



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

**Department of
Management and Budget**

Federal Compliance Audit

Fiscal Year 2010

May 6, 2011

Report 11-14

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

May 6, 2011

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Jim Schowalter, Commissioner
Department of Management and Budget

This report presents the results of our audit of the Department of Management and Budget's responsibilities for the state's federal financial assistance programs, including general compliance requirements related to federal assistance, and the preparation of the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, including the state's Schedule of Expenditures of Federal Awards for fiscal year 2010. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Management and Budget.

We discussed the results of the audit with department staff at an exit conference on April 29, 2011. This audit was coordinated by Michael Hassing, CPA, CISA (Audit Manager).

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Management and Budget. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 6, 2011.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Management and Budget generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to the state's administration of federal programs and the preparation of the *Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2010. However, the department did not prepare the Schedule of Expenditures of Federal Awards in a timely manner and had a deficiency in the operation of a control to ensure accurate reporting of American Recovery and Reinvestment Act expenditures, as noted in the following *Findings and Recommendations* section.

Findings

- Prior Finding Partially Resolved: The Department of Management and Budget did not prepare the Schedule of Expenditures of Federal Awards in a timely manner. ([Finding 1, page 5](#))
- The Department of Management and Budget's internal controls to ensure the complete and accurate reporting of funds related to the American Recovery and Reinvestment Act did not identify an error in one Section 1512 report submitted by the Minnesota Department of Health. ([Finding 2, page 5](#))

Audit Objective and Scope

The objective of our audit was to determine whether the Department of Management and Budget complied with federal program requirements in its oversight and administration of the state's federal programs, including the general compliance requirements related to federal assistance and preparation of the Schedule of Expenditures of Federal Awards for fiscal year 2010. This audit is part of our broader federal Single Audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.

Department of Management and Budget

Federal Program Overview

As the manager of the state's financial affairs, the Department of Management and Budget has high-level responsibility for the state's compliance with federal program requirements. In addition, the department has responsibility for certain specific compliance requirements, such as the determination of the state's indirect cost allocations to federal programs and cash management of federal funds. The department provides oversight to the other executive branch agencies related to statewide internal controls over the accounting, personnel and payroll, and procurement systems and establishes the appropriate policies for managing the state's financial resources, including federal program awards.

Each year, the department prepares the state's *Financial and Compliance Report on Federally Assisted Programs*, required as part of the state's Single Audit.¹ As a part of that report, the department prepares, with the assistance from other state agencies, the state's Schedule of Expenditures of Federal Awards for federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.²

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Management and Budget complied with federal program requirements in its oversight and administration of the state's federal programs, including the general compliance requirements related to federal assistance and preparation of the Schedule of Expenditures of Federal Awards for fiscal year 2010. This audit is part of our broader federal Single Audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.

¹ The State of Minnesota's Single Audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 11-02, *Report on Internal Control Over Financial Reporting*, issued February 18, 2011.) This report included control deficiencies related to the Department of Management and Budget and other state agencies.

² We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2010 exceeded \$30 million.

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusion

The Department of Management and Budget generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to the state's administration of federal programs and the preparation of the *Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2010. However, the department did not prepare the Schedule of Expenditures of Federal Awards in a timely manner and had a deficiency in the operation of a control to ensure the accuracy of reporting Recovery and Reinvestment Act expenditures to the federal government, as noted in the following *Findings and Recommendations* section.

We will report these deficiencies to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal program requirements, including the preparation of the state's Schedule of Expenditures for Federal Awards, and our findings about control and compliance deficiencies with major federal programs administered by the State of Minnesota.

Findings and Recommendations

Prior Finding Partially Resolved: The Department of Management and Budget did not prepare the Schedule of Expenditures of Federal Awards in a timely manner.

Finding 1

The Department of Management and Budget did not provide draft expenditure schedules to us until February 8, 2011, six weeks after our agreed upon due date. The Single Audit Act requires our office to determine the state's major federal programs based on the final schedules.³ Changes in the determination of major federal programs may result in the need for additional audit work before the state can issue its *Financial and Compliance Report on Federally Assisted Programs*. This was one of several factors resulting in the state not meeting the federally required March 31 Single Audit reporting deadline for fiscal year 2010.

The Department of Management and Budget improved its review of agency information used to prepare the state's Schedule of Expenditures of Federal Awards for fiscal year 2010.

Recommendation

- *The Department of Management and Budget should more promptly prepare the Schedule of Expenditures of Federal Awards to allow an earlier determination of major programs.*

The Department of Management and Budget's internal controls to ensure the complete and accurate reporting of funds related to the American Recovery and Reinvestment Act did not identify an error in one Section 1512 report submitted by the Minnesota Department of Health.

Finding 2

The Department of Management and Budget did not identify an error in one Section 1512 report submitted by the Minnesota Department of Health for an American Recovery and Reinvestment Act (ARRA) program.⁴ Federal regulations identify that certain ARRA programs have special reporting requirements, including the requirement to report total expenditures and total receipts on a quarterly basis, along with other funding details such as subawards provided to specific subgrantees and project status information.⁵ These reporting

³ U.S. Office of Management and Budget Circular A-133, Subpart E-Auditors, Section .520.

⁴ Immunization and Vaccines for Children Grants Program (CFDA 93.712) - Federal Award 3H23IP522551 - 07S2.

⁵ U.S. Office of Management and Budget Circular A -133 June 2010 Compliance Supplement, Part 3 - Compliance Requirements - Section L - Reporting; and American Recovery and Reinvestment Act of 2009, Public Law 111-5, Title XV - Accountability and Transparency, Section 1512.

requirements provide more transparency along with increased accountability for agencies administrating ARRA funds.

The State of Minnesota uses a decentralized process for reporting ARRA expenditures to the federal government, in which each state agency separately reports information to a federal website. Before each agency submits its final quarterly ARRA expenditure reports to the federal government, the Department of Management and Budget performs an independent review, which includes a reconciliation of expenditures to the appropriate accounting system. The Department of Health should have reported \$247,214 of federal receipts and expenditures for the quarter ended June 30, 2010; instead, it reported the previous quarter's receipts and expenditures, totaling \$113,426. An independent review at the department and at the Department of Health did not catch this error, which resulted in an incorrect posting to the federal ARRA reporting website.⁶ The report submitted for the subsequent quarter accurately reflected the cumulative receipts and expenditures for this program.

Recommendation

- *The department should improve its controls over quarterly reporting for ARRA funds to ensure state agencies submit accurate and complete information to the federal government.*

⁶ www.recovery.gov.

May 3, 2011

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to discuss your audit findings with the individuals in your office responsible for the single audit. We are committed to providing accurate and timely financial and Section 1512 reporting information related to the federally assisted programs.

Finding

Finding 1. The Department of Management and Budget did not prepare the Schedule of Expenditures of Federal Awards in a timely manner.

Response

Thank you for recognizing the improvement in our review process. We continue to place a high priority on ensuring the accuracy and timeliness of the Schedule of Expenditures of Federal Awards. We will continue to work with agencies to improve the timeliness of the Schedule of Expenditures of Federal Awards.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: March 31, 2012

Finding

Finding 2. The Department of Management and Budget's internal controls to ensure the complete and accurate reporting of funds related to the American Recovery and Reinvestment Act did not identify an error in one Section 1512 report submitted by the Minnesota Department of Health.

Response

MMB has established additional controls and supports to assist state agencies, the prime recipients responsible for reporting on ARRA funding, with the new Section 1512 reporting requirements. The error identified relates to one data element in one report submitted by the Minnesota

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Department of Health. During the quarter ending June 30, 2010, MMB reviewed over 200 state agency reports reflecting over \$1.2 billion in ARRA expenditures.

Agencies and MMB reviewers are provided a copy of the reports generated from the Minnesota Accounting and Procurement System (MAPS) so that they may compare Section 1512 reported data to the statewide accounting system. In cases where agencies reconcile data to subsystems, agencies are expected to maintain supporting documentation from those systems. MMB will continue to instruct agencies to reconcile receipts and expenditures to the accounting system or relevant agency subsystem to ensure complete and accurate reporting of ARRA funds.

Person Responsible: Michelle Weber, Executive Budget Coordinator

Implementation Date: Complete

Sincerely,

A handwritten signature in black ink, appearing to read "James Schowalter". The signature is fluid and cursive, with the first name "James" and last name "Schowalter" clearly distinguishable.

James Schowalter
Commissioner