues

Military construction, Army and Air National Guard reimbursements (CFDA #12.000)	\$10,454,852
Minnesota State Armory Building Commission revenues	<u>1,447,615</u>
Revenue Total	<u>\$11,902,467</u>

Expenditures

Administrative expenditures	\$ 6,014,728
Payroll	11,616,522
Reenlistment incentive programs	1,922,448
Minnesota State Armory Building Commission disbursements	<u>1,325,586</u>
Expenditure Total	<u>\$20,879,282</u>

Sources: Statewide accounting system, Estimated/Actual Receipts Report and the Manager's Financial Report for the fiscal year 1991 as of the closing date; and Minnesota State Armory Building Commission's Financial Statements.

Current Finding and Recommendations

1. Controls over federal reimbursements need improvement.

The controls over the Department of Military Affairs' federal reimbursement requests are weak. The department does not have a systematic method for preparing federal reimbursement requests. As a result, the department can not be sure if it billed all federal costs, received all federal billings, or deposited all receipts properly during fiscal year 1991. Our testing noted the following errors which occurred and went undetected by the department:

- The department incorrectly deposited \$16,257.68 of federal receipts. The department deposited the receipts into the federal account but the receipts represented billings for costs incurred in the general account. The costs represented Camp Ripley supplies paid for with state funds but used in federal programs. The department should have deposited the receipts in the general account to help the state replenish Camp Ripley Supplies.
- The department did not bill the federal government for all federal activity during fiscal year 1991. Our testing noted one disbursement transaction in which the department incurred a \$22.74 federal activity cost and only requested reimbursement for \$13.88. This created a negative balance in the departments federal account which the department didn't detect or correct. While the error was small, it identifies a weakness in the departments federal receipts process.
- The department deposited fiscal year 1992 receipts into the fiscal year 1991 federal account. The department made these deposits to balance out the fiscal year 1991 federal account. The unbalanced account identifies other errors, as the types shown in the paragraphs above, that the department did not detect or correct. It also shows the federal account may be carrying negative balances from one fiscal year to the next.

The department received \$10,454,852 in federal monies during fiscal year 1991. Of that, \$10,281,764 was deposited into the Federal Fund Account and \$173,088 was deposited into the General Fund Account. We could not determine the accuracy of this deposit split because the federal reimbursement requests lacked support. Also, the department has received authority from the Department of Finance to run the federal account balance negative, pending federal reimbursement. At June 30, 1991, the federal account had a negative balance of \$1,764,092. The department claimed these were outstanding request amounts but could not adequately document or reconcile the account upon our request.

Department of Military Affairs

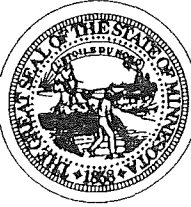
The department needs to develop a systematic billing system which would identify and support reimbursement request amounts. The department should also reconcile the federal account on a periodic basis. This would enable them to identify any expenditures which were not claimed for reimbursement.

Recommendations

- *The department should develop a systematic reimbursement request process.*
- *The department should reconcile the federal account periodically.*

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

April 30, 1992

Mr. James R. Nobles
Legislative Auditor
Centennial Building
St. Paul, MN 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 fiscal year ending June 30, 1991.

Current Finding, Recommendations and Response

Recommendations:

The department should develop a systematic reimbursement request process.

Department Response:

Agency personnel have been working for some time now, on an effective, systematic method in the preparation of federal reimbursement requests. With the addition of personal computers in the work force, we will be able to more effectively reconcile the reimbursement request with the monthly reports received from the Department of Finance.

The department should reconcile the federal account periodically.

Department Response:

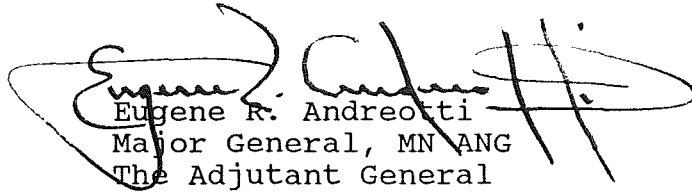
It is anticipated that the personal computer will allow for the reconciliation to take place on a continuing monthly basis.

Mr. Nobles
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April 30, 1992

The June 30, 1991 federal account negative balance exists mainly due to the different fiscal year (June 30, State/Federal, September 30). Reconciliation of this account will not take place until late August or early September.

Sincerely,



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