



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

**FINANCIAL AUDIT DIVISION REPORT**

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**Department of  
Management and Budget  
Federal Compliance Audit  
Year Ended June 30, 2012**

**July 25, 2013**

**Report 13-18**

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

July 25, 2013

Senator Roger Reinert, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James 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 *State of Minnesota Financial and Compliance Report on Federally Assisted Programs*, including the state's Schedule of Expenditures of Federal Awards for fiscal year 2012. 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's staff. This audit was coordinated by Michael Hassing, CPA, CISA (Audit Manager).

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 did not comply with federal reporting requirements related to the preparation and submission of the *Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2012, as noted in the following *Finding and Recommendation* section. The department complied with and had internal controls to ensure compliance with other legal requirements applicable to the state's administration of federal programs.

## Finding

- The Department of Management and Budget did not finalize the Schedule of Expenditures of Federal Awards in order to submit its single audit report to the federal government in a timely manner. ([Finding 1, 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. These requirements included general compliance requirements related to federal assistance and the preparation of the state's Schedule of Expenditures of Federal Awards for fiscal year 2012. 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.

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# 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.<sup>1</sup> 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.<sup>2</sup>

## 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 2012. 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.

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<sup>1</sup> 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 March 20, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2012. 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 13-06, *Report on Internal Control Over Financial Reporting*, issued May 17, 2013.) This report included control deficiencies related to the Department of Management and Budget and other state agencies.

<sup>2</sup> 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 2012 exceeded \$30 million.

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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 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 did not comply with federal reporting requirements related to the preparation and submission of the *Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2012, as noted in the following *Finding and Recommendation* section. The department complied with and had controls to ensure compliance with other legal requirements applicable to the state's administration of federal programs.

We will report this deficiency 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 of Federal Awards, and our findings about control and compliance deficiencies with major federal programs administered by the State of Minnesota.

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## Finding and Recommendation

**The Department of Management and Budget did not finalize the Schedule of Expenditures of Federal Awards in order to submit its single audit report to the federal government in a timely manner.**

### Finding 1

The department did not submit to the federal government the State of Minnesota's single audit report for fiscal year 2012 by the March 31, 2013, deadline.<sup>3</sup> The department missed the deadline because it did not adequately design, develop, and test the process to prepare the Schedule of Expenditures of Federal Awards. According to the department, the implementation of a new accounting system in July 2011 and a redesign of the financial and federal expenditure reporting processes resulted in the department being unable to produce and submit for audit federal expenditure schedules for fiscal year 2012 until the end of June 2013.

The department's difficulty in preparing its federal expenditure schedules increased the risk that material misstatements could occur without detection. Because of this increased risk, we concluded that we could not perform sufficient and appropriate audit procedures to support an opinion on the Schedule of Expenditures of Federal Awards. Our disclaimer of an audit opinion on the Schedule of Expenditures of Federal Awards is included in the single audit report for fiscal year 2012 submitted to the federal government in July 2013.

The annual single audit is an important way that the state is accountable for its use of federal money. In addition to the federal expenditure schedule, the single audit concludes on the sufficiency of the state's internal controls for its federal programs and on its compliance with a variety of general and specific federal program requirements. Notifying the federal government about internal control weaknesses and noncompliance by the deadline is fundamental to the timely resolution of the issues.

#### *Recommendation*

- *The Department of Management and Budget should re-evaluate its federal expenditure reporting process to ensure the timely completion of the state's federal single audit report.*

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<sup>3</sup> Office of Management and Budget Circular A-133, Section 320 (a) requires a single audit of the state's compliance in administering federal awards and requires a single audit report be completed by nine months after the end of the fiscal year.

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July 23, 2013

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

Dear Mr. Nobles:

We remain committed to providing accurate and timely financial reporting information related to the federally assisted programs and appreciate your audit work on the state's internal controls and compliance.

**Finding**

The Department of Management and Budget did not finalize the Schedule of Expenditures of Federal Awards in order to submit its single audit report to the federal government in a timely manner.

**Recommendation**

The Department of Management and Budget should re-evaluate its federal expenditure reporting process to ensure the timely completion of the state's federal single audit report.

**Response**

We agree with the recommendation and are highly committed to accurate and timely reporting of the state's federal single audit report. As you are aware, our new accounting and procurement system went live as our accounting system of record effective July 1, 2011. As a result, fiscal year 2012 was our first reporting cycle using the new system. We retired our stand-alone financial reporting system and developed new financial reporting processes using functionality imbedded in the new software.

The learning curve associated with a new system of this size and complexity was considerable. This impacted our internal staff as well as state agency personnel who contributed various items necessary for reporting. Additionally, there was a substantial commitment of time to design, develop, and test the new reports and processes needed to produce both the state's Comprehensive Annual Financial Statement (CAFR) and the Schedule of Expenditures of Federal Awards (SEFA) through the state's accounting system. We are confident that the extra time we took to prepare, test, and complete the CAFR and SEFA resulted in complete and

James R. Nobles

July 23, 2013

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accurate reporting. We were pleased to again receive an unqualified (clean) opinion on the CAFR, including the federal fund.

The investment we made this year to complete the SEFA will ultimately result in improvements over the prior years. As both the CAFR and the SEFA are generated from the accounting system, the need for multiple reporting systems was eliminated. Thus, the entries made in the accounting system during the CAFR preparation of the federal fund that also impacted the SEFA are reported automatically into the SEFA report. This process eliminated the need for duplicate entry as required in the past and reduced the risk of material misstatement.

We realize the extra time we took to ensure that SEFA was complete and accurate caused delays. We regret the impact this had on your audit schedule and the resulting change in audit scope. We believe that the work performed to understand the accounting system and redesign the process will create efficiencies and allow us to issue the SEFA in a timely manner in future years. We will also continue to work with agencies to improve the timeliness and efficiency of obtaining necessary information. In addition, we will continue to work with agencies on their findings on internal controls over compliance and compliance with federal requirements.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: March 31, 2014

Again, thank you for the opportunity to respond to the audit finding of the department. We value your work to improve Minnesota's internal control structure.

Sincerely,



James Schowalter  
Commissioner