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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Military Affairs
Fiscal Year 2005



March 2, 2006

06-05

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Military Affairs

Table of Contents

	Page
Report Summary	1
Management Letter	2
Status of Prior Audit Issues	4
Agency Response	5

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Polisenno, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge

Exit Conference

We discussed the results of the audit with the following staff of the Department of Military Affairs at an exit conference on February 15, 2006:

Larry Shellito	Adjutant General
Terrence Palmer	Comptroller
Nanette Martinek	Accounting Supervisor

Report Summary

Audit Finding:

- The Department of Military Affairs incorrectly coded some equipment expenditures on the state's accounting system.

The audit report contained one finding relating to financial reporting.

Audit Scope:

Audit Period:
Fiscal Year 2005

Selected Audit Area:

- National Guard Military Operations & Maintenance Projects Program (CFDA # 12.401)

Agency Background:

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 department's budget is funded primarily through its cooperative agreements with the federal government, which reimburses the state between 60 and 75 percent of allowable charges. The federal government provides additional direct funding for other military operations in the state, such as Camp Ripley operations.



Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Major General Larry W. Shellito, Adjutant General
Department of Military Affairs

We have performed certain audit procedures at the Department of Military Affairs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to major federal programs for the year ended June 30, 2005. The scope of our audit work at the department included the National Guard Military Operations and Maintenance (O & M) Projects Program, CFDA¹ #12.401, which had expenditures of \$27,189,259. We emphasize that this has not been a comprehensive audit of the Department of Military Affairs.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our November 18, 2005, report included an unqualified opinion on the State of Minnesota's basic financial statements. In accordance with *Government Auditing Standards*, we have also issued our report, dated November 18, 2005, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. In March 2006, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our audit work, we identified the following financial reporting weakness at the Department of Military Affairs:

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Department of Military Affairs

Finding and Recommendation

1. The Department of Military Affairs incorrectly coded certain equipment expenditures on the state's accounting system.

The department did not enter the correct object code when recording some equipment expenditures into MAPS, the state's accounting system. For example, the department purchased a Caterpillar excavator for \$144,500 and a John Deere tractor for \$48,474 and recorded the equipment purchases as supplies on MAPS. The Department of Finance uses object codes to determine the capital asset amount to be reported for its annual financial statements. The Department of Finance requires agencies to record equipment purchases valued at \$30,000 or more as capital assets. Failure to use correct object codes could result in inaccurate or incomplete capital equipment amounts as reported in the state's financial statements.

Recommendation

- *The department should ensure that it uses correct object codes when entering expenditures into the state's accounting system.*

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 2, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA
Deputy Legislative Auditor

End of Fieldwork: January 17, 2006

Report Signed On: February 27, 2006

Department of Military Affairs

Status of Prior Audit Issues As of January 17, 2006

Most Recent Audit

Legislative Audit Report 04-25, issued in June 2004 covered the three fiscal years ended June 30, 2003. The audit scope included financial management and administrative expenditures for payroll, travel, rent and utilities, repairs and maintenance, and supplies and equipment. The scope also included tuition reimbursement. The report included two written findings. One finding related to the incorrect coding of some transactions in the accounting system. The other finding related to reimbursement of out-of-state travel at improper rates. These findings were not relevant to our current objectives and, as a result, we did not determine their status as part of this audit.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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

February 22, 2006

ST. PAUL, MINNESOTA 55155-2098

The Adjutant General

Mr. James Nobles
Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Below is the official response to the findings and recommendations noted on the Department of Military Affairs audit for the period July 1, 2004 through June 30, 2005. We thank you and your staff for the professional manner in which they conducted the audit and for their thoroughness in auditing and reviewing our department policies and procedures.

Finding: The Department of Military Affairs incorrectly coded certain equipment expenditures on the state's accounting system.

We concur that we have incorrectly coded certain equipment expenditures in MAPS. We also concur with your recommendation that we should ensure we use correct object codes when entering expenditures into the state's accounting system.

The accounting supervisor has already taken steps to educate all our employees entering transactions to ensure correct object codes are entered into MAPS. We have stressed the importance of correct coding in allowing the state to properly prepare its annual financial reports. This will be an area of ongoing, special emphasis throughout the year. The accounting supervisor will review a larger sample of documents entered to ensure that they are properly coded.

Sincerely,

A handwritten signature in black ink, appearing to read "Harry W. Shellito".

Harry W. Shellito
Major General, Minnesota
Army National Guard
The Adjutant General