

February 13, 2004

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Department of Finance
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Mr. James R. Nobles, Legislative Auditor
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Regional Inspector General for Audit
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The Office of the State Auditor has completed our report of Federally Assisted Programs of Subrecipients of the State of Minnesota for the year ended June 30, 2003.

General

The State of Minnesota, as a recipient of federal funds, is responsible for assuring that its subrecipients of federal funds have audits in accordance with the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133.

This report on "Federally Assisted Programs of Subrecipients of the State of Minnesota" for the fiscal year ended June 30, 2003, is prepared to demonstrate the State of Minnesota's compliance with the requirement for audit of federal funds granted to its subrecipients.

General (Continued)

This report represents a compilation of financial and compliance information pertaining to federal grants. The data has been obtained from audited financial statements of subrecipients submitted to this office. Subrecipients covered in this report include cities, counties, housing and redevelopment authorities, nonprofit agencies, regional development commissions, school districts and related agencies, tribal governments, and other local units of government in Minnesota.

Memorandum of Understanding

In April 1983, a Memorandum of Understanding (Memorandum) was signed that documented the arrangement for conducting a single audit of federal funds awarded directly to the State of Minnesota and expended either by the State or an authorized subrecipient. This Memorandum remains in effect for the current-year single audit report of the State of Minnesota.

The Memorandum outlines the broad issues agreed to, as well as the specific responsibilities of each party. The parties participating in the Memorandum and their duties are:

- S The Minnesota Department of Finance serves as the lead state agency, representing all Minnesota state agencies receiving federal funds, and coordinates single audit requirements.
- S The Minnesota Office of the Legislative Auditor performs the statewide single audit and prepares the audit report at the state level.
- S The U.S. Department of Agriculture - Office of the Inspector General serves as the lead cognizant audit agency, representing all federal agencies awarding funds to the State of Minnesota, and serves as liaison with the other parties participating in the Memorandum and federal agencies.
- S The Minnesota Office of the State Auditor monitors subrecipient audits by reviewing audit reports for timeliness and compliance with federal reporting standards. Subrecipient audit reports are considered acceptable when they include the reporting elements required by *Government Auditing Standards*, issued by the Comptroller General of the United States; by the American Institute of Certified Public Accountants; by the Single Audit Act Amendments of 1996; and by Office of Management and Budget (OMB) Circular A-133. The Office prepares this summary report, which includes expenditures of federal awards by subrecipients, along with their auditor's questioned costs and noncompliance findings. This summary report is provided to the other parties of the Memorandum.

Review of Subrecipient Audit Reports

For the fiscal year ended June 30, 2003, 490 entities were determined to have received sufficient federal funds from the State of Minnesota to require them to submit audited financial statements. Not all of the subrecipients submitted audited financial statements in time to be included in this report.

Review of Subrecipient Audit Reports (Continued)

The status of the audits, by type, are:

	<u>Reports</u>			Not Received in Time for Publication
	<u>Total</u>	<u>Received</u>	<u>Failed to Report</u>	
Cities	67	67	-	-
Counties	85	85	-	-
Housing and Redevelopment Authorities	2	1	-	1
Nonprofit Agencies	85	46	23	16
Other Governmental Agencies	20	17	2	1
Regional Development Commissions	9	9	-	-
Schools and Related Agencies	271	259	12	-
Tribal Governments	10	4	6	-
Totals	<u>549</u>	<u>488</u>	<u>43</u>	<u>18</u>
Percent	100%	89%	8%	3%

Significant Items

To be included in this report, financial statements must have been received by February 10, 2004. The Single Audit Act requires governments to file their single audit reports within nine months of year end; therefore, governmental entities with fiscal years ending May 9, 2003, or earlier, should have filed their financial statements in time for this report. In addition, the State requires school districts to file their financial statements by December 31. Forty-three entities failed to report in compliance with these requirements. An additional 18 reports were not received in time for this publication reflecting the fact that entities (other than schools) with fiscal years ending between May 9 and July 1, 2003, may have reporting deadlines extending beyond the publication date of this report.

Contents of This Report

This report contains six exhibits. The exhibits contain information included in audited financial statements of subrecipients having fiscal year-ends between July 1, 2002, and June 30, 2003. The resolution of questioned costs, noncompliance, and crosscutting findings is the responsibility of the administering agency. The exhibits are:

Exhibit 1 Questioned Costs

A summary of questioned costs by administrative agency. Summarized for each questioned cost is the subrecipient entity, Catalog of Federal Domestic Assistance (CFDA) number, reason for and the amount of the questioned costs.

Contents of This Report (Continued)

Exhibit 2 Expenditures of Federal Awards by CFDA Number

A summary of expenditures of federal awards by CFDA number and by the administering agency type--direct federal or pass through state or other agency.

Exhibit 3 Expenditures of Federal Awards by Entity

A summary of expenditures of federal awards by subrecipient entity and the administrative agency type--direct federal or pass through state or other agency. Also shown are those entities which were to file a single audit report and did not. The exhibit identifies if the entity's audit report is acceptable; that is, if the audit report contains all reporting elements required by applicable auditing standards.

Exhibit 4 Expenditures of Federal Awards by Administering Agency

A summary of expenditures of federal awards by the administrative agency and a breakdown of those agencies by the subrecipient entities and CFDA numbers. Also indicated are federal or nonfederal crosscutting findings or grant noncompliance (refer to Exhibits 5 and 6 for detailed crosscutting findings). The exhibit also identifies if the entity's audit report is acceptable.

Exhibit 5 Summary of Nonfederal Crosscutting Findings by Agency Type

A summary of nonfederal crosscutting findings by entity. A nonfederal crosscutting finding is non-monetary and does not pertain to any federal programs.

Exhibit 6 Summary of Federal Crosscutting Findings by Agency Type

A summary of federal crosscutting findings by entity. A federal crosscutting finding is non-monetary and does not pertain to a specific federal program.

For any detail regarding information in these exhibits, the audit report should be reviewed or the subrecipient should be contacted.

Report Distribution

This report will be distributed to:

- S U.S. Department of Agriculture, the cognizant agency for the State of Minnesota;
- S Grantor agencies of the federal government;
- S State of Minnesota agencies which subgranted federal funds on a pass-through basis;
- S Selected local agencies which subgranted federal funds on a pass-through basis; and other interested organizations.

Statistical Information

The following table shows the number of subrecipients submitting single audits that were included in our reports for each of the ten years ended June 30, 2003:

<u>Year</u>	<u>Cities</u>	<u>Counties</u>	<u>HRAs</u>	<u>Libraries</u>	<u>Nonprofit Agencies</u>	<u>Other Governments</u>	<u>RDCs</u>	<u>Schools and Related Agencies</u>	<u>Tribal Governments</u>	<u>Total</u>
2003	67	85	1	-	46	17	9	259	4	488
2002	62	83	2	-	47	17	9	227	4	451
2001	71	79	2	-	48	25	7	209	5	446
2000	39	74	3	-	49	22	8	200	5	400
1999	61	79	1	-	46	20	6	186	4	403
1998	36	87	-	1	45	14	6	183	4	376
1997	88	87	-	10	65	26	6	163	5	450
1996	80	87	-	19	70	25	6	425	5	717
1995	95	87	3	18	87	23	5	442	5	765
1994	98	87	1	19	81	21	6	464	5	782

The following table summarizes the federal grant revenue by administering agency type included in this report for the last ten years: (Dollars in millions)

<u>Year</u>	<u>Administering Agency</u>			
	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
2003	\$ 503	\$ 1,114	\$ 61	\$ 1,678
2002	459	1,056	52	1,567
2001	363	1,009	48	1,420
2000	392	808	43	1,243
1999	281	789	42	1,112
1998	212	808	51	1,071
1997	253	763	44	1,060
1996	222	768	49	1,039
1995	233	770	54	1,057
1994	176	778	48	1,002

Statistical Information (Continued)

The following is a tabulation of the questioned costs for the last ten years:

<u>June 30</u>	<u>Amount</u>
2003	\$ 358,423
2002	809,429
2001	364,580
2000	802,586
1999	644,500
1998	979,716
1997	438,373
1996	726,335
1995	2,856,054
1994	288,115

Acknowledgment

The preparation of this report on Federally Assisted Programs of Subrecipients of the State of Minnesota for the year ended June 30, 2003, was accomplished through the effort of the Single Audit Division and the cooperation of various federal, state, and local agencies. I wish to acknowledge those local entities that submitted their annual reports in a timely manner.

Sincerely,

Patricia Anderson
State Auditor