

Financial Audit Division Report

Department of Public Safety

July 1, 2004, through December 31, 2006



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.

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- 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

Financial Audit Division Report

Department of Public Safety

July 1, 2004, through December 31, 2006

November 1, 2007

07-29

FINANCIAL AUDIT DIVISION

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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Michael Campion, Commissioner
Department of Public Safety

We conducted an audit of the Department of Public Safety for the period July 1, 2004, through December 31, 2006. Our audit scope included expenditures for payroll and fixed assets and selected financial activities within the Bureau of Criminal Apprehension and the crime victims services grants. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions. In addition, our office conducted a separate audit of security access and professional/technical services at several agencies, including the Department of Public Safety. We report the results from that audit in Chapter 4, Professional/Technical Service Contracts. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We thank the staff from the Department of Public Safety for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: June 8, 2007

Report Signed On: October 29, 2007

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Audit Participation

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

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Thom Derus	Auditor
Melanie Greufe	Auditor
Jamie Majerus	Auditor
Xin Wang	Auditor
Zach Yzermans	Auditor

Exit Conference

We discussed the results of the audit with the representatives of the Department of Public Safety at an exit conference on October 23, 2007:

Michael Campion	Commissioner
Mary Ellison	Deputy Commissioner
Janet Cain	Chief Information Officer
Jeri Boisvert	Director, Office of Justice Programs
Frank Ahrens	Director, Fiscal and Administrative Services
Rita Wurm	Deputy Director, Fiscal and Administrative Services
Dan Boytim	Accounting Supervisor, Fiscal and Administrative Services
Marlys Gardner	Accounts Payable Supervisor

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Report Summary

Conclusions:

The Department of Public Safety did not have adequate internal controls over payroll or equipment and did not fully comply with the related state policies and procedures.

Except for weaknesses in its payroll process, the department had adequate internal controls for the Bureau of Criminal Apprehension and its crime victim services grants and generally complied with legal requirements tested in these areas.

The audit report contains eight audit findings relating to internal control and legal compliance.

Key Findings:

- The department did not implement controls to ensure it accurately paid employees. ([Finding 1, page 8](#))
- The department did not always eliminate or mitigate incompatible access to the state's computer system. ([Finding 2, page 9](#))
- The department did not adequately safeguard its fixed assets. ([Finding 3, page 12](#))
- The department did not adequately control access to its not public data. ([Finding 4, page 13](#))
- The department did not properly allocate payroll costs between state and federal programs. ([Finding 8, page 26](#))

Audit Scope:

Period Audited:

- Computer security access controls as of January 2007.
- July 1, 2005, through June 30, 2006, for professional/technical service expenditures.
- July 1, 2004, through December 31, 2006 for all other activity.

Activities Audited:

- Payroll expenditures
- Equipment and selected administrative expenditures
- Professional/technical services
- Bureau of Criminal Apprehension's financial activities
- Crime victims services grants

Agency Background:

The Department of Public Safety's mission is to protect Minnesota by promoting safer communities through prevention, preparedness, response, recovery, education, and enforcement. The department's ten divisions provided direct services to the public and served as a link from the federal government to local public safety agencies.

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Chapter 1. Introduction

The Department of Public Safety was established in 1970. The mission of the department is to protect Minnesota by promoting safer communities 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 advocacy and financial assistance to crime victims;
- promoting safety on roadways and reducing traffic injuries and fatalities;
- administering justice assistance and crime prevention grant programs; and
- administering the statewide 911 program.

Michael Campion has served as commissioner of the department since April 2004. The department receives funding for its operations through many sources including appropriations, receipts, and transfers. Table 1-1 summarizes the department's financial activity for fiscal years 2005 and 2006.

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Table 1-1
Financial Sources and Uses
Budget Fiscal Years 2005 to 2006

	<u>2005</u>	<u>2006</u>
Sources:		
Appropriations	\$196,221,975	\$188,021,000
Appropriation Cancellations	(12,237,752)	(15,745)
Receipts:		
Federal Grants	112,173,003	129,779,984
911 User Fees	27,323,188	47,586,521
DWI Reinstatements	12,278,177	15,125,956
Other Receipts	29,685,203	69,204,762
Transfer In ¹	36,700,528	97,672,057
Balance Forward In	<u>40,549,644</u>	<u>22,815,057</u>
Total Sources	<u>\$442,693,966</u>	<u>\$570,189,592</u>
Uses:		
Expenditures:		
Payroll	\$129,615,461	\$135,141,630
Grants	118,040,593	144,381,170
Supplies and Equipment	37,998,121	20,853,212
Other Operating Costs	28,371,412	26,403,110
Professional/Technical Services	5,740,350	7,448,429
Other	<u>44,573,873</u>	<u>43,443,393</u>
Total Expenditures	<u>\$364,339,810</u>	<u>\$377,670,944</u>
Transfers Out ¹	\$ 54,761,899	\$123,687,343
Balance Forward Out	22,815,057	47,789,074
Cash Balances²	<u>777,200</u>	<u>21,042,231</u>
Total Uses	<u>\$442,693,966</u>	<u>\$570,189,592</u>

¹Transfer ins and outs generally represent funds reallocation of taxes collected and federal grants.

²Cash balances were primarily due to balances maintained for building construction and revenue bond capital projects and include encumbrances existing at December 31, 2006, totaling \$135,179 and \$10,617,068 for fiscal years 2005 and 2006, respectively.

Source: Minnesota Accounting and Procurement System as of December 2006.

The Office of the Legislative Auditor selected the Department of Public Safety for audit based on an 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.

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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 Sponsoring Organizations of the Treadway Commission,¹ as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the department complied with the finance-related legal requirements that are significant to the audit. In determining the department's compliance with legal requirements, we considered requirements of laws, regulations, contracts, and grant agreements.

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

¹The Treadway Commission (formerly known as the National Commission on Fraudulent Financial Reporting) and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

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Chapter 2. Payroll Expenditures

Chapter Conclusions

The Department of Public Safety's internal controls did not provide reasonable assurance that it accurately paid employees or complied with material finance-related legal requirements. The department did not ensure that it accurately paid employees for the time worked, as discussed in Finding 1. This resulted in paying employees for holiday hours they did not earn. In addition, the department did not remove incompatible access to the state's accounting and payroll systems, as discussed in Finding 2.

Audit Objective

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

- Did the department's internal controls provide reasonable assurance that it accurately paid its employees?
- For items tested, did the department comply with material finance-related legal requirements?
- Did the department's internal controls provide reasonable assurance that access to the state's personnel and payroll system was restricted to authorized users?

Background

Payroll represented the second largest expenditure for the Department of Public Safety, comprising about 34 percent of the department's total expenditures. As of June 2006, the department employed about 1,950 employees in ten separate divisions who belonged to various bargaining units and compensation plans. Six divisions within Public Safety used the automated self service time entry process in the personnel and payroll system to record their hours worked and leave taken. The other divisions used paper timesheets that payroll clerks manually entered into the state's personnel and payroll system.

The self service time entry process automates employee timesheets and allows for electronic supervisory approval. At the end of each pay period, payroll clerks in each division process the payroll transactions. Guidelines established by the Department of Employee Relations require agencies to review certain reports to verify the accuracy of payroll entry, including the accuracy of pay codes charged, hours entered, adjustments, and supervisory approval.

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Table 2-1 provides a breakdown of the department's payroll expenditures by earnings category for fiscal years 2005 and 2006.

Table 2-1
Payroll Expenditures
Budget Fiscal Years 2005 and 2006

<u>Description</u>	<u>2005</u>	<u>2006</u>
Full Time	\$116,989,652	\$120,903,552
Part-time, Seasonal	2,545,534	2,578,539
Overtime	5,154,701	6,886,925
Other Benefits	4,085,872	4,098,863
Other	839,702	673,751
Total	<u>\$129,615,461</u>	<u>\$135,141,630</u>

Source: Minnesota Accounting and Procurement System as of May 2007.

Current Findings and Recommendations

1. The department did not implement controls to ensure it accurately paid employees.

The department erroneously paid nine employees 239 hours for holidays they were not entitled to receive. These employees coded their time to holiday pay instead of some other pay code such as vacation. In all instances, the employees' supervisors electronically approved the timesheets and authorized the pay. Had the supervisors properly reviewed the timesheets, they could have detected these errors. State policy² requires supervisors to review time records for accuracy, stating that the primary approver should be the most knowledgeable about the work schedule of the employee. Inadequate reviews by supervisors could result in additional erroneous payments to employees. The department could create queries which would increase the assurance of adequate supervisory reviews.

In addition, the department did not verify the accuracy of payroll transactions. The department did not review the self service time entry audit report or the payroll register report³ to verify that staff accurately entered the payroll transactions into the state's payroll system. The state requires agencies to complete a comprehensive review or, if not possible, review a representative sample each pay period and obtain an explanation of exceptions to the self service time entry process. In addition, agencies are required to review the payroll register each pay period to verify that time and amounts paid were at the correct rate, and any necessary adjustments were correctly processed. Without proper reviews of payroll activity, the department cannot ensure the propriety of payroll charges.

²PAY0017 – Department of Employee Relations Employee Self Service Time Entry Policy: “Supervisors/managers are responsible for reviewing and approving employee timesheets.”

³Department of Finance, PAY0017 “Employee Self Service Time Entry” and PAY0028 “Agency Verification of Payroll and Human Services Transactions.”

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Recommendations

- *The department should review holiday pay charges in fiscal years 2005 and 2006 and correct any errors found.*
- *The department should ensure that supervisors adequately review employee time records.*
- *The department should review the self service time entry audit report and payroll register each pay period to verify the accuracy of transactions recorded on the state's personnel and payroll system.*

2. The department did not adequately restrict employee access to incompatible financial functions in the state's payroll and personnel system or design effective controls to detect inappropriate transactions.

The department did not remove incompatible computer security access for three employees. One employee could update and correct payroll transactions and direct deposit entries. The other two employees could adjust retroactive payments and direct deposit entries. Although the payroll section has few employees, the department is large enough that it could adequately separate these key functions. The incompatible access allows any of these employees to initiate an erroneous payroll transaction and deposit the funds into their own bank account.

Allowing incompatible access increases the risk of intentional or unintentional errors occurring without detection by the department. If the department permits incompatible access privileges, it must document and monitor controls designed to detect inappropriate transactions. A typical detective control requires a review of the transactions by a second person. However, the department did not have any detective controls to mitigate the risk of the incompatible privileges assigned to employees. In addition, as of April 2007, the state required these risks be eliminated or mitigated by the department.⁴

The department has primary authority and responsibility to ensure employee access to its payroll and personnel system is based upon job responsibilities. Without proper security controls, the department is at risk for possible unauthorized or fraudulent transactions to occur.

Recommendation

- *The department should remove incompatible access or implement effective controls to detect inappropriate transactions.*

⁴ SEMA4 Security Policy HR045: "Access should be granted to only those functions... necessary to perform their job duties. Incompatible access profiles are not permitted."

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Chapter 3. Equipment and Selected Administrative Expenditures

Chapter Conclusions

The Department of Public Safety's internal controls did not provide reasonable assurance that it safeguarded its fixed assets, as discussed in Finding 3, or protect its not public data, as discussed in Finding 4. In addition, the department did not always accurately record fixed assets in the state's accounting system or document management's authorization for the transactions, as discussed in Finding 6. The department also permitted incompatible, excessive, and unnecessary access to the state's accounting system without establishing detective controls, as discussed in Finding 5.

Audit Objectives

Our audit of equipment and selected administrative expenditures focused on the following questions:

- Did the department's internal controls provide reasonable assurance that fixed assets were accurately reported in the accounting and inventory records and complied with applicable legal requirements and management's authorization?
- For computer related assets, did the department have a reasonable process to ensure that it was complying with not public data requirements?
- For the items tested, did the department comply, in all material respects, with the significant finance-related legal requirements concerning fixed assets?
- Did the department's internal controls provide reasonable assurance that access to the state's accounting system was restricted to authorized users?

Background

Fixed assets included equipment that cost over \$5,000 with a life expectancy exceeding two years and sensitive assets (e.g., firearms, portable computers, cellular phones, etc.), requiring additional controls regardless of their dollar values. Sensitive assets typically can easily be stolen and, therefore, present a higher risk to the agency.

The Department of Public Safety's fiscal and administrative services division processed and monitored equipment purchases for the entire department. The department used the Minnesota Accounting and Procurement System's electronic approval process for purchasing and accounts payable transactions. The department primarily used the state's Fixed Assets Inventory System

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to monitor and control its fixed assets, but some divisions also used the department's Central Resource System to track fixed assets instead or in conjunction with the state's system. The department spent \$23.6 million and \$8.2 million in fiscal years 2005 and 2006, respectively, for equipment purchases.

Current Findings and Recommendations

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

The department did not safeguard its fixed assets. Our review of its controls over fixed assets disclosed the following weaknesses:

- Nine of the department's 19 divisions or units had not completed a biennial physical inventory as required by state policy. The Department of Administration's property management procedures⁵ require state agencies to conduct a full physical inventory every two years and random spot checks of inventory within those two years. Our office reported this weakness in two prior audit reports⁶ dating back to 1999.

The department assigned the responsibility for maintaining accurate inventory records to its divisions. However, the department did not monitor its divisions' compliance for obtaining the required level of inventory accuracy. Periodic physical inventories help ensure that the department's asset records are accurate, and assets are adequately safeguarded.

- The department's fixed asset inventory system did not contain required information essential to locating or identifying assets. The department allowed the divisions to use either the state's Fixed Asset Inventory System or the Central Resource System to monitor and control its fixed assets. However, the divisions did not always record required information on the Central Resource System, such as asset location, asset number, serial number, model number, acquisition price, and acquisition date. This made the tracking of assets difficult.
- The two asset tracking systems contained errors. For example, our review of inventory reports and testing a sample of equipment purchased during fiscal years 2005 and 2006 identified the following errors:
 - One laptop computer currently used by the department was not listed in either system.
 - The department could not locate a laptop computer listed in the Central Resource System.

⁵FMR-1G-01 – Part 4-1-B: Mandatory Physical Inventory Counts – Statewide policy requires a complete physical inventory for capital assets and sensitive items must be conducted, at a minimum, biennially.

⁶Office of the Legislative Audit Reports [05-32](#) and [99-44](#).

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- The department recorded duplicate assets, disposed assets, and incorrect asset numbers in the Central Resource System.
- The department had not entered asset dispositions into the Fixed Asset Inventory System since 2005.
- The department did not comply with all of the requirements for the state's *Stolen, Lost, Damaged, or Recovered Property Report*. The department did not properly notify the Office of the Legislative Auditor for lost or stolen assets, as required by *Minnesota Statutes*.⁷ Nine out of 19 divisions prepared the required reports but did not submit the reports to the required state agencies.

Without complete and accurate inventory records, the department is unable to adequately manage, track, and report its fixed assets.

Recommendations

- *The department should maintain an up to date record of its fixed assets and conduct periodic physical inventories to ensure that its fixed asset records are accurate. If the department delegates this responsibility to its divisions, it must ensure that they comply.*
- *The department needs to complete and submit Stolen, Lost, Damaged, or Recovered Property Reports in a timely and appropriate manner for all assets.*

4. The department did not satisfactorily protect all of its not public data.

The department did not adequately protect not public data on its laptop computers, as required by *Minnesota Statutes*.⁸ The statutes require agencies to establish appropriate security safeguards for all records containing data on individuals, including both physical and logical security over the data.

First, the department did not comply with the state's physical security requirements to reduce the risk of theft of laptop computers. Although laptops used by the state patrol division have locking systems within patrol cars, the department did not require that employees use physical security devices, such as cable locks, for about 300 other laptop computers.

In addition, as of May 2007, the department could not show that nearly 950 of its laptop computers were encrypted. State policy⁹ requires the use of approved encryption techniques when agencies store not public data temporarily on a portable computing device. Encryption

⁷Department of Administration Policy ADMIN 06-03 *Property Management User Guide* and *Minnesota Statutes* 2006, 609.456, subd. 2.

⁸ *Minnesota Statutes* 2006, 13.05, subd. 5(a)(2).

⁹ Office of Enterprise Technology Enterprise Security Policy on Portable Computing Devices 2006-04.

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converts readable text or data into a format that cannot be read by unauthorized persons. This ensures that not public data is safeguarded and mitigates the risk that data on portable devices could be disclosed inappropriately.

Without proper controls over laptop computers and other portable computing devices, the department may inadvertently disclose not public data.

Recommendation

- *The department should physically secure and encrypt all of its portable computing devices.*

5. The department did not adequately restrict certain employees' access to the state's accounting system.

The department did not always limit employees' access to the state's accounting system, as discussed below:

- The department gave some employees access to the computer system that resulted in incompatible or excessive privileges.
 - The department gave one employee the ability to encumber funds, create and process a purchase requisition or purchase order, and authorize the transaction for payment.
 - The department gave 27 employees incompatible access for its purchasing process. These employees had the ability to create and process a purchase requisition or purchase order and process the receipt of the purchased item or service. The department incorporated receiving privileges into many employees' security access because there is no centralized receiving area within the department.

A basic internal control is the separation of duties that prevents one person from controlling all aspects of a transaction. Generally, a department should separate the duties of procuring, receiving, and paying for goods and services to provide appropriate control over expenditure transactions. The risk of errors and improprieties increases when these duties are not separated.

The state's security policy defines these duties as incompatible and instructs agencies to avoid assigning these duties to the same employee. However, if segregating these duties is not feasible, the security policy¹⁰ requires the department to develop a written plan identifying compensating controls such as an independent review of activity, e.g., electronic and/or manual approvals from authorized individuals and periodic reviews of detail expenditure reports. The department had not done this.

¹⁰Department of Finance Operating Policy and Procedure No. 1101-07.

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- The department did not adequately review employee security profiles for excessive or unneeded user access to the state's accounting system. In addition, the department's personnel staff did not notify its security administrator when accounting system users separated from or changed job duties within the agency. As of April 2007, five employees had access to the system who no longer worked for Public Safety.

The state's security policy¹¹ requires that departments limit system access to only those duties essential to a position's responsibilities. The policy requires department security administrators to review user profiles on a periodic basis for excessive and unneeded access and make changes as necessary. Unless notified by the department's personnel staff, the security administrator may not be aware of changes in job duties or employment status on a timely basis. Improper access privileges may lead to unauthorized transactions that result in losses to the state.

Allowing incompatible, unnecessary, or excessive access increases the risk of intentional and unintentional errors occurring without detection by the department. Without mitigating controls, unauthorized accounting transactions may occur and remain undetected.

Recommendations

- *The department should eliminate incompatible employee access to the accounting system or develop mitigating controls that provide independent scrutiny and review of the activity processed by those users.*
- *The department should develop a process that notifies the security administrator when job duties or employment status changes for accounting system users.*

6. The department did not accurately record certain transactions in the state's accounting system or retain supporting documentation.

In addition to equipment purchases, the department did not always assign the correct record date or object code to some administrative expenditure transactions incurred by the Bureau of Criminal Apprehension (BCA). The department also did not always retain supporting documentation for the receipt of goods or services or required bids. The department used the Minnesota Accounting and Procurement System to purchase goods and services, pay vendors, record accounting transactions, and prepare required financial reports. When divisions within the department received the goods or services, they entered receipt and approval of the transaction into the accounting system for payment and sent documentation to the accounts payable division for input into the accounting system. The department's payment process had the following weaknesses:

¹¹Department of Finance Operating Policy and Procedure No. 1101-07.

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- The department did not use the correct record date for 13 out of 23 administrative expenditure transactions tested. Division staff either entered the invoice date or let the date default to the date they entered the transaction into the accounting system. The record date should be the date when the state incurred an obligation and should reflect the date when the department received goods or services performed according to state policy.¹² The accuracy of the record date is especially important for determining year-end liabilities.
- The department did not retain receiving documentation, such as packing slips for 14 out of 23 items tested, as required by state policy.¹³ The department should retain packing slips or other receiving documentation to support the date it received the goods or services and to justify management's authorization to pay.
- The department's Bureau of Criminal Apprehension (BCA) had similar concerns: BCA did not use correct record dates and did not maintain packing slips or bid documentation for certain administrative expenditure transactions. In addition, BCA did not document payment authorization for some transactions and did not use the correct code to identify the nature of the purchases in the accounting system. Testing of a sample of BCA expenditures identified the following exceptions:
 - 4 of 26 computer system and supply expenditures did not correctly identify the type of item purchased;
 - 6 of 23 supply and communication purchases had incorrect record dates;
 - 17 of 26 computer system services and supply purchases did not have a packing list or similar receiving documentation;
 - 4 of 23 supply and communication purchases did not have evidence of required bid solicitations; and
 - 4 of 10 communication purchases did not have evidence of payment approval.

Failure to use the proper record date could result in an understatement of liabilities in the state's financial statements. Further, object codes should accurately reflect the type of goods or services the department purchased. Without supporting documentation, the department could pay for goods or services it did not receive or erroneously code transactions in the accounting system.

Recommendations

- *The department should ensure that it accurately records financial activity in the state's accounting system.*
- *The department should retain supporting documentation to support the receipt of goods, bid solicitations, and management's authorization to pay.*

¹²Department of Finance Operating Policy and Procedure 0901-01: Using Correct Record Dates for Expenditures.

¹³Department of Public Safety Policy 3505 – Purchasing: General Requirements VIII states, “Purchasers must maintain a purchasing file for each purchase consisting of the following documents: a copy of the purchase order, written specifications, documentation of telephone bids, and vendor bid response in writing if over \$500, vendor complaint forms, purchasing violation forms, certification forms and packing slips.”

Chapter 4. Professional/Technical Service Contracts

Chapter Conclusions

For professional/technical service contracts, the Department of Public Safety's internal controls provided reasonable assurance that the department paid for contractual services actually received, amounts paid were reasonable and within the terms of the contract, and payments were accurately recorded in the accounting system. However, the department did not adequately restrict access to the accounting system, as described in Chapter 3, Finding 5.

For the items tested, the department complied with significant finance-related legal requirements concerning professional/technical service contracts. However, as reported in Finding 7, the department did not execute a formal amendment for one contract where the original contract terms had changed.

Audit Objective, Scope, and Methodology

The primary objective of our audit of professional/technical service contracts was to answer the following questions:

- Did the department's internal controls provide reasonable assurance that it actually received contractual services it paid for, amounts paid were reasonable and within the terms of the contract, and it accurately recorded the payments in the accounting system?
- For the items tested, did the department comply, in all material respects, with significant finance-related legal requirements concerning professional/technical service contracts, including bidding requirements?

Concurrently with this audit of the Department of Public Safety, we audited the state's processes for professional/technical services contracts. The scope of that audit included a review of professional/technical service contracts administered by several state agencies, including the Department of Public Safety, for the period from July 1, 2005, through June 30, 2006. In addition to the professional/technical service contract's finding and recommendation addressed in this report, we will issue a separate report at a later date that will identify the most significant problems we found across the agencies we reviewed.

Table 4-1 shows the department's total professional/technical service expenditures by service type for fiscal year 2006.

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Table 4-1
Professional/Technical Expenditures by Type of Service

Type of Professional/Technical Services	2006
Information Technology Maintenance	\$3,859,309
Advertising, Marketing, and Communication	1,311,047
Program Development and Evaluation	594,015
Environmental, Agricultural, and Science	526,102
Educational and Instruction Services	479,043
Law Enforcement and Security	217,636
Information Technology Development	164,954
Other Services	296,324
Total Expenditures	<u>\$7,448,430</u>

Source: Minnesota Accounting and Procurement System as of May 2007.

Based on professional/technical expenditures for fiscal year 2006, we selected the following eight contracts in Table 4-2 for testing.

Table 4-2
Contracts Selected for Audit¹

<u>Contractor</u>	<u>Contract Number</u>	<u>Contract Amount</u>	<u>2006 Expenditures²</u>
Virchow Krause and Co., LLP	A74354	\$ 320,000	\$280,330
Integration Architects, Inc.	A86604	1,145,760	172,665
City of St. Paul	A47087	769,699	129,104
Desert Snow Training, Inc.	A80582	85,200	85,200
West Central Environmental	A75968	90,000	39,980
Marsh USA, Inc.	A80977	115,000	115,000
Tortuga Design, Inc.	A74464	170,000	109,170
James E. Duncan	A74958	49,970	44,970
Total		<u>\$2,745,629</u>	<u>\$976419</u>

¹We selected these contracts based on their dollar amount, the type of service being contracted for, and the method the department used to contract with the vendor.

²Cash basis expenditures from July 1, 2005 through June 30, 2006 as recorded in the state's accounting system.

Source: Minnesota Accounting and Procurement System as of May 2007.

Background

Contracts for professional/technical services are for services that are intellectual in nature and include consultation, analysis, evaluation, prediction, planning, programming, or recommendation and result in the production of a report or completion of a task. Generally, agency personnel are unable to perform the needed services and the agency must contract with outside vendors.

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Minnesota Statutes give the commissioner of Administration broad authority to oversee and approve the professional/technical contracts entered into by state agencies. Consequently, for contracts over \$5,000, the Department of Public Safety submits certain information to Administration before contracts are executed, including a certification that the work is necessary to advance the mission of the department, state personnel are unable to provide the services, an explanation of how the proposed contract will be publicized, and how the department plans to manage the contract. Also, at the completion of contracts exceeding \$50,000, state agencies must submit performance evaluation reports to the Department of Administration.

The commissioner of Administration can delegate contracting duties to specific employees in other agencies. The Department of Public Safety has delegated authority up to \$100,000. Department contracts exceeding that amount must be reviewed and authorized by employees of Administration.

As a result of our audit, in addition to not adequately restricting access to the state's accounting system, as discussed in Chapter 3, we identified the following weakness in the department's professional/technical services contracting procedures.

Finding and Recommendation

7. The department did not execute a formal amendment to a contract when the original contract terms changed.

The department did not pay Virchow Krause and Company according to the terms stated in the original contract. The contract specified the names and hourly billing rates for the vendor's employees who would be assigned to the project. After the contract was authorized, the vendor assigned an additional employee to work on the contract. Although the department's state authorized representative approved the addition through a change request form, the rate of pay was not specified. The total payment for the contract was \$280,330, which did not exceed the terms of the contract; of the total payment, the services of the additional employee amounted to \$56,478. By not formally amending the original contract, misunderstandings about the billing rates of the additional employee could have resulted.

Recommendation

- *The department should formally amend contracts when a vendor makes personnel changes and the payments are based on billable rates of specific vendor employees named in the initial contract.*

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Chapter 5. Bureau of Criminal Apprehension Activity

Chapter Conclusions

The Bureau of Criminal Apprehension's (BCA) internal controls provided reasonable assurance that it safeguarded its seized property, accurately recorded its financial activity in the state's accounting records, and complied with applicable legal requirements and management's authorization.

For items tested, the department complied with material finance-related legal requirements; however, the BCA did not accurately record or retain documentation to support the date it received the goods, as discussed in Chapter 3, Finding 6.

Audit Objectives

Our audit of seized property, payroll, grants, and purchases focused on the following questions:

- Did BCA's internal controls provide reasonable assurance that its financial activity was accurately recorded in the state's accounting and inventory records and complied with applicable legal requirements and management's authorization?
- For items tested, did BCA comply, in all material respects, with the significant finance-related legal requirements?

Background

Seized Property

The BCA seizes property and other evidence on behalf of the department and other law enforcement agencies. The BCA's first priority is seizing narcotics and anything related to narcotic evidence in a criminal act, such as currency, assets, or property. The type of property seized is typically land and homes, but the department will also seize cars, trucks, boats, and recreational vehicles. The BCA segregates its property between narcotic and non-narcotic property. Our review primarily focused on controls over the narcotics property.

There were no findings related to seized property.

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Employee Payroll

BCA staff used the state's automated self service time entry process in the personnel and payroll system to record hours worked and leave taken. See Chapter 2 for further discussion of payroll and related findings.

Grants

The BCA awarded grants to a variety of different organizations to aid in funding new initiatives related to criminal investigation and apprehension. For example, CriMNet, a unit within BCA, awarded funding for the development of integrated information systems relating to criminal justice. Local entities that received aid include, but are not limited to, police departments, counties, and nongovernmental organizations.

BCA required grant recipients to be accountable for the funds by submitting status reports on a regular basis. BCA grant managers ensured that grantees complied with the grant provisions before providing any monetary funding. Table 5-1 shows total grant expenditures by local governmental unit for fiscal years 2005 and 2006.

Table 5-1
Grant Expenditures
Budget Fiscal Years

<u>Grant Recipients</u>	<u>2005</u>	<u>2006</u>
Counties	\$523,780	\$1,077,601
Cities & Towns	237,628	33,202
Special Districts ¹	0	233,486
Nongovernmental	119,276	124,585
Total	\$880,683	\$1,468,874

¹A special district is a consortium of Minnesota local governmental units.

Source: Minnesota Accounting and Procurement System as of May 2007.

There were no findings related to grant expenditures.

Computer and System Services, Communications, and Supplies

Up to specified limits, the Department of Administration delegated authority for purchasing activities to BCA staff. The Department of Administration required staff to follow formal processes within their purchasing authority. Purchases in excess of a purchaser's delegated authority required the approval of Department of Administration. Purchasers must also have followed various Department of Finance policies for the proper use of the state's procurement system and the proper and timely encumbrance, processing, payment, and coding of transactions on the accounting system.

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We focused on three purchase types within BCA: computer and system services, communications, and supplies. Table 5-2 provides a breakdown of the BCA's expenditures by purchase type for fiscal years 2005 and 2006.

Table 5-2
Selected Purchases
Fiscal Years 2005 and 2006

<u>Type of Purchase</u>	<u>2005</u>	<u>2006</u>
Computer and Systems Services	\$2,051,260	\$1,453,166
Communications	3,979,813	3,974,213
Supplies	2,679,905	2,384,117
Total	<u>\$8,710,978</u>	<u>\$7,811,496</u>

Source: Minnesota Accounting and Procurement System as of May 2007.

See Chapter 3, Finding 6 for a finding related to procurement.

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Chapter 6. Crime Victim Services Grants

Chapter Conclusions

The Department of Public Safety's internal controls provided reasonable assurance that it accurately recorded crime victim services grants in the state's accounting records, complied with applicable legal requirements, and management's authorization.

For the items tested, the department complied with material finance-related legal requirements; however, the department did not properly allocate payroll charges between state and federal programs, as discussed in Finding 8.

Audit Objectives

Our audit of crime victim services grants focused on the following questions:

- Did the department's internal controls provide reasonable assurance that it accurately recorded crime victim services grants in the state's accounting records and complied with applicable legal requirements and management's authorization?
- For items tested, did the department comply, in all material respects, with the significant finance-related legal requirements?

Background

The Department of Public Safety's Office of Justice Programs provided oversight for the crime victims unit, which granted money to a variety of organizations to aid crime victims throughout Minnesota. The unit awarded both state and federal grants to approximately 150 organizations. Grant recipients used the funds to support abused children, domestic violence, sexual assault, and other general crime victim programs. Once a grant was awarded to a grantee, a grant manager monitored the grantee's progress and compliance with state and federal laws.

Table 6-1 shows crime victim grant expenditures for fiscal years 2005 and 2006.

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Table 6-1
Crime Victim Grant Expenditures
Fiscal Years 2005 and 2006

<u>Grant Type</u>	<u>2005</u>	<u>2006</u>
Nongovernmental Organizations ¹	\$29,023,387	\$30,157,902
Counties	2,095,536	2,274,167
Higher Education Institutions	79,357	114,712
School Districts	44,727	44,727
Cities & Towns	38,260	45,000
Inter-Agency Grants	28,999	33,793
Special Districts ²	0	18,894
Totals	<u>\$31,310,266</u>	<u>\$32,689,195</u>

¹These primarily represent grants to not for profit agencies to provide services to crime victims.

²Special districts include planning centers, metropolitan boards, and regional computer centers.

Source: Minnesota Accounting and Procurement System as of May 2007.

Current Finding and Recommendation

8. The department did not adequately track actual employee time spent on various federal and state programs.

The crime victims unit did not track actual employee time spent on various federal and state programs. The unit charged about \$1.9 million of payroll costs to federal programs during the audit period. The charges were based on estimates established at the beginning of the year and were not adjusted for actual activity.

Employees generally work on more than one program in any given pay period. However, the unit did not allocate the actual time spent by its employees to the applicable program; instead, the unit established an estimated percentage for each employee and did not adjust this percentage for actual activity. Without identifying the actual time spent on specific programs, the payroll system automatically allocated the hours worked based on the preset percentage.

Federal regulations¹⁴ require agencies to allocate the time spent on various state and federal programs. Employees expected to work solely on a single federal award or cost objective should support their wages with periodic certifications that the employees worked solely on that program for the period covered by the certification. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages should be supported by timesheets or equivalent documentation.

Recommendation

- *The department should allocate the actual number of hours worked by its employees to each federal and state program.*

¹⁴ OMB Circular No. A-87.

Department of Public Safety

Status of Prior Audit Issues As of April 6, 2007

Legislative Audit Report 05-32, issued in May 2005, covered the three fiscal years ending June 30, 2004, for selected areas of the Department of Public Safety. The scope of this audit included employee payroll and travel reimbursements, professional/technical contracts, supplies and equipment, and Minnesota Statewide 911 Program activity. The audit report contained three audit findings relating to internal control and legal compliance. Finding 1 pertained to equipment controls and is repeated in Chapter 3 of the current report. We did not follow up on findings 2 and 3 of this audit report pertaining to the Minnesota 911 Program activity.

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.

Department of Public Safety

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Office of the Commissioner

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October 29, 2007

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 the findings and recommendations are the following:

1. The department did not implement controls to ensure it accurately paid employees.

Recommendations:

The department should review holiday pay charges in fiscal years 2005 and 2006 and correct any errors found.

The department should ensure that supervisors adequately review employee time records.

The department should review the self service time entry audit report and payroll register each pay period to verify the accuracy of transactions recorded on the state's personnel and payroll system.

Response:

We concur with the recommendations. It is important that supervisors review time records for accuracy. In these nine instances there was an error in review. It should be noted that two of these errors were corrected prior to the audit review. It should also be noted that the self service time entry process has been updated not to copy the previous earning code when inserting a new line. Instead the earning code field will be blank which will cut down on the incidence of these types of errors.

The department will do a review of holiday charges for fiscal years 2005 and 2006, as well as fiscal years 2007 and 2008. The department will correct any error found in that review.

The department will notify all approvers in the self service time entry process to make sure to properly review time records. This audit finding will be shared with those approvers.

The department will review the self service time entry audit reports and the payroll register to ensure accuracy of payroll transactions.

Daniel E. Boytim, Accounting Supervisor, will be responsible for resolving this finding by June, 2008.

2. The department did not adequately restrict employee access to incompatible financial functions in the state's payroll and personnel system or design effective controls to detect inappropriate transactions.

Recommendations:

The department should remove incompatible access or implement effective controls to detect inappropriate transactions.

Response:

We concur that it is incompatible for employees to have access to update and correct payroll transactions or adjust retroactive payments and Direct Deposit Transactions. It should be noted that according to Department of Employee Relations (DOER) Policies in January 2007, corrected payroll transactions or adjusting payroll retroactive payment and Direct Deposit Transactions was not listed as an incompatible access. In June 2007 DOER did notify agencies that the aforementioned access was incompatible. This incompatible access was removed from the three mentioned employee in August 2007.

Daniel E. Boytim was responsible for revolving this finding.

3. Prior Findings Not Resolved: The department did not adequately safeguard its fixed assets.

Recommendations:

The department should maintain an up to date record of its fixed assets and conduct periodic physical inventories to ensure that its fixed asset records are accurate. If the department delegates this responsibility to its divisions, it must ensure that they comply.

The department needs to complete and submit Stolen, Lost, Damaged, or Recovered Property Reports in a timely and appropriate manner for all assets.

Response:

The Office of Fiscal and Administrative Services (FAS) developed a comprehensive training program, which was presented to managers and supervisors in August '07. FAS is in the process of conducting mandatory training for all agency division asset coordinators and will be working with divisions to develop physical inventory schedules. FAS will develop a strategic plan for improvement to include the following processes or changes:

- Comprehensive training for division asset coordinators. This training addresses all state and agency policies and requirements associated with asset tracking, including property dispositions and reporting requirements using the Stolen, Lost, Damaged, or Recovered Property Reports.
- System requirements (divisions will be mandated to use an agency wide system for fixed and sensitive item asset tracking). This conversion will be completed by June, 30 2008.
- All divisions will be required to complete a new physical inventory by June 30, 2008.
- Physical inventory documentation & tracking requirements
- Physical inventory certification
- Full and spot audits
- Ongoing status and training meetings with the division asset coordinators

Rita Wurm, Assistant Director, Office of Fiscal & Administrative Services, will be responsible for resolving this finding.

4. The department did not satisfactorily protect all of its not public data.

Recommendations:

The department should physically secure and encrypt all of its portable computing devises.

Response:

The Department of Public Safety (DPS) has been in the process of reaching compliance with State Security Policy on Portable Computing Devices 2006-04 since it was issued. The implementation of this policy requires extensive planning, financial investment and time for testing and deployment of encryption software. The Department has a laptop encryption compliance effort with three initiatives through the Bureau of Criminal Apprehension (BCA), the Minnesota State Patrol and the Consolidated Effort for all other DPS Divisions. The BCA has completed its laptop encryption deployment and has only some cleanup work left for a few laptops to complete their initiative. The Consolidated Effort is in the process of deploying the encryption software and has completed the State Fire Marshal with the remaining division laptops expected to be completed by mid November. There will need to be

some cleanup work after the main deployment to fully complete that effort. The Minnesota State Patrol will be the final initiative to complete the department's laptop encryption compliance effort. The Patrol has purchased the software product and is planning its deployment. Laptops in Trooper squad cars have locking systems and policy addressing physical security. These laptops are used operationally in the delivery of 911 services. The Patrol is waiting until the department completes its other installations, addresses any stability issues and has operational experience before proceeding with its deployment. This approach will reduce the risk of potential disruption of 911 services delivered by the Patrol.

The department will continue to plan, develop department policy and implement encryption on all portable computing devices as expeditiously as possible.

For laptop physical security, DPS has and will continue to direct employees who use laptops in cars that have the ability to secure laptops to always utilize that security feature. While the department has its standard laptops that are used in offices and work spaces behind locked doors, there may be ways of further securing those devices. The Department believes that this security concern probably crosses all departments and has directed the DPS Chief Information Security Officer (CISO) to raise this issue to the state's CISO Advisory Council to determine if there are further practical security approaches that the Council would recommend to DPS and other departments to improve the physical security of standard office laptops.

Janet Cain, DPS CIO, will be responsible for resolving this finding.

5. The department did not adequately restrict certain employees' access to the state's accounting system.

Recommendations:

The department should eliminate incompatible employee access to the accounting system or develop mitigating controls that provide independent scrutiny and review of the activity processed by those users.

The department should develop a process that notifies the security administrator when job duties or employment status changes for accounting system users.

Response:

The access has been modified on the one employee that could encumber funds, create and process a purchase requisition or purchase order and authorize the transactions for payment. That employee can no longer authorize transactions for payment.

The department does use online approvals in the purchasing process. We have found of the 63 online purchasing approvers that 27 approvers have the incompatible access of

being able to process a purchase requisition or purchase order and process the receipt of the purchased item or service. For those approvers with incompatible access the department shall examine work flow and determine whether elimination of incompatible access is a viable option or the department shall develop mitigating controls that provide independent scrutiny and review of the activity process by those users.

Currently the department does not have a process that notifies the MAPS security administrator of changes in job duties or employment status of MAPS users. According to Department of Finance Policy, the MAPS security administrator does annually certify MAPS users. During this certification job duties and employment changes are reviewed. If a MAPS users also happens to be a SEMA4 (the state's payroll/personnel system) user the MAPS security Administrator is notified on employments changes from SEMA4 disabled operator process and acts accordingly in MAPS. Unfortunately a majority of MAPS users are not SEMA4 users. Ideally the department would prefer an employment changes notification process similar to the one used by SEMA4. The department will develop and implement an employment changes notification process for the MAPS Security Administrator.

Daniel E. Boytim will be responsible for resolving the findings pertaining to MAPS security and Rita Wurm will be responsible for resolving findings with regard to purchasing procedures by September 2008.

6. The department did not accurately record certain transactions in the state's accounting system or retain supporting documentation.

Recommendations:

The department should ensure that it accurately records financial activity in the state's accounting system.

The department should retain supporting documentation to support the receipt of goods, bid solicitations, and management's authorization to pay.

Response:

The Department has addressed the record date with the purchasers that build the receipt in AGPS. The purchasers have been directed to enter the actual date the product was received. This finding was resolved by Marlys Gardner, Accounts Payable Supervisor.

As noted in the report, the agency's policy (3505) requires the division purchasers to retain supporting documentation in the division purchasing file. The Office of Fiscal and Administrative Services will develop internal controls to ensure compliance and will change policy accordingly dependent on resolution of audit finding number five.

Rita Wurm will be responsible for the resolving this finding by September 2008.

7. The department did not execute a formal amendment to a contract when the original contract terms changed.

Recommendation:

The department should formally amend contracts when a vendor makes personnel changes and the payments are based on billable rates of specific vendor employees named in the initial contract.

Response:

The Department of Public Safety has a large volume of Profession Technical Contracts and works closely with division contract liaisons. Division contract liaisons are expected to consult with the agency's contract coordinator regarding contract changes. The agency's contract coordinator was not aware of this change and would have required a formal amendment had the division's contract coordinator followed proper protocol. The department will follow up accordingly with the specific liaison and will reiterate the need to formally amend contracts in our agency's ongoing training sessions.

Rita Wurm will be responsible for this finding.

8. The department did not adequately track actual employee time spent on various federal and state programs.

Recommendation:

The department should allocate the actual number of hours worked by its employees to each federal and state program.

Response:

The Office of Justice Programs (OJP) employs methods to accurately allocate funding based on time spent on federal and state programs but it has been challenging to document. To improve documentation OJP will:

- ✓ Begin to use the self time reporting system beginning in December of 2007.
- ✓ Have employees who work on separate programs complete an activity report each pay period and report actual time spent on each program area. All activity reports will be maintained to support the time entry.
- ✓ Have staff members who work with one federal program only complete a certification every six months to verify that they have worked only on that

federal program during that time period. Certification forms will be maintained to support their allocation.

- ✓ Allocate time for staff with fully integrated caseloads that combine state and federal funds in the same activity based on the percentage of each funding type in the caseload. Supervisors will review their percentage allocation every six months to ensure that they are accurate. Staff will sign a certification every six months which will include a copy of their grants and funding allocations to verify that they have worked on this caseload during the reporting period.
- ✓ Two managers who supervise staff with multiple programs will be allocated based on the funding allocations of the staff they supervise. This will be reviewed every six months to certify that it is accurate.

Jeri Boisvert, Director, Office of Justice Programs, will be responsible for resolving this finding.

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

Sincerely,



Michael Campion, Commissioner