



FINANCIAL AUDIT DIVISION REPORT

Department of Public Safety
Office of Justice Programs

Internal Controls and
Compliance Audit

July 2011 through June 2013

November 15, 2013

Report 13-30

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 15, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ramona Dohman, Commissioner
Department of Public Safety

This report represents the results of our internal controls and compliance audit of selected financial activities of the Office of Justice Programs for the period July 1, 2011, through June 30, 2013.

The audit was conducted by Sonya Johnson, CPA, CFE (Audit Manager), Pat Ryan, (Auditor-in-Charge) and assisted by auditors Abdul Suleyman, CPA, and Natalie Mehlhorn.

We received the full cooperation of the Department of Public Safety's staff, and we thank them for their assistance.

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 Public Safety's Office of Justice Programs generally had adequate internal controls to ensure that it reimbursed grant recipients and crime victims for allowable and authorized expenditures and accurately recorded expenditures in the state's accounting system. For the items tested, the Office of Justice Programs generally complied with finance-related legal provisions. However, the office had some internal control weaknesses and noncompliance related to some grant payments, grant monitoring, and crime victim assistance payments.

Findings

- The Office of Justice Programs did not always comply with state grant policies to ensure that it executed grant agreements prior to the start of the grant period, and it adequately monitored grantees. ([Finding 1, page 7](#))
- The Office of Justice Programs did not adequately reconcile payments it authorized through its crime victims assistance database to payments recorded on the state's accounting system. In addition, it did not adequately protect crime victims' not public data. ([Finding 2, page 9](#))
- The Office of Justice Programs did not have adequate segregation of duties over its receipts. ([Finding 3, page 10](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Legal compliance

Period Audited

July 1, 2011, through June 30, 2013

Programs Audited

- Administration and oversight of grants
 - Crime victim assistance
-

Department of Public Safety – Office of Justice Programs

Overview

In 2003, the Department of Public Safety created the Office of Justice Programs by reorganizing and consolidating various crime victim services and criminal and juvenile justice programs.¹ The office operates three major program areas: Crime Victim Services; Justice and Community Grants; and Training, Research and Communication. Jeri Boisvert, served as the executive director until June 2013, when Raeone Magnuson was selected for the position.

The office obtains its funding from a variety of sources, including appropriations from the General Fund, various federal grants, and other receipts. Table 1 shows the office's revenues by category for fiscal years 2012 and 2013.

Table 1
Department of Public Safety – Office of Justice Programs
Revenues by Fiscal Year

	<u>2012</u>	<u>2013</u>
State Appropriations	\$33,057,000	\$33,057,000
Federal Grants ¹	19,063,153	14,763,137
Restitutions ²	708,208	555,916
Other Receipts	125,664	114,166
Subrogations ³	<u>92,026</u>	<u>78,168</u>
Total	<u>\$53,046,051</u>	<u>\$48,568,387</u>

¹ The office received money through about 19 different grants from the U.S. Departments of Justice and Health and Human Services. The largest grant, totaling about \$14 million, was for crime victim assistance services. The other smaller grants were for a variety of programs related to areas such as criminal justice, sexual assault, and juvenile justice.

² Restitution is money an offender pays to the office (by judicial order) to compensate victims for losses related to a crime, such as medical and dental expenses, counseling costs, lost wages, property losses, and repairs to damaged property.

³ Subrogations are those payments resulting from lawsuits against an offender or their insurance company.

Source: State of Minnesota's accounting system.

¹ As allowed by *Minnesota Statutes* 2002, 16B.37, the Department of Administration's Reorganization Order No. 187 directed the Department of Public Safety to create the Office of Justice Programs "to improve efficiency and avoid duplication in the operation of state government, programs, and services related to the assistance of crime victims and the functioning of the criminal and juvenile justice system currently spread across a number of agencies." The reorganization brought together five programs formerly operated individually through Minnesota Planning, Office of Crime Victim Ombudsman, and the departments of Public Safety, Education, and Economic Security.

Under its statutory authority, the office provides grants for direct services and advocacy for victims of sexual assault, general crime, domestic violence, and child abuse. The office also awards grants to prevent and control crime and improve the functioning of the criminal and juvenile justice systems.² The office competitively awards most of the grants it administers, requiring that the potential grantee submit proposals addressing how the organization will use the funding. The office also provides financial assistance to victims of violent crime under its Crime Victim Reparations Program.

Table 2 shows the office's expenditures by category for fiscal years 2012 and 2013.

	<u>2012</u>	<u>2013</u>
Payroll	\$ 2,865,519	\$ 2,960,156
Crime Victim Assistance	2,317,008	2,956,284
Purchased Services ¹	1,263,605	1,248,243
Other Operating Costs	263,156	184,702
Grants:		
Nongovernmental Organizations	34,490,057	34,114,337
Counties	6,786,950	6,631,117
Cities	3,334,092	2,128,672
Interagency	3,024,725	1,804,561
Sovereign Entities	1,529,639	1,468,964
School Districts	285,368	183,930
Special Districts	287,930	239,041
Higher Education	<u>109,889</u>	<u>105,025</u>
Total Expenditures	<u>\$56,557,938</u>	<u>\$54,025,032</u>

¹ Purchased services included software maintenance and information technology development (associated primarily with the Victim Notification System and crime victims services software general management) and rent.

Source: State of Minnesota's accounting system.

² The office operates under *Minnesota Statutes* 2013, 299A.01, and provisions of *Minnesota Statutes* 2013, 611A.51 – 611A.68.

Objective, Scope, and Methodology

The objective of our audit of the Department of Public Safety's Office of Justice Programs was to answer the following questions related to its grant and crime victim assistance expenditures from July 2011 through June 2013:

- Were the office's internal controls adequate to ensure that it accurately reimbursed grant recipients and victims of crime for allowable and authorized expenditures and accurately recorded those expenditures in the state's accounting systems?
- For the items tested, did the office comply with significant finance-related legal requirements contained in laws, statutes, or state policies?

To answer these questions, we gained an understanding of the Office of Justice Programs' financial policies and procedures for grants and assistance to crime victims. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We examined samples of financial transactions and reviewed supporting documentation to test whether the office's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

We used various criteria to evaluate internal controls and compliance. We used, as our criteria to evaluate agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.³ We used state laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration, as well as the office's internal policies and procedures as evaluation criteria over compliance.

³ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Conclusion

The Department of Public Safety's Office of Justice Programs generally had adequate internal controls to ensure that it reimbursed grant recipients and crime victims for allowable and authorized expenditures and accurately recorded expenditures in the state's accounting system. For the items tested, the Office of Justice Programs generally complied with finance-related legal provisions. However, the office had some internal control weaknesses and noncompliance related to grant payments, grant monitoring, and certain crime victim assistance transactions.

The following *Findings and Recommendations* further explain the exceptions noted above.

Findings and Recommendations

The Office of Justice Programs did not always comply with state grant policies to ensure that it executed grant agreements prior to the start of the grant period and that it adequately monitored grantees.

Finding 1

The office did not always execute grant agreements prior to the grantee incurring costs and did not always perform required grant monitoring functions. We tested 25 grants, ranging from \$59,900 to \$3,748,280, and totaling \$15.7 million.⁴ The office had the following deficiencies in its administration of the grants we tested:

- For 18 of the 25 grants we tested, the office reimbursed grantees approximately \$1.3 million for costs that occurred before the grants were effective. Each grant agreement stated that the grant was not effective until the later of the date specified in the agreement or when the office obtained the final required signatures. The grant agreements we tested were not effective until between about two weeks and as much as five months after the reimbursed costs were incurred. According to statute, a grant agreement is not valid, and does not obligate the state, unless it has been fully executed.⁵ Department staff incorrectly believed that the terms of the grant agreement allowed for reimbursement of these costs. They also asserted that these grantees provided critical services (shelter for battered women, for example) and that the services should not be suspended pending the full execution of the grant agreements.
- The office did not perform financial reconciliations for 7 of the 25 grants we tested, as required by the state's grants management policy.⁶ The policy requires a financial reconciliation for grants over \$50,000. A financial reconciliation helps to ensure that the grantee is using grant money for costs that are allowable under the grant. The reconciliation is a detailed comparison of a grantee's cost reimbursement request to the underlying supporting documentation for those costs. Because the office had not performed financial reconciliations for these grantees, it had not ensured that the \$3.4 million reimbursed to these grantees from July 2011 through June 2013 were allowable under the grants.

⁴ In May 2013, we received allegations related to one of these grants. We are assessing the allegations separately from this audit and, depending on the results of that assessment, may issue a separate report.

⁵ *Minnesota Statutes* 2013, 16C.05, Subd. 2.

⁶ The Department of Administration's Office of Grants Management Policy 08-10, requires an annual financial reconciliation for grants over \$50,000. A financial reconciliation is a detailed comparison of a grantee's cost reimbursement request to its underlying supporting documentation for those costs.

In addition, the office did not have adequate supporting documentation for the financial reconciliations it did perform. While the office had documented that staff had performed the reconciliations, it did not always keep documents to show the steps performed, the costs reviewed, or the documents examined as part of the reconciliation. Without this documentation, the office could not show that the reconciliation had been effective to ensure that the grantee could support that costs were allowable under the grant.

- The office did not perform monitoring visits for 5 of the 23 grants we tested, as required by the state’s grants management policy.⁷ Payments to these five grantees during fiscal years 2012 and 2013 totaled from \$81,517 to \$511,904. The purpose of monitoring visits is to review and ensure progress towards the grantee’s goals and to address any problems or issues the grantee may be having. State policy requires at least one monitoring visit per grant period on all grants over \$50,000 and annual visits on grants over \$250,000.
- The office did not perform financial reviews before awarding grants to 4 of the 20 grants to nongovernmental entities. These grant awards ranged between \$59,900 and \$200,000. The purpose of financial reviews is to ensure the grantee is financially stable and has the capacity to carry out the purpose of the grant. State policy requires that financial reviews be conducted and documented prior to entering into grant agreements with nongovernmental organizations.⁸

The state’s grant management policies set the baseline expectations for state agencies’ oversight of grants. Noncompliance with these policies increases the risk that grantees could use grant money inappropriately and not accomplish the goals of the grants.

Recommendations

- *The Office of Justice Programs should ensure that grant agreements are fully executed prior to grantees incurring costs.*
- *The Office of Justice Programs should complete financial reconciliations, monitoring visits of grantees, and financial reviews in compliance with state policies.*

⁷ Department of Administration’s Office of Grants Management Policy 08-10.

⁸ Department of Administration’s Office of Grants Management Policy 08-06.

The Office of Justice Programs did not adequately reconcile payments it authorized through its crime victims assistance database to payments recorded on the state’s accounting system. In addition, it did not adequately protect crime victims’ not public data.

Finding 2

The office did not have some fundamental internal controls to ensure that it had properly authorized and accurately paid for costs incurred by victims of crimes. The office makes some payments to reimburse a crime victim for allowable costs, but also makes some payments, on behalf of crime victims, to family members or to vendors that provided services to a crime victim, such as hospitals.

State statutes⁹ and rules¹⁰ define the types of payments crime victims can receive and the eligibility requirements for crime victims. The office has a standard application form to determine eligibility of crime victims and a process to make payments to them. The office uses a claims assistance database program to monitor and track claims and payments.

The office had the following weaknesses in the way it processed payments to crime victims:

- Inadequate reconciliation - The office did not adequately reconcile the payments recorded in the claims assistance database program to the payments processed by the state’s accounting system. The office performed an annual reconciliation; however, this would not detect errors or irregularities in a timely fashion. For example, the office was unaware that the department had made an \$8,049 duplicate payment until it was contacted by the payee, who returned the overpaid amount.
- Inadequate protection of not public data - The department’s Finance and Administrative Services Office entered not public data (the names of crime victims) into the state’s accounting system. Office staff stated that they provided this information to allow a vendor, such as a hospital, to correctly apply payments to specific accounts. However, according to statute, crime victim names are classified as private data.¹¹ Further, state policy generally identifies information in the state’s accounting system as public information and prohibits entering an individual’s first and/or last name as part of the payment record.¹²

⁹ *Minnesota Statutes* 2013, 611A.53.

¹⁰ *Minnesota Rules*, Chapter 3050.

¹¹ *Minnesota Statutes* 2013, 611A.57, Subd. 6.

¹² Department of Management and Budget Policy 0803-01, Payment Requests, Preparation and Approval.

Recommendations

- *The Office of Justice Programs should reconcile payments in the state’s accounting system to the claims assistance database.*
- *The Office of Justice Programs should not enter crime victims’ not public data in the state’s accounting system.*

Finding 3**The Office of Justice Programs did not have adequate segregation of duties for certain receipts.**

The office did not adequately separate incompatible duties in its process to record and deposit certain receipts, including restitutions and subrogations. One employee was responsible for entering checks into the claims assistance database, entering the deposit into the state’s accounting system, and making the bank deposit. These duties are incompatible because they allow one person with access to the receipts and the recording of those receipts, increasing the risk that error or theft could occur without detection.

Separation of incompatible duties is a fundamental internal control to help ensure that no one individual can both perpetrate and conceal errors or irregularities in the normal course of their duties. State policy requires that agencies either separate key duties so that one employee is not in control of an entire process or establish effective mitigating controls.¹³ While the director performs an annual reconciliation between the claims database and the state’s accounting system, the reconciliation is not sufficiently timely to effectively mitigate the increased risk that transaction errors or theft could occur without detection.

Recommendation

- *The office should separate incompatible receipt processing duties.*

¹³Department of Management and Budget Policy 0602-03, Recording and Depositing Receipts.



Office of the Commissioner

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November 12, 2013

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
Saint Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings of the Department of Public Safety, Office of Justice Programs audit. We appreciate and value the thorough examination of our major programs, and enjoyed working with your professional staff during the field work.

The Office of Justice Programs (OJP) is committed to working diligently on the issues noted, and is committed to maintaining a comprehensive control environment. Our written response to the findings and recommendations are in the order presented in the draft report.

Audit Finding # 1

The Office of Justice Programs did not always comply with state grant policies to ensure that it executed grant agreements prior to the start of the grant period, and that it adequately monitored grantees.

Recommendations

- *The Office of Justice Programs should ensure that grant agreements are fully executed prior to grantees incurring costs.*
- *The Office of Justice Programs should complete financial reconciliation, monitoring visits of grantees, and financial reviews in compliance with state policies.*

Response

1. The Office of Justice Programs agrees with the finding that we do not always fully execute grant agreements prior to the grantee incurring costs. We have tried, unsuccessfully, to have the reference to MN Statute 16C.05, Subd. 2 removed from the grant agreement language since this statute deals with contracts rather than grants. We believe the grant agreement should reference MN Statute 16B.98 instead, which does deal with grants. We are in compliance with the Minnesota Department of Administration, Office of Grants Management Policy on Grant Payments Number 08-08

Alcohol
and Gambling
Enforcement

Bureau of
Criminal
Apprehension

Driver
and Vehicle
Services

Emergency
Communication
Networks

Homeland
Security and
Emergency
Management

Minnesota
State Patrol

Office of
Communications

Office of
Justice Programs

Office of
Pipeline Safety

Office of
Traffic Safety

State Fire
Marshal

which states that grant payments may not be issued until the funds are encumbered and the grant agreement is fully executed. The Executive Director will pursue a grant agreement language change to reference MN Statute 16B.98 rather than MN Statute 16.C.05.

2. The Office of Justice Programs agrees with the finding. OJP is committed to providing oversight, technical assistance and financial reviews to several hundred programs each year. As stated in the audit report, 7 of the 25 grants reviewed did not have financial reconciliations performed during the time frame tested. Six of these seven grant organizations received financial reconciliations for other grants that were not included in this review. To ensure that grantees receive sufficient financial reconciliation to meet the state policy, a new tracking system has been instituted which will be monitored by the Grants Director (Cecilia Miller). In addition; a new policy to retain source documentation from all financial reconciliations for the required six years is now in place. Previously, documents were not retained if no issues were found.
3. The Office of Justice Programs agrees with the finding. OJP provides monitoring of grants in a variety of ways including: in person site visits, informal contact through meetings, phone contact and email. During state fiscal year 2013, OJP staff conducted 394 site visits, with over 4,000 technical assistance contacts with grantees. Due to the volume of grantees with limited staff, consistent tracking and documenting can be onerous. A new tracking system has been instituted which will better track the dates of monitoring visits. The grants management staff have clarified policies to more clearly define what constitutes a monitoring visit vs. a comprehensive site visit. In addition, new site visit forms are being developed by Cecilia Miller to better document all program monitoring visits. These forms will be finalized by December 2013.
4. The Office of Justice Programs agrees with the finding. OJP has instituted a new policy to perform financial reviews on all new grants. Previously, financial and administrative capacity reviews were only done on programs that had not received previous grants from our agency; we are now reviewing financial information on all new grantees, whether we are familiar with the program or not. This information will also be documented on an electronic tracking form, closely monitored by the Grants Director, Cecilia Miller.

Audit Finding #2

The Office of Justice Programs did not adequately reconcile payments it authorized through its crime victims assistance database to payments recorded on the state's accounting system. In addition, it did not adequately protect crime victim's not public data.

Recommendation

- *The Office of Justice Programs should reconcile payments in the state's accounting system to the claims assistance database.*
- *The Office of Justice Programs should not enter crime victim's not public data in the state's accounting system.*

Response

The Office of Justice Program agrees with this finding and recommendation. OJP will reconcile payments in the state's accounting system to the claims assistance database. Due to substantial differences between the two systems, and the lag time between the approval date

for awards in the claims assistance database, and the actual payment date in the state's accounting system, it is not possible to reconcile total expenditures for a particular time period. Instead, approved awards must be individually cross-checked in the state's accounting system. Due to the volume of payments, this is very time-consuming, and currently there is not adequate staffing to perform this reconciliation as frequently as recommended. The Reparations Director, Marie Bibus has taken on this additional task to determine the amount of time and expertise needed to conduct regular payment reconciliation. For the short term, the department will continue to refine its process of reconciling payments by training existing staff to improve internal controls.

Ultimately, the Office of Justice Program's long-term goal is to add a module to its claims assistance database which would contain the payment data from the state's accounting system. This would allow the reconciliation process to be automated.

As to the second recommendation, the Office of Justice Programs is committed to protecting the privacy of victims' data and takes this issue very seriously. There have been some challenges in resolving this issue completely while still ensuring that payments are applied to the correct individuals' outstanding accounts. OJP will meet with the appropriate staff in the department's Fiscal and Administrative Services office to revise procedures as to the entry of payment data, and provide additional training. This will ensure that individuals' names are not entered in the invoice field of the database, and reduce the risk that is associated with entering not public data into the state's accounting system. A new process is expected to be implemented by year-end by Marie Bibus.

Audit Finding #3

The Office of Justice Programs did not have adequate segregation of duties over its receipts

Recommendation

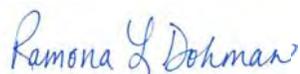
The office should separate incompatible receipt processing duties.

Response

The Office of Justice Programs agrees with this finding and recommendation. Marie Bibus, Reparations Director, has already made the necessary reassignments of the duties involved in processing receipts to ensure that duties are separated. In addition, reconciliations will be done monthly to further mitigate any risk that transaction errors or theft could occur without detection.

In closing, OJP wishes to acknowledge the assistance and guidance of the Legislative Auditor's Office. We appreciate the work that has been done and the recommendations brought forth in this report. The Department of Public Safety is being a vigilant steward of the federal and state dollars entrusted to us. If you have any questions, please feel free to contact us.

Sincerely,



Ramona L. Dohman, Commissioner

c: Deputy Commissioner Mary Ellison