



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Peace Officer Standards and Training Board

July 1, 2000, through June 30, 2003



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Neil W. Melton, Executive Director
Peace Officer Standards and Training Board

Members of the Peace Officer Standards and Training Board

We have audited the Peace Officer Standards and Training Board for the period July 1, 2000, through June 30, 2003. Our audit scope included license and examination receipts, employee payroll, per diem, and grant expenditures. We also audited a contract between the board and a third party to provide training on preventing racial profiling. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the Peace Officer Standards and Training Board for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the board's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that the Peace Officer Standards and Training Board complied with financial-related legal provisions that are significant to the audit. In determining the board's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the board's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Pursuant to Minn. Stat. Section 3.975, we have referred this report to the Office of the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 14, 2004

Report Signed On: September 29, 2004

Peace Officer Standards and Training Board

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Polisenno, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor
April Snyder	Auditor

Exit Conference

We discussed the results of the audit with the following staff at an exit conference on September 21, 2004:

Peace Officer Standards and Training Board:

Neil Melton	Executive Director
Mary Bjornberg	Assistant Director
Dan Glass	Licensing and Testing Coordinator
Dee Dodge	Legislative and Rules Coordinator
Terry Sandbeck	Office Supervisor
Deb Soderbeck	Office and Administrative Specialist Senior

Department of Public Safety:

Daniel Boytim	Accounting Supervisor Principal
Nancy Hood	Accounting Supervisor Senior
Janet Weber	Contract Officer

Department of Finance:

Jim King	Executive Budget Officer
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Peace Officer Standards and Training Board

Report Summary

Overall Conclusion:

- The Peace Officer Standards and Training (POST) Board operated within available resources and generally complied with applicable legal provisions and management's authorizations. However, we have concerns about the board's administration of a contract for services.

Key Finding:

- The POST Board did not properly monitor its anti-racial profiling contract with a third-party vendor, resulting in overpayments of about \$41,000. (Finding 2, page 11)

The audit report contained two audit findings relating to internal control and legal compliance. The board did not fully resolve one of two findings included in our prior audit report, and we have repeated it in this report.

Audit Scope:

Audit Period:

Fiscal Years 2001 – 2003

Selected Audit Areas:

- License and Examination Receipts
 - Payroll and Per Diem Payments
 - Grant Expenditures
 - Anti-Racial Profiling Contract
-

Agency Background:

The POST Board develops, maintains, and enforces selection, education, and licensing standards for active peace officers. The board is funded by an appropriation from the peace officer training account in the Special Revenue Fund. Revenue in the account is derived from surcharges on criminal offenses and selected traffic fines. During the three-year audit period, the board received annual appropriations of about \$4.6 million.

Peace Officer Standards and Training Board

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Peace Officer Standards and Training Board

Chapter 1. Financial Management

Chapter Conclusions

The Peace Officer Standards and Training (POST) Board operated within available resources and generally complied with applicable legal provisions and management's authorizations.

Audit Objective

The primary objective of our audit of the board's financial management was to answer the following question:

- Did the POST Board operate within available financial resources in compliance with applicable legal provisions and management's authorization?

The Peace Officer Standards and Training (POST) Board was established in 1978. The board is composed of the superintendent of the Bureau of Criminal Apprehension and 14 members appointed by the Governor. Neil Melton was appointed executive director on November 7, 1998. The board operates under the authority of Minn. Stat. Sections 626.84 to 626.863. The mission of the POST Board is to develop, maintain, and enforce selection, education, and licensing standards for active peace officers.

The board is funded by an appropriation from the peace officer training account in the Special Revenue Fund. Revenue in the account is derived from surcharges on criminal offenses and selected traffic fines. The Department of Finance cancels any collections in excess of the appropriated levels to the General Fund as required by law. In 2001, the POST Board received a \$300,000 General Fund appropriation to reimburse local law enforcement agencies for the costs of providing training on emergency vehicle operations and police pursuits.

Peace Officer Standards and Training Board

Table 1-1 summarizes the board's financial activities for fiscal years 2001, 2002, and 2003.

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Sources:			
General Fund Appropriation	\$ 300,000	\$ 0	\$ 0
Special Revenue Fund Appropriation	4,362,000	4,841,757	4,633,000
Balance Forward In	<u>331,317</u>	<u>264,696</u>	<u>270,097</u>
Total Sources	<u>\$4,993,317</u>	<u>\$5,106,453</u>	<u>\$4,903,097</u>
Uses:			
Grants	\$3,718,382	\$3,609,000	\$3,616,460
Payroll and Per Diems	736,281	783,736	789,040
Other Expenditures	<u>273,958</u>	<u>443,620</u>	<u>232,901</u>
Total Expenditures	<u>\$4,728,621</u>	<u>\$4,836,356</u>	<u>\$4,638,401</u>
Balance Forward Out	<u>264,696</u>	<u>270,097</u>	<u>264,696</u>
Total Uses	<u>\$4,993,317</u>	<u>\$5,106,453</u>	<u>\$4,903,097</u>

Source: Minnesota Accounting and Procurement System (MAPS) as of March 31, 2004.

The Department of Public Safety provided administrative support for the board. Services provided by the department include expenditure processing, budget development and assistance, and personnel services. Although the Department of Public Safety provided administrative support, the decision-making authority and responsibility remained with the POST Board.

There were no findings in the financial management area.

Chapter 2. Licensing and Examination Fee Receipts

Chapter Conclusions

The POST Board's internal controls provided reasonable assurance that it safeguarded receipts, accurately recorded the revenue in the accounting records, and complied with significant finance-related legal provisions and management's authorizations. However, the board did not reconcile renewal licenses issued to collections, as discussed in Finding 1.

For the items tested, the POST Board complied with significant finance-related legal provisions concerning license and examination fee receipts.

Audit Objective

The primary objective of our audit of the board's license and examination fees was to answer the following questions:

- Did the POST Board adequately safeguard and accurately record license and examination fee receipts in the accounting records and in compliance with applicable legal provisions and management's authorization?
- Did the board comply with material finance-related legal provisions governing license and examination revenues?

Background Information

The Peace Officer Standards and Training Board is responsible for administering peace officer examinations and issuing licenses to peace officers. As of March 2004, there were approximately 9,700 licensed full-time and part-time peace officers in the state. They are required to renew their licenses every three years. The board also receives examination applications and fees from candidates. Table 2-1 shows the license and examination revenues during the past three fiscal years.

Peace Officer Standards and Training Board

**Table 2-1
License and Examination Revenues
Fiscal Years 2001 to 2003**

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Examination Fees	\$ 99,885	\$ 89,500	\$ 91,695
License Fees: ⁽¹⁾	326,574	360	
New License Fees		54,917	44,844
Renewal License Fees		273,180	335,084
Restoration Fees		<u>2,260</u>	<u>2,488</u>
Total	<u>\$426,459</u>	<u>\$420,217</u>	<u>\$474,111</u>

Note (1): The POST Board coded license fees to one revenue source code in the accounting system. During fiscal year 2002, they added a subrevenue source code to differentiate the types of license fees received: renewals, new licenses, and restorations.

Source: Minnesota Accounting and Procurement System (MAPS), as of June 30, 2003.

License and examination receipts are deposited into the state's General Fund as nondedicated revenue. These funds are not available for board operations.

Audit Finding and Recommendation

1. PRIOR FINDING PARTIALLY RESOLVED: The board did not reconcile renewal licenses issued to the corresponding receipts collected.

The board did not verify that it received payment for the total of renewal licenses issued. The board issues new licenses to peace officers after they meet the certification requirements. Peace officers must renew their licenses every three years. The board records the receipt information in the licensing system prior to issuing the licenses. Currently, the board reconciles new licenses issued to receipts collected, but there is no reconciliation of renewal licenses. In fiscal year 2003, renewal license revenue accounted for 88 percent of the total license fees collected. Without a reconciliation of renewal licenses issued to monies collected, there is no assurance that the board collected the proper fees.

Recommendation

- *The board should reconcile renewal licenses issued to receipts collected.*

Chapter 3. Payroll and Per Diem Expenditures

Chapter Conclusions

The POST Board's internal controls provided reasonable assurance that employees were accurately compensated in accordance with the applicable bargaining agreements and management's authorization, and that payroll expenditures were accurately recorded in the accounting and payroll systems.

For the items tested, the board complied with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans. The board properly paid per diems to its board members.

Audit Objective

The primary objective of our audit of the board's payroll expenditures was to answer the following questions:

- Did the board's internal controls provide reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions, compensation plans, and management's authorization?
- For the items tested, did the board comply with significant finance-related legal provisions?

Background Information

The POST Board spent \$735,346, \$782,635, and \$788,170 for payroll and fringe benefit costs in fiscal years 2001, 2002, and 2003, respectively. The board uses the state's human resources and payroll system, the State Employee Management System (SEMA4). The board's 13 employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees, Minnesota Association of Professional Employees, Middle Management Association, Commissioner's Plan, and Managerial Plan.

The board paid per diems to its board members pursuant to Minn. Stat. Section 15.0575, Subd. 3. Members were compensated \$55 for each day spent on board activities plus any eligible expense reimbursements. The board paid about \$2,900 in per diem charges to board members during the audit period.

There were no findings in the payroll area.

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Chapter 4. Grant Expenditures

Chapter Conclusions

The Peace Officer Standards and Training Board's internal controls provided 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, the board complied with significant finance-related legal provisions concerning grant expenditures.

Audit Objective

The primary objective of our audit of the board's grant expenditures was to answer the following questions:

- Did the board's internal controls provide reasonable assurance that grant expenditures were accurately reported in the accounting records and in compliance with management's authorization?
- Did the board's grant expenditures comply with significant finance-related legal provisions?

Background Information

The board grants money to local law enforcement agencies for various purposes, including reimbursement of peace officer continuing education costs. The board also provides grants to cover the costs of students who have been given conditional offers of employment and are enrolled in a professional peace officer program. The board spent approximately \$3.6 million on grants during each year of the audit period.

There were no findings in the grant expenditures area.

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Chapter 5. Anti-Racial Profiling Contract

Chapter Conclusions

The Peace Officer Standards and Training Board did not properly administer the anti-racial profiling contract it executed with a third party as discussed in Finding 2. The board improperly reimbursed the contractor over \$41,000 for costs not incurred by the contractor. Payments made under the contract did not always comply with material finance-related legal provisions.

Audit Objective and Methodology

Our review of the anti-racial profiling contract focused on the following objective.

- Did the Peace Officer Standards and Training Board properly administer the anti-racial profiling contract?

To answer this question, we interviewed POST Board and Department of Public Safety personnel to gain an understanding of the internal control structure over the contract expenditures. We also interviewed contractor staff and tested its accounting records related to the contract. We reviewed payments for accuracy and compliance with the contract provisions.

Background Information

The 2001 Legislature appropriated \$350,000 to the POST Board to conduct seminars throughout the state to increase awareness about racial profiling issues and to promote a community-oriented response to racial profiling. The POST Board signed a \$262,501 professional/technical contract with a vendor to develop the training materials, organize and conduct regional training seminars, and, in association with the state, collect and compile relevant data in a written report. The board paid the contractor \$237,757 for the work it performed. However, we noted several problems with the payments made under this contract.

Audit Finding and Recommendations

- 2. The POST Board reimbursed a contractor over \$41,000 for costs that the contractor did not incur.**

The POST Board did not properly monitor contractor payments for anti-racial profile training of peace officers. The board contracted with a nonprofit institute to develop and hold training seminars throughout the state. The contract contained various budget categories, including course design and development, student materials, marketing, and training events. We tested the

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payment amounts relating to training events. We question payments totaling over \$41,000, which the contractor did not incur. The questioned amounts are summarized in Table 5-1 and discussed below. We also identified other weaknesses with the contract that did not result in overpayments to the contractor.

Table 5-1
Anti-Racial Profiling Contract
Summary of Overpayments to Contractor
Fiscal Years 2001 to 2003

Training Event Description:	Overpayment <u>Amount</u>
Sub-contracted trainers	\$23,300
Site expenses	10,203
Travel expenses	4,134
Cancellation fees	<u>3,600</u>
Total Amount Overpaid	<u>\$41,237</u>

Source: POST Board's and contractor's payment files.

- The POST Board overpaid the contractor \$23,300 for subcontractors it hired to help conduct the training seminars. The budget established for these individuals was set at \$2,000 per seminar. The contractor billed the POST Board \$2,000 for each of these individuals, even though the actual cost to the contractor was considerably less. In two cases, the contractor did not use a subcontractor, but still billed the board for these services. The POST Board should only have reimbursed the contractor for the actual costs it incurred in hiring these individuals.
- The POST Board paid the contractor \$10,203 for site expenses it did not incur. As part of the seminars, a facility may charge the user a fee for items such as room or equipment rentals. The contract budgeted \$500 for these costs at each seminar. The board paid the contractor a total of \$12,250 for site expenses. However, the contractor only paid site expenses of \$2,047. The POST Board should only have paid the contractor for the actual costs incurred.
- The POST Board overpaid the contractor \$4,134 for travel costs it did not incur. The contract directed the board to reimburse the contractor “for travel and subsistence expenses actually and necessarily incurred...” These expenses generally included hotel, meals, and mileage. The contractor reimbursed the trainers \$10,203 for travel expenses, but billed and received \$14,337 from the POST Board.

We also found some additional concerns with travel expenses. The contract contained the wrong reimbursement schedule from the Commissioner's Plan. The contract required the board to reimburse the contractor for travel expenses in the same manner as the Commissioner's Plan. The page included in the contract was for out-of-state trips. As a result, the contractor reimbursed trainers for meals totaling up to \$35 per day instead of \$31 and also received reimbursement from the board at the higher rate. Additionally, the contractor reimbursed the trainers at \$.31 per mile instead of \$.345 per mile as listed in

Peace Officer Standards and Training Board

the plan. In both instances, the contractor was reimbursed for the same amount it paid the trainers.

- The POST Board reimbursed the contractor \$3,600 for cancellation fees which were not allowable under the contract. The contractor cancelled three seminars during the year and assessed a 15 percent fee for the time invested in these seminars. The contractor billed the board \$1,200 for each seminar cancelled. Because the contract did not allow for cancellation fees, the POST Board should not have paid them.

Except for travel expenses, the contractor usually billed the POST Board based on the contract budget rather than actual costs incurred. The contract states that, “The State will pay for all services performed by the Contractor under this contract...” The contract further requires the contractor to submit an itemized invoice for the services actually performed. The invoices presented by the contractor did not include a breakdown of the actual costs incurred. The contractor thought that the contract was based on a fee for service, rather than a reimbursement of actual costs and submitted invoices to the board accordingly. The POST Board needs to ensure that all payments made under the contract comply with the contract requirements.

Recommendations

- *The POST Board should pursue recovery of contract payments from the contractor.*
- *The POST Board should monitor its contracts to ensure that the contractors comply with all of the terms.*

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Status of Prior Audit Issues As of April 12, 2004

Most Recent Audit

May 2001, Legislative Audit Report 01-26 covered the three fiscal years ending June 30, 2000. The audit focused on the internal control structure over payroll, grants, and license fees, as well as testing for compliance with finance-related legal provisions.

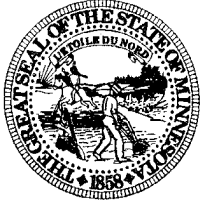
The report cited two audit findings. The POST Board resolved the first finding that dealt with cancellation of unexpended appropriation balances. The second finding dealt with controls over licensing receipts. We found that the POST Board has now adequately restricted access to its licensing system and has reconciled new licenses issued to receipts. However, as discussed in Finding 1, the POST Board still has not reconciled receipts to license renewals.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Peace Officer Standards and Training Board

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Minnesota Board of Peace Officer Standards and Training

1600 University Avenue, Suite 200
St. Paul, MN 55104-3825
(651) 643-3060 • Fax (651) 643-3072
TDD (651) 297-2100

September 28, 2004

James Nobles, Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
658 Cedar St.
St. Paul, MN 55155

Dear Mr. Nobles:

We appreciate the opportunity to clarify and respond to the *Audit Finding and Recommendations* in the draft audit report for the three fiscal years ending June 30, 2003.

The chapters of the report containing recommendations requiring a response were as follows:

Chapter One, Licensing and Examination Fee Receipts

We wish to highlight the distinction between fees collected for new licenses and those for renewed licenses. New license applications and fees are received by the POST Board throughout the year. There is an exact one to one correspondence between each fee and each license issued. Since our last audit in 2001, we followed the Auditor's recommendation and instituted a reconciliation process. In the course of the present audit process, this was acknowledged and approved.

License renewal takes place during a four-month period of each year. Many payments are received for individuals (and even entire department rosters) who have not yet met the renewal requirement of earning 48 hours of continuing education. Therefore, a license cannot be issued immediately upon receipt of a renewal fee.

During the course of this audit, we had fruitful discussions with Ms. April Snyder on how to institute a reconciliation process. As a result, the POST Board will:

- *Continue the reconciliation of new licenses that we have been following;*
- *Establish a full set of procedures for reconciling license renewal payments to licenses issued; and*
- *Implement a reconciliation procedure that meets the stated objectives and expectations of the auditors.*

Chapter Four, Anti-Racial Profiling Contract

We appreciate the insight that the Auditor's report provided in regards to not only administering a contract with a third party, but also clarifying the relationship between the Peace Officer Standards and Training (POST) Board and the Department of Public Safety (DPS) for the purpose of contract oversight.

The POST Board will pursue the potential recovery of the overpayments made to the Contractor.

If the POST Board is again directed to administer a contract, steps will be taken to:

- *Verify that both parties understand the distinction between a fee for service contract and a reimbursement of actual costs contract;*
- *Define the necessary documents the Contractor must provide to receive payment;*
- *Clearly identify the oversight role of the authorized representatives; and*
- *Seek continuing guidance from DPS to ensure compliance with the contract requirements.*

Mary Bjornberg, Assistant Director of the POST Board will be responsible for ensuring that compliance with all recommendations is made.

Sincerely,

/s/ Neil W. Melton

Neil W. Melton
Executive Director