OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Center for Crime Victim Services
Three Fiscal Years Ended June 30, 2000

AUGUST 16, 2001 **01-42**

Financial Audit Division

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- Strengthen Legislative Oversight, and
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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Charlie Weaver, Commissioner
Department of Public Safety

We have audited the Minnesota Center for Crime Victim Services for the period July 1, 1998, through December 31, 2000, as further explained in Chapter 1. Our audit scope included payroll, claims, and grants. We also reviewed the center's internal controls over compliance for the Victims of Crime Act Grants (CFDA# 16.575) and Violence Against Women Formula Grants (CFDA# 16.588) for fiscal year 2001. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Center for Crime Victim Services complied with provisions of laws, regulations, and contracts significant to the audit. The management of the Minnesota Center for Crime Victim Services is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Center for Crime Victim Services. This restriction is not intended to limit the distribution of this report, which was issued as a public document on August 16, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: June 1, 2001

Report Signed On: August 13, 2001

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Audit Participation

The following members of the Office of the Legislative Audit prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
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David Poliseno, CPA, CISA	Auditor-In-Charge
Jess Frenzel	Auditor
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Ellen Sibley	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Minnesota Center for Crime Victim Services at the exit conference held on July 30, 2001:

Sara Schlauderaff	Assistant Commissioner
Frank Ahrens	Director, Fiscal and Administrative Services
Robert Erickson	Accounting Supervisor
Debra Halfen	Single Audit Coordinator
Jim Whittington	Grants Director

Report Summary

Current Findings and Recommendations:

- The center reimbursed grantees for costs incurred before encumbering the funds. Some grantees incurred costs for various grant programs prior to signing the grant agreement. (Finding 1, page 9)

- The center did not use good business practices in managing state and federal cash disbursements to its grantees. The center did not minimize the time elapsing between the advancing of funds to its grantees and the disbursement of the funds. The center advanced up to 25 percent to its grantees for some programs. We also found instances where the center exceeded the maximum payment amounts stipulated in its grant agreements. (Finding 2, page 10)

- Grantees did not comply with certain reporting requirements contained in the grant agreement. We found that some grantee did not submit their Financial Status Reports in a timely manner. Also, some grantees did not submit budget amendments within the required time period. Finally, some grantees did not submit their grant close out reports in a timely manner. (Finding 3, page 11)

- The center did not properly monitor the grantees' financial activities. The center did not conduct timely site visits of the grantees or verify financial information. Also, the center did not receive required audit reports of the grantee's operations. (Finding 4, page 12)

- Finally, the center did not properly track the time spent by its staff on various grant programs. In order to receive federal reimbursements for payroll costs charged to federal programs, staff must document the time spent on each program. The center did not monitor the actual hours staff worked on each program; instead, the center estimated the time spent and received reimbursements based on these estimates. (Finding 5, page 18)

Background:

The Minnesota Center for Crime Victim Services coordinates and delivers services to crime victims and crime victim programs throughout the state. The center has undergone several reorganizations in recent years through various executive orders. The center is currently a division of the Department of Public Safety. This audit focused on the two and one-half years ending December 31, 2000.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Minnesota Center for Crime Victim Services included payroll, grants, and claims. The center's response is included in the report.

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Chapter 1. Introduction

The Minnesota Center for Crime Victim Services coordinates and delivers services to crime victims and crime victim programs throughout the state. The center's mission is to serve as a statewide advocate for crime victims. The center's vision is to ensure that appropriate services and information are available to crime victims in Minnesota. To accomplish this objective, the center provides federal and state grants to public and private, nonprofit agencies and tribal governments. It also encourages and facilitates leadership, program development, and assessment on the local level. The center also advocates for laws to protect crime victims' rights. Finally, the center provides reparation benefits to crime victims and their families to ease the financial burden of crime.

In February 1998, an executive order combined the Victims Services Unit from the Department of Corrections and the Crime Victims Services Division of the Department of Public Safety to create the Minnesota Center for Crime Victim Services as a separate entity. In November 1999, another executive order placed the center in the Department of Public Safety as a division. Effective July 2000, the Legislature transferred the battered women's per diem funding from the Department of Human Services to the center. Marie Bibus was the center's first director from February 1998 to November 1999. Richard Anderson was the interim director from November 1999 until January 2000. Laurie Ohmann was the director from January 2000 until March 2001. Currently, Mary Ellison is the acting director of the center.

The center receives funding from state appropriations, federal grants, and restitution payments received from offenders. The center spends most of the funds on grants and claims for crime victims. Table 1-1 summarizes the sources and uses of funds for the center in fiscal year 2000.

Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 2000

Sources:	General Fund	Special Revenue Fund	Federal Fund	Totals
State Appropriation	$13,617,000	$ 0	$ 0	$13,617,000
Less: Cancellations	(75,187)	0	0	(75,187)
Net Appropriations	$13,541,813	$ 0	$ 0	$13,541,813
Federal Receipts	0	0	8,819,017	8,819,017
Restitution Receipts	0	468,614	0	468,614
Transfer Ins	0	963,129	42,616	1,005,745
Total Sources	$13,541,813	$1,431,743	$8,861,633	$23,835,189
Uses:				
Grants	$ 9,996,967	$ 0	$8,177,528	$18,174,495
Claims Paid to Victims	1,577,172	231,123	307,445	2,115,739
Payroll	1,002,977	97,012	299,173	1,399,162
Other Expenditures	565,376	146,128	100,899	812,402
Total Uses	$13,142,492	$ 474,262	$8,885,044	$22,501,798
Balance Forward Out (to FY 2001)	$ 207,394	$ 957,441	$ 3,293	$ 1,168,128
Ending Cash Balance (2)	$ 191,928	$ 40	($ 26,704)	$ 165,264

Note (1): The center also received $3,791 in Gift Fund receipts and had an account balance of $14,991 at June 30, 2001.
Note (2): The Federal Fund showed a negative $26,704 balance at June 30, 2001, due to a timing difference between the draw of federal receipts and the related disbursements.
Note (3): The transfer of $963,129 in the Special Revenue Fund was for restitutions collected by Public Safety and Corrections from offenders or their insurers and transferred to the center to pay for crime victims' reparations.
Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000 as of December 31, 2000.

The center relies on various advisory councils and task forces to provide advice and assistance in carrying out its mission. The various groups are comprised of individuals from law enforcement, service providers, the Legislature, and the general public. Minnesota statutes determine the size of each council/board and the qualifications required for each member. Except for the Reparations Board, members do not receive per diem, but do receive travel expense reimbursements. Table 1-2 provides a brief description of the various councils and task forces.

Table 1-2
Advisory Boards and Councils

Entity	Size	Description of Entity
Crime Victims Reparation Board	5	Provides financial assistance to victims of violent crime and their families who meet the board's eligibility criteria.
Battered Women's Advisory Council	12	Advises the commissioner on all planning, developing, funding, and evaluating of programs and services for battered women.
Sexual Assault Advisory Council	12	Advises the director of domestic violence and sexual assault prevention in matters related to prevention of these types of crimes.
Violence Against Women Act Planning Committee	12	Coordinates efforts with the federal government to develop and strengthen victim services and effective law enforcement and prosecution strategies to combat violent crimes against women.
General Crime Advisory Council	12	Advises the commissioner on the implementation and continued operation of programs related to victims of crimes other than domestic abuse and sexual assault.
Crime Victim and Witness Advisory Council	16	Ensures that victim rights laws are implemented throughout the state. Ensures that victims are treated with respect as they proceed through the criminal justice system.
Interagency Task Force on Domestic Violence and Sexual Assault Prevention	17	Prepares a strategic plan submitted to the Governor and the Legislature to prevent domestic violence and sexual assault.
Commissioner's Task Force on Crime Victims	15	Comprised of members from all of the advisory councils to develop a strategic plan for all crime victims statewide.

Source: Information supplied by the Minnesota Center for Crime Victim Services.

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Chapter 2. Grant Expenditures

Chapter Conclusions

We noted various weaknesses with the center's administration of grant expenditures. The center reimbursed grantees for costs incurred prior to encumbering the funds. Also, the center did not follow good business practices in managing state and federal cash disbursements to its grantees. Additionally, the center did not properly monitor the financial activities of the grant recipients. Finally, the center did not ensure that the grantees complied with applicable reporting and closeout requirements.

One of the primary functions of the center is the administration of grant funds to victim programs throughout the state. The center distributed approximately $18 million in state and federal funds to over 160 programs in fiscal year 2000. Approximately 55 percent of the grant expenditures were funded by the state. The center receives federal funds for crime victims assistance programs. The two largest federal programs are the Victims of Crime Act Grants and Violence Against Women Formula Grants. The Victims of Crime Act Grants (VOCA) (CFDA #16.575) provides direct services to crime victims. The Violence Against Women Formula Grants (CFDA #16.588) provides funds for developing and strengthening law enforcement and prosecution strategies to combat violent crimes against women. Programs provide services to thousands of crime victims statewide. Most grants are administered through the following programs:

- The Battered Women's Program is a network of services and programs dedicated to ending violence in the lives of battered women and their children. Different agencies receive state and federal funding to operate emergency shelters, community advocacy programs, criminal justice intervention projects, and children's advocacy programs.

- The Sexual Assault Program is responsible for administering advocacy programs engaged in sexual violence prevention, focusing on unserved geographic areas, underserved population groups, and expanded prevention efforts in currently funded programs. Among the groups targeted were youth that are vulnerable to recruitment into prostitution, older women and men, young children, and students.

- The Violence Against Women Program is governed by the federal Violence Against Women Act, which was created to respond to the sexual assault and battering of women. The program coordinates community responses to violence against women and emphasizes women's safety. Federal guidelines require states to allocate Violence Against Women Act funds equally to law enforcement related efforts, prosecution related efforts, victim services, and discretionary purposes.

- The General Crime Victims Program is responsible for the distribution of state and federal grants for general crime victim services. General crime victims include survivors of crimes such as homicide, assault, robbery, criminal damage to property from burglary, kidnapping, DWI, vehicular homicide or injury, theft, arson, hate crimes, and crimes against the elderly. This program funds community-based programs that operate out of private, non-profit organizations and systems-based programs, which are usually located in the office of the county attorney or law enforcement agencies.

The center implemented a regional approach to the provision of victims' services throughout the state. Program specialists for each region work with all of the center's grantees, potential grantees, law enforcement, prosecution, and other victim service providers. The center believes that this model allows the program specialist to help create networks, coordinate services across a broad continuum, provide information, become catalysts for change, share best practices between organizations, and allow for more accountability. The center's grantees work with one program specialist for all of their technical assistance needs.

In response to a Department of Administration audit dated February 10, 2000, covering the period July 1, 1997, through June 30, 1998, the center hired an internal auditor in April 2000 to improve monitoring and training efforts. The internal auditor's responsibilities include auditing grantee programs and educating both grant analysts and grantees in financial management practices.

Audit Objectives and Methodology

The primary objectives of our review of grant expenditures were as follows:

- Did the center's internal controls provide reasonable assurance that grant expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the center comply with significant finance-related legal provisions concerning grant expenditures?

To meet these audit objectives, we interviewed the center's employees to gain an understanding of the grant process. We reviewed a sample of expenditures to determine if the department properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the department complied with applicable legal provisions.

Conclusions

We noted various weaknesses with the center's administration of grant expenditures. The Minnesota Center for Crime Victim Services reimbursed grantees for costs incurred prior to encumbering the funds, as noted in Finding 1. Also, the center did not follow good business practices in managing state and federal cash disbursements to its grantees, as discussed in Finding 2. Additionally, the center did not properly monitor the financial activities of the grant recipients, as shown in Finding 3. Finally, Finding 4 shows that the center did not ensure that the grantees complied with applicable reporting and closeout requirements.

1. The center reimbursed grantees for costs incurred before the grant agreement was signed or the funds encumbered.

The center reimbursed grantees for obligations incurred prior to the grantee signing the grant agreement. Minn. Stat. Section 16C.05 states, "a contract is not valid and the state is not bound by it unless … the accounting system shows an obligation in an expense budget or encumbrance for the amount of the contract liability." The center encumbers the funds after the grantee signs the grant agreement. A sample of 30 grants showed that 10 grantees received reimbursements for costs incurred prior to them signing the contract. For example, one grant agreement involving state funds was signed by the grantee on January 3, 2000, for services rendered October 1999 through December 31, 1999. Further, a grant agreement involving federal funds was signed by the grantee on May 20, 1999, for services rendered between October 1, 1998, through December 31, 1998.

A Department of Administration internal audit, dated February 10, 2000, identified similar concerns. In response to the audit, the center management modified the language in the grant agreement. The center inserted the following language in the grant agreement:

> This grant agreement shall be effective on July 1, 1999 or upon the date that the final required signature is obtained by the state, pursuant to Minn. Stat. 16C.05, Subd. 2, whichever occurs later, and shall remain in effect until June 30, or until all obligations set forth in this grant agreement have been satisfactorily fulfilled, whichever occurs first. Once this grant agreement is fully executed, the grantee may claim reimbursement for expenditures incurred pursuant to Clause II of this agreement on or after July 1 and such reimbursement shall be governed by the terms of this grant agreement.

The center requested advice from the Attorney General's Office concerning this matter. The Attorney General's Office "could not guarantee that adding this additional language would totally protect the center from any liability incurred by reimbursement for services after July 1, even if the grant was not fully executed until after that date." The Attorney General's Office generally advised the center to review the statutes for prohibitions to this practice and "then only in limited circumstances when not paying for these services would significantly impact the goals of the grant program" relative to emergency shelter services and support services as provided by Minn. Stat. 611A.32 and Minnesota Rule 2915.

We feel that the center has liberally interpreted this advice and has allowed too many grantees to receive funding prior to properly executing the grant agreement. Further, the center used the Attorney General's advice and inserted the clause in every grant agreement, including federally funded programs. The center should work with the grantees to ensure that they execute the agreements in a timely manner.

Recommendation

- *The center should comply with applicable legal provisions regarding contracting and obligation of funds before disbursing monies to subgrantees.*

2. The center did not properly manage the distribution of its state and federal funds to grantees.

The center did not follow good business practices in distributing state and federal funds to its grantees. The center did not establish procedures to minimize the time elapsing between the payment of funds and the disbursement of funds by its grantees. The center generally included standard language for advances in all grant agreements. Advances ranged from 10 percent to 25 percent for the various programs. At the start of the grant period, the center advanced 25 percent of a state grant to recipients. Thereafter, the center reimbursed the grantees on a quarterly basis for actual expenditures not to exceed one-fourth of the total grant award. Similarly, the center advanced federal funds to grantees at a rate of either 10 percent or 25 percent, depending on the federal program. In both cases, the center made subsequent payments as reimbursements of actual expenditures.

We identified the following additional weaknesses in the center's administration of its state and federal funds to grantees.

- The center disbursed more funds to its grantees than permitted under the terms of the grant agreements. We found that 11 of 14 state grants tested received more than 25 percent of their grant award in one quarter. For example, in July 1999, the center advanced a grantee $18,500 or 25 percent of a $74,000 grant. In November 1999, the center reimbursed the grantee $37,000 to cover the first two quarters' expenditures. Therefore, at the end of the second quarter, while the grantee incurred expenditures totaling $37,800, the center paid them $55,500 or 75 percent of the total grant.

- The center did not properly collect the outstanding advances at year-end. The center's policy is to advance funds to the grantees and then settle up any difference at the end of the grant period. However, the center does not know the amount of outstanding advances until the grantees submit their final closeout reports. As of October 2000, the center did not know the status of approximately $135,000 for the fiscal year 2000 grants.

- The center advanced funds to grantees for the current grant period, even though the grantees had not returned the previous year's outstanding advances. For example, one grantee received an advance of $25,750 on July 20, 2000 for its fiscal year 2001 grant. However, as of October 4, 2000, the grantee had not submitted a final Financial Status Report for fiscal year 2000 to settle any outstanding advances.

The center should review its current practices and develop better cash management practices in the distribution of its state and federal funds. The center should ensure that it follows procedures to minimize the time elapsing between the transfer of funds to grantees and the disbursement of funds by the grantees. The center should analyze the cash needs of its grantees for the operation of the state and federal programs. Finally, the center should monitor the closeout of prior years' grantee cash balances.

Recommendation

- *The center should develop better cash management practices for funds distributed to its grantees.*

3. Grantees did not comply with certain reporting and close out provisions in the state grant agreement.

Grantees did not submit Financial Status Reports, budget amendments, and close out forms as specified in the grant agreement. As a condition of receiving a grant, grantees must comply with certain reporting requirements. The center incorporated these conditions in the grant agreements. Our audit disclosed the following weaknesses:

- The grantees did not submit their Financial Status Reports within 30 days after the end of the grant period as specified in the grant agreement. As of October 4, 2000, 22 grantees had not submitted Financial Status Reports for the period April 1, 2000, to June 30, 2000. The grant agreement states that "all requests for funding by grantee shall be submitted to state utilizing the format identified within 30 days after the end of the report period."

- The center accepted budget amendments after the required timeframe. The grant agreement states that, "Requests for an extension of the grant period … must be made in writing by the grantee and be received by the state no later than 30 days before the ending date of the grant." Our audit of 30 sample items found that the center accepted three budget amendments after the established deadline.

- The center did not receive timely final close out reports from fiscal year 1999 and fiscal year 2000 grantees. In addition, the grantees did not return unspent funds to the center in accordance with grant provisions. The grant agreement states that "grantees shall have forty-five days immediately following the expiration of the grant period to liquidate all unpaid obligations related to the program which were incurred on or before the last day of the grant period; and to submit a report of all funds received and disbursed. If a report is not submitted within this time period, expenses claimed on the report may be disallowed and the state may request a refund of those monies from the grantee. Also, the grantee agrees to return to the state all funds received under this grant which are not obligated as of the last day of the grant period for allowable program costs and expended within forty-five days."

The center did not follow good business practices by not timely monitoring grantees' financial activities.

Recommendation

- *The center should ensure that the grantees comply with the terms of the grant agreement. In particular, the center needs to ensure that grantees submit Financial Status Reports, grant amendments, and final close out reports within the required timeframes.*

4. The center did not properly monitor financial activity for its subrecipients as required by center policy and federal regulations.

The center did not perform timely site visits of its grantees or ensure that the grantees submitted required audit reports. The center's program analysts perform ongoing monitoring of funded programs through site visits and technical assistance contacts. The center attempts to visit subgrantees at least annually. However, in 26 out of 30 sample items tested, the center did not perform site visits of the grantee programs within this timeframe. Without the timely site visits, there is no assurance that the grantees are administering the funds and the programs in accordance with the grant agreement and applicable regulations.

To facilitate the site visit, the center developed a questionnaire to be completed by the program analyst. However, the center did not ensure that staff completed the financial section of the questionnaire. Without this information, it is difficult for the center to identify internal control weaknesses, which increase the risk of financial mismanagement.

As part of the grant process, the center requires grantees to have a financial audit of program activities and to submit the audit report to the center for review. The center's grant's manual states that, "While annual audits are preferable, each funding recipient must have an independent audit performed on the funding recipient's total financial operations at least biennially. Biennial audits must cover both years of the period." Our testing of 30 sample items showed that 23 grantees did not submit the required reports to the center. The audit reports are a valuable tool for the center to identify internal control weaknesses or other financial concerns.

Office of Management and Budget Circular A-133 on subrecipient monitoring requires that agencies monitor the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. The circular suggests site visits as one means of monitoring the activities. Also, the circular requires that the agency ensures that the subrecipients have periodic audits, if required, and that corrective action to resolve the audit findings is taken. By not performing these monitoring activities, the center is unsure if the subrecipients are complying with the federal requirements and the grant agreements.

Recommendations

- *The center should conduct periodic site visits to monitor grantee financial and program operations.*

- *The center should require grantees to submit periodic audit reports and should follow-up on internal control weaknesses and other findings identified in the reports.*

Chapter 3. Per Diem Grants and Claims

Chapter Conclusions

The Minnesota Center for Crime Victim Services' internal controls provided reasonable assurance that per diem grant and claim expenditures were accurately reported in the accounting system and were in compliance with applicable legal provisions and management's authorization. For the items tested, the center complied with the significant finance-related legal provisions concerning per diem grant and claim expenditures.

In addition to the grants discussed in Chapter 2, the center also distributes funds to shelters through per diem grants and to victims through claims.

Per Diem Grants

In 1977, the Minnesota Legislature established funding for battered women's shelters as part of the General Assistance Program at the Department of Human Services. Payments were made based on the eligible number of battered women and children housed in accordance with general assistance requirements. During the 1997 session, the Legislature transferred the funding and administration of the per diem program to the Department of Corrections effective July 1, 1999. In 1998, Governor Carlson transferred all victim services programming and funding to the newly created Minnesota Center for Crime Victim Services. This included transferring the per diem program to the center. However, during the 1999 session, the legislature delayed the transfer of the per diem program from the Department of Human Services to the center until July 1, 2000. Additionally, the program was changed from an open entitlement program to a capped program. To ensure a smooth transition, the Legislature appropriated an additional $1,200,000 to the center to pay any residual claims from prior years.

The center distributes per diem grants to 59 providers who operate 78 facilities. The facilities include 33 hotel/motels, 14 private safe houses, and 31 brick and mortar shelters. (The shelter number includes five border facilities that operate in neighboring states, but receive state funding for Minnesota women and children housed there). Each of the different facility levels provides varying degrees of support and assistance.

In fiscal year 2001, the center received an appropriation of $17,979,000 to fund the per diem grants. In previous years, each facility established its own per diem rate by dividing the total budgeted amount by the previous year's total number of days billed. However, the center changed the process to use a uniform rate for the majority of the facilities. The center divided the total funds available by the maximum number of stays for all facilities to arrive at $75 per day for each women and child. The center calculated the maximum amount available to each facility and set up reserves for each one. As of December 31, 2000, the center only disbursed about $6.5 million. The center determined that it would not use all of the funds reserved. Therefore, the center prorated the excess funds to date and distributed the funds accordingly. Also, the center recalculated the per diem rate and adjusted it to $78 per day.

Claims

The state established the Crime Victims Reparations Board in 1974 in response to increased public concern for victims of violent crimes. The purpose of the program is to assist victims and their family members by providing compensation for losses incurred as a result of a crime. The board meets monthly to review claims and conduct related business. The board also develops policies pertaining to eligibility and coverage and determines coverage rates.

To be eligible under the program, the applicant must have been a victim of a crime involving injury or death. Crimes must have been reported to the police within 30 days of the event, and claims must be submitted to the board within three years. Victims must have cooperated fully with the police and must not have contributed to the crime in any way or they would be disqualified or receive a substantially smaller amount. Benefits include expenses for items such as medical costs, mental health care, funeral and burial costs, lost wages, loss of support, childcare or household services, and transportation and moving expenses. The state set a $50,000 limit to any victim for any single crime.

In fiscal year 2000, the program received 1,309 claims. The most common crimes involved assault, homicide, criminal vehicular operation, child sexual abuse, sexual assault, and robbery. Of the 1,309 claims, 57 percent originated from the seven-county metropolitan areas. The board received most of the claims through various referrals from victim assistance programs, police departments, county attorneys, hospitals, and funeral homes.

The center spent about $2.6 million in fiscal year 1999 and $2.1 million in fiscal year 2000 for claim payments to crime victims. The center receives funding from both the state and federal governments for this program. State funding includes an appropriation from the General Fund and special revenue collected by the board. The board collects restitutions from offenders or their insurers. In addition, the board receives a small percentage of inmate wage deductions. Federal funding comes from the Federal Crime Victims Fund, which is derived from fines collected from convicted federal offenders. The formula for compensation grants to states is 40 percent of the state’s payments to crime victims in a previous year.

Audit Objectives and Methodology

The primary objectives of our review of per diem grant and claim expenditures were as follows:

- Did the center’s internal controls provide reasonable assurance that per diem grant and claim expenditures were accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the center comply with significant finance-related legal provisions concerning per diem grant and claim expenditures?

To meet these audit objectives, we interviewed the center's employees to gain an understanding of the payment processes. We reviewed a sample of expenditures to determine if the department properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the department complied with applicable legal provisions.

Conclusions

The Minnesota Center for Crime Victim Services' internal controls provided reasonable assurance that per diem grant and claim expenditures were accurately reported in the accounting system and were in compliance with applicable legal provisions and management's authorization. For the items tested, the center complied, in all material respects, with the significant finance-related legal provisions concerning per diem grant and claim expenditures.

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Chapter 4. Payroll

Chapter Conclusions

The Minnesota Center for Crime Victim Services' internal controls provided reasonable assurance that employees were appropriately compensated in compliance with the various bargaining agreements and management's authorization. However, the center's employees did not properly allocate their time spent on various state and federal programs. For the items tested, the center complied, in all material respects, with the significant finance-related legal provisions concerning payroll.

The center employs approximately 30 people. This number has varied in recent years due to significant turnover and the center's continued restructuring. The center incurred $1.1 million of payroll costs in fiscal year 1999 and $1.2 million in fiscal year 2000. The center processes its payroll with the assistance of the Department of Public Safety's payroll and personnel staff. Center employees submit timesheets to their supervisors, who approve them and submit them along with any leave slips to the center's accounting staff for processing. The center generally only enters mass time transactions into the State Employee Management System (SEMA4). The department's payroll and personnel employees perform the remaining functions. The center runs various payroll reports to verify the accuracy of the payroll transactions.

Audit Objectives and Methodology

We focused on the following objectives during our audit of payroll expenditures:

- Did the center's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting and payroll systems and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the center comply with the significant finance-related legal provisions concerning payroll?

To answer these questions, we interviewed center staff to gain an understanding of the internal control structure over the payroll and personnel processes. We interviewed the center's employees, analyzed payroll transactions for unusual trends, and reviewed computer security clearances for the payroll system. We also tested biweekly payroll transactions and verified that hours processed were supported by timesheets authorizing hours worked and leave taken.

Minnesota Center for Crime Victim Services

Conclusions

The Minnesota Center for Crime Victim Services' internal controls provided reasonable assurance that employees were accurately compensated in compliance with the various bargaining agreements and management's authorization. However, the center's employees did not properly allocate their time spent on various state and federal programs. For the items tested, the center complied with the significant finance-related legal provisions concerning payroll.

5. The center did not track actual employee time spent on various federal and state programs.

The centered charged about $700,000 or 20 percent of payroll costs to federal programs during the audit period. Employees generally work on more than one program in any given pay period. However, the center did not allocate the actual time spent by its employees to the applicable program; instead, the center established an estimated percentage for each employee in SEMA4, which allocated the time spent on various state and federal programs. Our review of employee timesheets showed that employees did not routinely identify the programs they worked on. Without identifying the actual time spent on specific programs, the payroll system automatically allocated the hours worked based on the preset percentage. We found that one employee recorded the hours worked by program, but the center allocated the costs based on the preset percentage, rather than the actual time recorded on the timesheet.

The Office of the Justice, which disburses the Victims of Crime Act Grants and Violence Against Women Formula Grants to the center, requires that, "Where salaries apply to the execution of two or more grant programs or cost activities, proration of costs to each activity must be made based on time and/or effort reports." In addition, the U.S. Office of Management and Budget's publication A87 requires documentary support where employees work on more than one federal award or a federal award and a non-federal award.

Recommendation

- *The Minnesota Center for Crime Victim Services should allocate the actual number of hours worked by its employees to each federal and/or non-federal program.*

MINNESOTA DEPARTMENT OF PUBLIC SAFETY

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Alcohol & Gambling Enforcement

Bureau of Criminal Apprehension

Capitol Security

Driver & Vehicle Services

Emergency management / Emergency Response Commission

State Fire Marshal / Pipeline Safety

State Patrol

Traffic Safety

August 10, 2001

James R. Nobles
Legislative Auditor
1st Floor South
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

At the audit exit conference on July 30, 2001, we were provided a copy of the draft audit report for the Minnesota Center for Crime Victim Services (MCCVS). Our written response to the findings and recommendations are in the order presented in the draft report.

Jim Whittington, Grants Director, Minnesota Center for Crime Victim Services is responsible for the findings.

1. <u>The center reimbursed grantees for costs incurred before the grant agreement was signed or the funds encumbered.</u>

<u>Recommendations:</u>

- *The center should comply with applicable legal provisions regarding contracting and obligation funds before disbursing monies to subgrantees.*

<u>Response</u>:

MCCVS and Department of Public Safety (DPS) Fiscal and Administrative staff spoke with the Attorney General's Office and crafted language that we believed allowed the agency to continue the process of retroactive payments. We subsequently placed that language in all of our contracts and continued to pay, retroactively, back to the date of the beginning of the contract. An example of this practice would be a payment for services performed July 1, 2000 through July 21, 2000, although the final signature on the contract was dated July 22, 2000.

Our reasons for seeking language changes, then, are needed for the same reasons, now. Essentially, our granting process begins with the legislature passing a bill that funds our grants for the program year. This usually takes place some time in mid to late May, which gives MCCVS a very narrow window in which to work. There are many reasons that could lead to a late signing of the grant. For example, grantee final approval and final signatures on the grant must be the action of their governing board that meets later in the month. We may need to mail the grant out and back two or more times and slow mail could delay final execution a week to ten days, or more.

Over 75% of the grant funds we provide are for direct service to victims. Our internal operating policy is to attain zero interruptions in that service. I have attached a processing timeline that represents an accurate accounting of our granting process. Not paying for services performed back to the beginning of the contract would punish service providers by withholding funds needed for victims. This is especially troubling when it is the full intention of MCCVS that the contract takes effect on July 1st of the program year. That intention is verified by the award letter that we send to the grantee shortly after the legislative work is finished. We understand that an award letter is not a contract but that letter, coupled with the contract language, should give our assurance that we intend to pay for the services. The contract binds the grantee to the services they promise to provide. If there are unallowable costs for services provided during the lag period, then MCCVS simply doesn't reimburse them.

MCCVS believes we need to continue paying grantees retroactively in order to continue seamless service provision. Based on our contract language, payments will be made to grantees after grant agreements are fully executed for services within the time frame of the agreement.

2. <u>The center did not properly manage the distribution of its state and federal funds to grantees.</u>

<u>Recommendations:</u>

- *The center should develop better cash management practices for funds distributed to its grantees.*

<u>Response</u>:

Historically, MCCVS has granted a cash advance to grantees at the start of each contract. These advances are necessary for the grantees to use as start-up funds in order to have a positive cash flow during the beginning of the contract period. It is especially necessary for the smaller programs that have limited resources outside the grant from MCCVS. These cash advances have been based on 10% of the grant for federal funds and 25% for state funds. The secondary finding of MCCVS granting money that exceeded the maximum amounts stated in the contract is based on the splitting of the contract money into four equal parts. This was a practice used by MCCVS during the program years that were audited and had been carried over from the days the programs were funded through the Department of Corrections. New contract language addressed that issue in 1999-00 but was not properly followed in several of the contracts for that period. The practice of equal splits was done primarily as a cost saving measure. By doing it that way, the department eliminated some of the accounting process and eased the pressure on staff to make timely payments to grantees. It was allowable at the time it began and continued when MCCVS assumed the granting responsibility in the mid-nineties. In June of 2001, a letter was sent by MCCVS to all grantees explaining our new process of a cash advance at the beginning of the contract and future payments being based on spending. All future Financial Status Reports, (FSR) will pay only the actual allowable costs incurred during the quarter for which the FSR is submitted. Additionally, MCCVS plans to review future contract cash advances in order to assure a proper percentage of the total grant financial amount is advanced.

3. Grantees did not comply with certain reporting and close out provision in the state grant agreement.

Recommendations:

- *The center should ensure that the grantees comply with the terms of the grant agreement. In particular, the center needs to ensure that grantees submit Financial Status Reports, grant amendments, and final close out reports within the required timeframes.*

Response:

MCCVS is keenly aware of the issue and has been taking steps to remedy the situation but has not fully succeeded with some grantees. Letters, memos and a number of phone calls to the grantee have been the primary sources of our actions in trying speed up their reporting. In the case of a late report where funds have not been expended and need to be returned, only on rare occasion were those funds actually outstanding and in need of recapture. Our FSR reporting process would not allow that to happen unless spending was down by more than one quarter at the end of the fiscal year. Our FSR reporting process balances the final payment and close out on the final FSR. Unless excess funding had remained from previous quarters, the books would be balanced at close out with no funds actually coming back to MCCVS.

In order to satisfy the contract language regarding timeliness, it appears MCCVS has only two choices to attain a remedy. MCCVS can either change the contract language to reflect a more lenient reporting policy or we can institute language that invokes penalties for late reporting. MCCVS has been reluctant to place penalties on grantees because of the effect it would have on victims. In almost all the cases of late reporting, the grantees have traded timely reporting for a focus on service to victims. MCCVS will strive to correct the reporting problem during the coming contract with particular attention to those grantees that are required to return funds.

4. The center did not properly monitor financial activity for its subrecipients as required by center policy and federal regulations.

Recommendations:

- *The center should conduct periodic site visits to monitor grantee financial and program operations.*

- *The center should require grantees to submit periodic audit reports and should follow-up on internal control weaknesses and other findings identified in the reports.*

Response:

The time period, January to June of 2001, showed a marked increase in the number of site visits to grantees. We have addressed our staffing issues and the grant specialists have almost doubled their efforts during that period over the previous program year. The staff is now required by internal policy to conduct site visits to grantees on a formal basis at least once per year and on an informal basis as needed.

In the past, MCCVS has been fairly lenient on the receipt of audit reports from grantees although it is stipulated in the contract that one be provided, annually. The reason for this leniency is based on the argument from grantees that a formal audit expends funds that could be spent on victims. As of this contracting year, no future funds are to be granted until the grantee has met the audit requirement. We are currently holding disbursement funds for two grantees pending the receipt of their audits.

5. The center did not track actual employee time spent on various federal and state programs.

Recommendations:

- *The Minnesota Center for Crime Victim Services should allocate the actual number of hours worked by its employees to each federal and/or non-federal program.*

Response:

MCCVS has become aware of other agencies that have used a periodic time study process to monitor the usage of various funds. Over the next six months, MCCVS will explore the time study process and others, and will institute an acceptable method of tracking time spent by staff.

In closing, MCCVS wishes to make it clear that it is the agency's intention to be a vigilant grantor of the federal and state funds that are entrusted to us. We appreciate the work that has been done by the Legislative Auditor and his staff and welcome the suggestions brought forth in this report. We will make every effort to comply with the suggested improvements in order to bolster public trust.

If you have any questions or concerns, feel free to contact me.

Sincerely,

/s/ Charles R. Weaver

Charles R. Weaver, Jr.
Commissioner, Department of Public Safety

Cc: Sara Schlauderaff
Frank Ahrens
Jim Whittington