

**Department of Military Affairs
Cooperative Agreement**

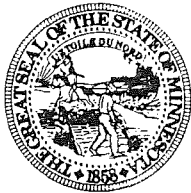
**Selected Scope
Fiscal Year Ended June 30, 1996**

March 1997

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

97-15



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Major General Eugene R. Andreotti, Adjutant General
Department of Military Affairs

We have audited selected areas of the Department of Military Affairs for the fiscal year ended June 30, 1996, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements and the Single Audit federal compliance audit. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1997. Therefore, we emphasize that this has not been a complete audit of all financial activities of the Department of Military Affairs.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Military Affairs complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Military Affairs is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 March 21, 1997.

A handwritten signature in black ink, appearing to read "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, appearing to read "John Asmussen".

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 7, 1997

Report Signed On: March 17, 1997

The 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
Geniene Herrlich, CPA	Auditor-in-Charge
Margie Caneff, CPA	Auditor
Steven Johnson	Auditor

Exit Conference

The conclusions in this report were discussed with the following staff of the Department of Military Affairs on February 14, 1997.

Gary LeBlanc	Assistant Adjutant General
Marlene Anderson	Finance Director
Terrence Palmer	Fiscal Support Manager

The Department of Military Affairs

Chapter 1. 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 administrative and maintenance services, and state owned military installations. The Adjutant General, as commander of the Minnesota National Guard, heads the Department of Military Affairs. 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. Major General Eugene R. Andreotti is the Adjutant General.

The Minnesota National Guard serves both a state mission and a federal mission. Minnesota's National Guard is the organized militia of the state of Minnesota, under the command of the Governor. At the same time, the members of the Minnesota Air and Army National Guard are reserve members of the U.S. Army and Air Force and may be called into active service by the President of the United States. The Guard operates 60 armories, 17 organizational maintenance shops, 5 vehicle storage buildings, the Camp Ripley Reservation, an Army aviation flight facility in St. Paul, and federally owned and operated air bases at Duluth and the Minneapolis-St. Paul International Airport.

During fiscal year 1996, the department reported \$15,732,522 in federal military operations expenditures and \$1,096,776 in state match expenditures under the cooperative funding agreement. The department paid its state match portion out of its General Fund appropriation of approximately \$9.3 million. The cooperative funding agreement between the Department of Military Affairs and the National Guard Bureau govern these expenditures.

Table 1-1 summarizes the department's federal and state match financial activity related to military operations under the cooperative funding agreement for fiscal year 1996.

Table 1-1
Summary of Financial Activity Under the Cooperative Agreement
Fiscal Year Ended June 30, 1996

Expenditures	<u>Federal Share</u>	<u>State Match</u>	<u>Total</u>
Payroll	\$ 7,923,592	\$ 558,678	\$ 8,482,270
Supplies and Expenses	<u>7,808,930</u>	<u>538,098</u>	<u>8,347,028</u>
Total Expenditures	<u>\$15,732,522</u>	<u>\$1,096,776</u>	<u>\$16,829,298</u>

Source: Department of Military Affairs, Schedule of Federal Financial Assistance for fiscal year 1996 and statewide accounting system federal program expenditures.

Our audit scope focused on the 1996 expenditures of the department included in Table 1-1.

Chapter 2. Expenditures Under the Cooperative Agreement

Chapter Conclusions

The Department of Military Affairs maintained internal controls that provided reasonable assurance that federal and state match expenditures and federal reimbursements were properly supported, authorized, and accurately recorded in the department's accounting records. The department complied with applicable general and program specific federal requirements for its military operations under the cooperative agreements for the fiscal year ending June 30, 1996.

Our review of military operations (CFDA #12.000), under the cooperative agreements, included: federal and state match expenditures of payroll, supplies, expenses, and federal reimbursements. We also verified Single Audit general requirements such as political activity, civil rights, and the drug-free workplace.

The United States' Property and Fiscal Officer (USPFO), located at Camp Ripley, Minnesota, provides oversight of all expenditures authorized under the cooperative agreements. The USPFO for Minnesota signs the agreements, appoints program managers for each agreement, receives expenditure and budget reports, and authorizes reimbursement to the state for appropriate expenditures.

The Department of Military Affairs is responsible for processing and recording expenditures on the Minnesota Accounting and Procurement System (MAPS), the state's accounting system. The department is also responsible for requesting federal reimbursement for eligible expenditures, as specified by the master cooperative agreement. All expenditures are made through the State Treasury.

The department's fiscal services section processes the bi-weekly payroll using the Minnesota Statewide Employee Management System (SEMA4), the state's payroll and personnel system. During fiscal year 1996, the department expended a total of \$8,482,270 in federal and state match payroll expenditures related to the master cooperative agreement. The Department of Military Affairs has approximately 201 employees whose positions are funded through the master cooperative agreement. Approximately 76 percent of these positions are federally funded. The remaining positions are funded 75 percent with federal funds and 25 percent from the state's General Fund.

The Department of Military Affairs

Audit Objectives

We focused on the following objectives during our review of Military Affairs' expenditures as presented on the department's Schedule of Federal Financial Assistance for the fiscal year ended June 30, 1996:

- Did the Department of Military Affairs maintain internal controls that provided reasonable assurance that federal and state match expenditures and federal reimbursements were properly supported, authorized, and accurately recorded in the department's accounting records?
- Did the Department of Military Affairs comply with applicable general and program specific federal requirements for military operations under the cooperative agreements?

Methodology

The methodology we used to audit the federal and state match expenditures under the cooperative agreements included analytical reviews, inquiries, and sampling. We prepared analytical reviews to identify significant trends and variations in expenditures over previous years. We interviewed department personnel to gain an understanding of the expenditure process for payroll, supplies, expenses, and applicable matching requirements. We used both judgmental and random sampling techniques to select federal and state expenditure transactions for review and to determine that the department properly authorized, adequately supported, and accurately processed expenditures for payroll, supplies, and expenses. We performed tests of compliance with the general requirements applicable to major federal financial programs.

Conclusions

We found that the Department of Military Affairs maintained internal controls that provided reasonable assurance that federal and state match expenditures and federal reimbursements were properly supported, authorized, and accurately recorded in the department's accounting records. The department complied with applicable general and program specific federal requirements for its military operations under the cooperative agreements during the fiscal year ending June 30, 1996.