

DEPARTMENT OF MILITARY AFFAIRS

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

MAY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-20

DEPARTMENT OF MILITARY AFFAIRS

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: May 21, 1993

No. 93-20

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** military construction, Army and Air National Guard reimbursements (CFDA #12.000), payroll, 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 reimbursements for federal communication costs need improvement.

We found no departures from finance-related legal provisions



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Major General Eugene Andreotti
Adjutant General
Department of Military Affairs

Audit Scope

We conducted a financial related audit of the Minnesota Department of Military Affairs as of and for the year ended June 30, 1992. 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 1992.

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 the 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,
- state and federal administrative expenditures; and
- Minnesota State Armory Building Commission revenues and expenditures.

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 conditions discussed in finding 1 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 consistent with the assertions of management in financial statements.

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 the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

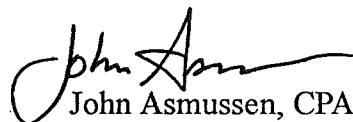
However, we noted certain matters, including finding 1, involving the internal control structure and its operations that we reported to the management of Military Affairs at the exit conference held on February 19, 1993.

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 21, 1993.

We 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 16, 1993

Report Signed On: May 14, 1993

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
Rhonda Regnier, 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 19, 1993.

Eugene Andreotti	Adjutant General
Thomas Ryan	Executive Director
Marlene Anderson	Administrative Management Director
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 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 Army National Guard operates 60 armories, 17 organizational maintenance shops, 5 motor vehicle 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 for the fiscal year ended June 30, 1992.

Revenues

Military construction, Army and Air National Guard reimbursements (CFDA #12.000)	\$10,241,190
Minnesota State Armory Building Commission revenues	1,528,759
Other	<u>331,856</u>
Revenue Total	<u>\$12,101,805</u>

Expenditures

State administrative expenditures	\$ 4,931,830
Federal administrative expenditures	\$ 2,630,314
Payroll	12,920,862
Minnesota State Armory Building Commission	1,111,262
Other	<u>310,422</u>
Expenditure Total	<u>\$21,904,690</u>

Sources: Statewide Accounting System Estimated Actual Receipt and Managers Financial Reports as of 9/5/92 and the Minnesota State Armory Building Commission's Financial Statements for the fiscal year ended June 30, 1992.

Current Finding and Recommendations

1. Controls over Federal Communication Reimbursement need improvement.

The department did not request reimbursement for \$25,616 in federal communication costs during fiscal year 1992 and had to absorb the costs with state monies. The unclaimed costs were the net result of errors in the communication costs charged to federal funds. The department did not request reimbursement for the July, August, and September communication costs totaling \$29,052. The communication unit is responsible for submitting communication bills to the federal government. The communication unit receives paid invoices from the accounting unit and bills the federal government based on the invoice information. The accounting unit receives and deposits federal receipts.

The department also submitted inaccurate communication claims to the federal government. Both the accounting and communication units made errors on federal communication reimbursement requests. First, the accounting unit paid portions of the state communication costs with federal funds. The communication unit billed the federal government based on erroneous cost coding resulting in a \$891.23 overclaim. Second, the communication unit erroneously included state communication costs on some federal billings resulting in an additional \$2,544.62 overclaim.

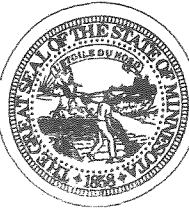
The department should consider establishing an accounts receivable system to track federal communication billings. The department could reconcile communication costs paid to receipts deposited to confirm billing accuracy. We recommended that the department reconcile the federal fund in the prior years report. The department did implement our recommendation but did not include the communications account.

Recommendations

- *The department should develop procedures to ensure that they request reimbursements for all federal communication costs incurred. The department should consider establishing an accounts receivable system to track federal communication billings.*
- *The department should seek reimbursement for the unclaimed fiscal year 1992 communication costs.*

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

30 April 1993

ST. PAUL, MINNESOTA 55155-2098

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, 1992.

Current Finding, Recommendations and Response

Recommendations:

The department should develop procedures to ensure that they request reimbursements for all federal communication costs incurred. The department should consider establishing an accounts receivable system to track federal communication billings.

Department Response:

Beginning with the fiscal year 1993, the department has established an account receivable system for tracking federal communication billings.

With the use of a personal computer, accounting personnel enter the amount of each payment made into a data base, and when reimbursement is received, subtract that amount from the payment, which should then zero out the balance owed on that particular payment. This way any error which occurs will be caught and corrected immediately.

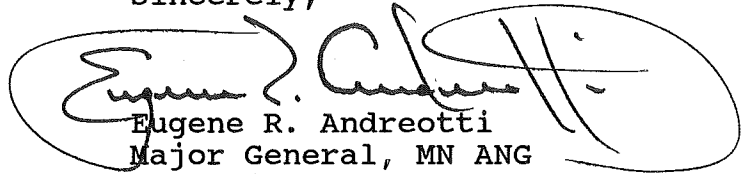
The department should seek reimbursement for the unclaimed fiscal year 1992 communication costs.

Department Response:

In February 1992 the department produced a report, from the same data base as mentioned above, and requested federal reimbursement in the amount of \$25,997.08. Federal reimbursement in the same

amount was received on 9 April 1993 and deposited in the FY 1992 general fund appropriation.

Sincerely,



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