



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Public Safety
Fiscal Years 2002 through 2004



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.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campion, Commissioner
Department of Public Safety

We have audited selected financial activities of the Department of Public Safety for the period July 1, 2001, through June 30, 2004. Our audit scope was limited to employee payroll, professional/technical services, supplies and equipment, employee travel reimbursements, and Minnesota Statewide 911 Program activity. Our objectives focused on a review of the department's internal controls over these financial activities and its compliance with applicable legal provisions.

The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We would like to thank the staff of the Department of Public Safety for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 1, 2005

Report Signed On: May 23, 2005

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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
Pat Ryan	Team Leader
Nisha Bhattarai	Auditor
Susan Mady	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Public Safety at an exit conference on May 13, 2005:

Mary Ellison	Deputy Commissioner
Debbie Halfen	Single Audit Coordinator
Ron Whitehead	Project Manager
Frank Ahrens	Fiscal and Administrative Services Director
Dan Boytim	Fiscal and Administrative Services Account Supervisor

Report Summary

Overall Conclusion:

- The Department of Public Safety's internal controls provided reasonable assurance that revenues and expenditures were accurately recorded in the state's accounting system, and complied with applicable legal provisions and management's authorizations.

Key Finding:

- The Department of Public Safety did not have contracts in place with all 911 service providers receiving cost reimbursements. (Finding 3, page 10)

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

Audit Scope:

Audit Period:

Fiscal Years 2002 – 2004

Selected Audit Areas:

- Payroll
- Employee Expense Reimbursements
- Professional/Technical Contracts
- Supplies and Equipment
- 911 Receipts and Disbursements

Agency Background:

The Department of Public Safety's mission is to protect Minnesota through prevention, preparedness, response, recovery, education, and enforcement. The department took on a new role after September 11, 2001, as Minnesota's Office of Homeland Security.

During the time period covered by the audit, the department received appropriations of about \$210 million and receipts of about \$130 million to fund its operations.

Department of Public Safety

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Chapter 1. Introduction

The Office of the Legislative Auditor selected the Department of Public Safety 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.

Agency Overview

The Department of Public Safety was established in July 1970. The mission of the Department of Public Safety is to protect Minnesota through prevention, preparedness, response, recovery, education, and enforcement. The department provides a number of core services throughout the state to support the goal of keeping Minnesota safe. Among the services provided by the department are:

- conducting criminal investigations and forensic science analysis;
- administering driver and vehicle services;
- coordinating emergency planning and response for disasters and acts of terrorism;
- providing financial advocacy and assistance to crime victims;
- enforcing traffic laws on Minnesota highways; and
- administering the statewide 911 program.

The department took on a new role after September 11, 2001, as Minnesota's Office of Homeland Security. The department oversees the coordination of preparedness and response plans and resources, and it serves as a link from the federal government to local public safety agencies. Rich Stanek served as commissioner of the department until April 2004. Michael Campion is the current commissioner.

The department receives funding for its operations through many sources including appropriations, receipts, and transfers. During the time period covered by the audit, the department received appropriations of about \$210 million, receipts of about \$130 million, and transfers of about \$35 million. The department expended about \$315 million and transferred out about \$45 million for fiscal years 2002 – 2004. Excess funds in each fiscal year were either cancelled or brought forward to be spent in the next fiscal year.

Audit Approach

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 department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of

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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 Department of Public Safety complied with financial-related legal provisions that are significant to the audit. In determining the department'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 Department of Public Safety'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 department's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapter 2. Payroll

Chapter Conclusions

The Department of Public Safety's internal controls provided reasonable assurance that it accurately compensated employees in compliance with the applicable bargaining agreements and management's authorization and that it properly recorded payroll expenditures in the accounting and payroll system.

For the items tested, the department complied with material finance-related legal provisions and bargaining unit agreements.

Audit Objective

The primary objective of our audit of the Department of Public Safety's payroll was to answer the following questions:

- Did the department's internal controls provide reasonable assurance that payroll expenditures were accurately recorded in the accounting and payroll systems and in compliance with applicable legal provisions, bargaining agreements, and management's authorization?
- For the items tested, did the department comply with material finance-related legal provisions and bargaining unit agreements governing employees?

Background Information

Payroll represents the largest administrative expenditure category for the Department of Public Safety. Currently, the department employs about 1900 employees. These 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 department processes payroll through the state's payroll system (SEMA4) on a biweekly basis.

Table 2-1 provides a breakdown of the department's payroll expenditures by earnings category for fiscal years 2002 - 2004.

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Table 2-1
Payroll Expenditures
By Budget Fiscal Years 2002 – 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Regular	\$ 86,755,865	\$ 94,772,620	\$ 95,910,148
Vacation	8,093,575	9,120,596	9,401,158
Overtime	4,861,895	5,434,246	3,309,391
Sick	2,950,420	3,176,759	3,294,837
Holiday	3,770,354	4,233,157	5,153,511
Other	10,948,140	12,721,604	11,271,793
Total	<u>\$117,380,249</u>	<u>\$129,458,982</u>	<u>\$128,340,838</u>

Note: Payroll costs increased by about \$12 million from fiscal year 2002 to fiscal year 2003 due to hiring 65 state troopers in fiscal year 2003 and salary and insurance cost increases.

Source: Minnesota Accounting and Procurement System (MAPS).

There were no findings in the payroll area.

Chapter 3. Selected Administrative Expenditures

Chapter Conclusions

The Department of Public Safety's internal controls provided reasonable assurance that expenditures for professional/technical services, supplies, equipment, and employee expense reimbursements were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization.

For the items tested, the department complied with material finance-related legal provisions. However, we found that the department did not adequately safeguard its fixed assets.

Audit Objective

The primary objective of our audit of the Department of Public Safety's selected administrative expenditures was to answer the following questions:

- Did the department's internal controls provide reasonable assurance that professional/technical services, supplies, equipment, and expense reimbursement expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with significant finance-related legal provisions concerning administrative expenditures?

Background Information

The Department of Public Safety's Fiscal and Administrative Services Division processes and monitors purchasing for the entire department. Each operating division is assigned accountants to process and monitor divisional expenditure transactions. The department utilizes the Minnesota Accounting and Procurement System's (MAPS) electronic approval process for purchasing and accounts payable transactions.

Table 3-1 shows expenditures for selected categories during the three years ended June 30, 2004.

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Table 3-1
Department of Public Safety
Selected Administrative Expenditures
Fiscal Years 2002, 2003, and 2004

<u>Expenditure Type</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Supplies	\$11,112,610	\$15,360,896	\$13,253,183
Equipment	8,809,562	11,352,079	11,785,284
Professional/Technical	5,975,373	7,005,112	5,327,160
Expense Reimbursement	2,018,849	1,791,531	1,773,314

Source: Minnesota Accounting and Procurement System (MAPS) as of February 14, 2005.

Finding and Recommendation

1. **PRIOR FINDING NOT RESOLVED: The department did not adequately safeguard its fixed assets.**

The department has not completed physical inventories as required by the state's personal property management policy. The Department of Administration's property management procedures require state agencies to conduct a physical inventory every two years. Periodic physical inventories help ensure that the department's fixed asset records are accurate and that assets are adequately safeguarded. Results of physical inventory counts could highlight the need to change record-keeping procedures or controls to safeguard assets. The department assigned the responsibility for maintaining accurate fixed asset records to its divisions. However, not all of the divisions have complied with the fixed asset policy requirements.

Recommendation

- *The department should conduct periodic physical inventories to ensure that its fixed asset records are accurate.*

Chapter 4. Minnesota Statewide 911 Program

Chapter Conclusions

The Department of Public Safety's internal controls provided reasonable assurance that the Minnesota Statewide 911 Program's revenues and expenditures were safeguarded, accurately recorded in the accounting system, and in compliance with applicable legal provisions and management's authorizations. However, the department did not adequately segregate duties over program revenue, as discussed in Finding 2.

For the items tested, the department complied with applicable legal provisions. However, the department did not always have contracts on file to support payments, as discussed in Finding 3.

Audit Objective

The primary objective of our review of the Department of Public Safety's Minnesota Statewide 911 Program was to answer the following questions:

- Did the department's internal controls provide reasonable assurance that the program's revenues and expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with material finance-related legal provisions?

Background Information

The Minnesota Statewide 911 Program provides technical assistance to cities and counties in implementing, maintaining, and improving 911 emergency systems. It also enforces rules that set system standards and pays the state's share of 911 emergency costs from funds collected through a monthly statewide telephone surcharge, currently 40 cents. The telecommunication companies collect the surcharge from their customers and remit collections to the department.

Until December 2003, the Department of Administration administered this program. However, *Minnesota Laws 2003*, First Special Session, Chapter 1, Article 2, Section 125 transferred the program, including funding and staff, to the commissioner of Public Safety.

During fiscal year 2004, the program collected \$27,466,618 and disbursed \$23,792,931. The department carried forward the remaining \$3,673,687 to fiscal year 2005.

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In an effort to encourage phone companies to certify their costs for reimbursement, the 2002 Legislature amended *Minnesota Statutes 2002*, Section 403.11. Effective April 1, 2003, telephone companies could only submit certifications for charges incurred within the past two years. This change prompted many companies to submit certifications for prior years before the new legislation took effect. As a result of the unexpected large number of claims, the department did not have enough resources to pay all of the claims. As of December 31, 2004, the amount of outstanding claims totaled about \$8.3 million. The department has proposed legislation to temporarily increase the fee from 40 cents to 65 cents per month to pay off the outstanding claims.

Findings and Recommendations

2. The department did not adequately safeguard its Minnesota Statewide 911 Program receipts.

The department did not adequately separate certain key duties over the processing of the program receipts. Two employees are involved in the receipt process. One employee gets the checks from the mail room and verifies that the amount remitted is correct. The second employee receives the checks from the first person, restrictively endorses the checks, prepares a check listing, and enters the amounts on its internal system. The second employee returns the checks to the first person who prepares and makes the bank deposit and posts the deposits to MAPS. The department could improve controls by having the second person get the checks, restrictively endorse them, prepare the log, and then give them to the first person for further processing and depositing. Without an adequate separation of duties, errors or irregularities could occur and not be detected in a timely manner.

Recommendation

- *The department should safeguard its receipts by adequately separating key financial duties.*

3. The department did not have signed contracts on file for all Minnesota Statewide 911 Program service providers.

The department did not have current contracts on file to support payments made to 911 service providers. *Minnesota Statutes 2004*, Section 403.025 requires, “The state together with the county... shall contract with the appropriate wire-line telecommunications service providers for the operation, maintenance, enhancement, and expansion of the 911 system.” During the audit, the department staff informed us that 38 phone companies do not have current contracts in place. This generally occurs when the phone companies want to modify some provisions in existing agreements and do not formalize the new conditions, or inform the department of these changes. Without valid contracts, the department does not have adequate support for payments made to the phone companies.

Recommendation

- *The department needs to ensure that it has signed current contracts in place to support payments made to the phone companies.*

Status of Prior Audit Issues As of February 1, 2005

Legislative Audit Report 99-44, issued in August 1999, covered the three fiscal years ending June 30, 1998. The scope of this audit included appropriation controls, payroll, administrative expenditures, and the Criminal Gang Strike Force. The report included six written audit findings. One prior finding, related to fixed assets, is repeated in this report as Finding 1. The department implemented four of the remaining findings, and one was outside the scope of this audit.

Other Audit Reports

Legislative Audit Report 05-23, issued in April 2005, was a security audit of the department's Web-based Motor Vehicle Registration Renewal System. The report identified serious security weaknesses in the renewal system which exposed citizens' private data to an unacceptable risk of tampering, disruption, and misuse. We did not follow up on the results of this audit report.

Legislative Audit Report 05-11, issued in February 2005, examined the motor vehicle registration and excise tax revenues collected by the Department of Public Safety. The audit also included compliance for the Federal Motor Carrier Safety Administration Grants (CFDA #20.218) for fiscal year 2004. The audit report contained one finding which dealt with the department not properly allocating motor vehicle excise tax collections to recipient funds.

Legislative Audit Report 04-08, issued in March 2004, was a financial audit of the CriMNet program. The audit scope included professional/technical contracts, grants, payroll, equipment, and other administrative expenditures. The audit identified seven findings. We did not follow up on any of these issues.

Program Evaluation Report 04-05, issued in March 2004, was a program review of the CriMNet program. The objective of the study was to determine how well the program has been managed and the extent to which CriMNet has improved sharing of criminal justice information among state and local jurisdictions.

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, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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May 20, 2005

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

Dear Mr. Nobles:

We were provided a copy of the draft audit report for the Department of Public Safety. Our response to findings and recommendations is as follows:

1. PRIOR FINDING NOT RESOLVED:

The department did not adequately safeguard its fixed assets.

Recommendations:

- *The department should conduct periodic physical inventories to ensure that its fixed asset records are accurate.*

Response:

The Office of Fiscal and Administrative Services (FAS) is in the process of updating the department property management policy and will more closely monitor and track divisions' compliance with the policy.

FAS is in touch with all 24 divisions' asset coordinators and will document when their physical inventories are completed. We will develop procedures to better track their progress.

Kris Eide will be responsible for this finding.

2. The department did not adequately safeguard its Minnesota Statewide 911 Program receipts.

Recommendations:

- *The department should safeguard its receipts by adequately separating key financial duties.*

Response:

The Department of Public Safety has changed the fee receipt process by defining the roles of employees from the 911 program in the receipt and bank depositing process. Additionally, FAS has been included in the process to post receipts into MAPS after the bank deposit is made.



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A 911 employee prepares a check log, another 911 employee prepares the cash receipt and a FAS employee enters the cash receipt into MAPS.

3. The department did not have signed contracts on file for all Minnesota Statewide 911 Program service providers.

Recommendation:

- *The department needs to ensure that it has signed current contracts in place to support payments made to the phone companies.*

Response:

The Department of Public Safety acknowledges this audit finding and the legal requirement of contracts for telecommunication services and payment. Following the transfer of the Statewide 911 Program to the Department of Public Safety, policies were imposed requiring signed contracts describing the services provided by the telephone company before certifications would be approved. In conjunction with other business practice changes, the Department of Public Safety is systematically reviewing all contracts, updating them where necessary to assure they accurately describe services and costs.

Ron Whitehead is responsible for findings 2 and 3.

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

Sincerely,

A handwritten signature in cursive script that reads "Michael Campion".

Michael Campion
Commissioner, Department of Public Safety

Cc: Mary Ellison
Frank Ahrens
Ron Whitehead