



FINANCIAL AUDIT DIVISION REPORT

Department of Public Safety
Federal Compliance Audit
Year Ended June 30, 2008

March 26, 2009

Report 09-11

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>
Through Minnesota Relay: 1-800-627-3529 or 7-1-1



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 26, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campion, Commissioner
Department of Public Safety

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Public Safety during fiscal year 2008. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

We discussed the results of the audit with department staff at an exit conference on March 13, 2009. This audit was conducted by David Polisenio, CPA, CISA, CFE, (Audit Manager) and Laura Peterson, CPA, CISA, (Auditor-in-Charge), assisted by auditors Kathy Rootham and Adam Spooner.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Public Safety. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 26, 2009.

We received the full cooperation of department staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Public Safety generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2008. However, the department had some weaknesses as noted in the five findings presented in this report.

Key Findings

- The Department of Public Safety did not identify, analyze, and document their internal controls over compliance with federal single audit requirements. ([Finding 1, page 5](#))
- Prior Finding Not Resolved: The Department of Public Safety erroneously included expenditures in the schedule of federal expenditures for the Disaster Recovery Public Assistance Program (CFDA 97.036). ([Finding 2, page 6](#))
- The Homeland Security and Emergency Management Division inappropriately allocated a severance payment for the Disaster Recovery Public Assistance Program (CFDA 97.036). ([Finding 4, page 7](#))

Audit Scope

Programs material to the State of Minnesota's federal program compliance for fiscal year 2008.

- Disaster Recovery Public Assistance Program, CFDA 97.036,¹ with total fiscal year 2008 federal expenditures of \$22,503,340

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Department of Public Safety

Federal Program Overview

The Department of Public Safety administered one federal program that we considered a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.² We audited the Disaster Recovery Public Assistance Program, CFDA 97.036,³ at the Department of Public Safety. The total fiscal year 2008 federal expenditures for this program were \$22,503,340.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Public Safety complied with federal program requirements in its administration of this federal program for fiscal year 2008. This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.⁴ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

² We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2008 exceeded \$23.8 million. As allowed by the Single Audit Act, this program, which does not exceed the \$23.8 million threshold, replaces a lower risk major program in our audit coverage.

³ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

⁴ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 9, 2008, on the State of Minnesota's basic financial statements for the year ended June 30, 2008. In accordance with *Government Auditing Standards*, we also issued our report, dated December 9, 2008, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 09-03, *Report on Internal Control Over Financial Reporting*, issued February 13, 2009.)

Conclusions

The Department of Public Safety generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2008. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

We have reported these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*,⁵ prepared by the Department of Finance.⁶ This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

⁵ The *Minnesota Financial and Compliance Report on Federally Assisted Programs* is prepared by the Department of Finance and details federal program expenditures and program findings by CFDA number.

⁶ Effective June 2008 the Legislature reorganized the Department of Finance to include the duties of the Department of Employee Relations. Although still identified in statute as the Department of Finance, in October 2008, the department changed its name to Minnesota Management and Budget. The department will seek legislative approval for the name change in the 2009 legislative session.

Findings and Recommendations

The Department of Public Safety did not identify, analyze, and document their internal controls over compliance with federal single audit requirements for the Disaster Recovery Public Assistance Program (CFDA 97.036).

Finding 1

The department did not document its risk assessment for internal controls over compliance with federal single audit requirements, specific internal controls over compliance requirements, and its monitoring process that assesses the quality of internal control performance over time. The department has an increased likelihood of a control deficiency if it does not clearly communicate to all staff its risk, control activity, and monitoring policies and procedures.

State policy details that each department head has the responsibility to identify, analyze, and manage business risks that impact the department's ability to maintain its financial strength and the overall quality of its products and government services.⁷ This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. This policy further requires follow-up procedures that, at a minimum, should include mechanisms for monitoring results and reporting significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. A new audit standard⁸ reinforced management's responsibility to have effective internal controls over its financial operations. The federal government expects that those controls also ensure compliance with federal program requirements.

The Department of Public Safety is aware of certain risks, has control activities in place, and performs selected internal control monitoring functions. However, the department has not comprehensively identified and analyzed the risks, designed its controls to address significant risks, or developed monitoring procedures to ensure the controls are in place and are effective to reduce the significant risks identified.

Findings 2 through 5 identify specific deficiencies in the department's internal control procedures and noncompliance with federal requirements which were not prevented or detected by the department's internal control structure. If the department had a comprehensive internal control structure, it should have identified these deficiencies, assessed the degree of risk of these deficiencies,

⁷ Department of Finance Policy 0102-01.

⁸ Statement on Auditing Standards #109.

designed control procedures to address significant risks, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The Department of Public Safety should frequently review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes.*

Finding 2

Prior Finding Not Resolved: The Department of Public Safety erroneously included expenditures in the schedule of federal expenditures for the Disaster Recovery Public Assistance Program (CFDA 97.036).

In preparing the financial data for the *Schedule of Expenditures of Federal Awards* for the Disaster Recovery Public Assistance Program, the department erroneously included \$466,590 of Hazard Mitigation Program (CFDA 97.039) expenditures, a nonmajor federal program. Although corrected by an audit adjustment, the error would have resulted in an overstatement in the federal expenditures reported in the *Minnesota Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2008. Our prior audit report identified a similar error related to the department preparing the federal expenditure schedule for fiscal year 2007, initially overstating the program's expenditure by \$3.1 million.⁹ The department's Fiscal and Administrative Services Division, which reviewed the expenditure schedules for accuracy, did not identify that expenditures were incorrectly recorded.

Recommendation

- *The Department of Public Safety should ensure it accurately prepares the Schedule of Expenditures of Federal Awards.*

Finding 3

The Homeland Security and Emergency Management Division did not have an independent person review the payroll register report to verify payroll charges, including charges to the Disaster Recovery Public Assistance Program (CFDA 97.036).

The staff in the department's Homeland Security and Emergency Management Division did not have an independent person review the payroll register report each pay period. Review of this report ensures the accuracy of payroll charges,

⁹ Office of the Legislative Auditor's Financial Audit Division [Report 08-08, Department of Public Safety Federal Program Compliance](#), issued March 20, 2008, Finding 1.

including payroll charged to the Disaster Recovery Public Assistance Program (CFDA 97.036). None of the nine reports we tested for pay periods between July 2007 and December 2008 had evidence of review by a person independent of the payroll process. The department's payroll policy requires someone other than the timekeeper to review the report for current and prior pay period adjustments and verify that the hours and coding on each timesheet were properly paid. The risk of errors and fraud increases when the department does not adequately review this report.

Recommendation

- *The department's Homeland Security and Emergency Management Division should have an independent person review the payroll register each pay period.*

The Homeland Security and Emergency Management Division inappropriately allocated a severance payment for the Disaster Recovery Public Assistance Program (CFDA 97.036).

Finding 4

The department's Homeland Security and Emergency Management Division inappropriately allocated \$26,365 of severance payments as administrative costs¹⁰ rather than program management costs,¹¹ resulting in \$6,591 of unallowable charges to the federal government. The federal government reimbursed the department for the full amount of administrative costs but only 75 percent of the program management costs. The federal government classifies a severance payment as a program management cost because it directly relates to an employee's regular salary.¹² Department staff was not sure how to properly code this type of cost.

Recommendations

- *The department should reimburse the federal government for the \$6,591 of unallowable charges to the federal government.*
- *The department should consult with the applicable federal agency when it is unsure how to account for unusual program operating costs and ensure it correctly allocates its operating costs between the administrative and program management costs.*

¹⁰ Administrative costs are extraordinary costs for expenses like overtime pay, per diem, and travel incurred by state employees who participate in the administration of the Public Assistance Program.

¹¹ Program management costs are routine operating costs like regular (straight time) salaries of employees involved in the program.

¹² OMB Circular A-87, Attachment B (8)(d)(3).

Finding 5

Prior Finding Partially Resolved: The Department of Public Safety did not properly record certain fixed assets on its fixed asset inventory system purchased for the Homeland Security Grant Program (CFDA 97.067).

The Homeland Security and Emergency Management Division purchased 17 global positioning systems for \$136,323 but did not record them on its fixed asset inventory system.¹³ According to department policy, staff must enter assets costing \$5,000 or more into the department's Fixed Asset Inventory System or the division's system.¹⁴ The division used a separate inventory system to track its assets but did not record these 17 assets in its system. Our prior audit report identified several weaknesses related to safeguarding fixed assets.¹⁵ Although the department made improvements, weaknesses still exist. Without complete and accurate inventory records, the division is unable to adequately manage, track, and report its fixed assets.

Recommendation

- *The department should maintain an up to date inventory of all fixed assets.*

¹³ AssetTRAX is the Homeland Security and Emergency Management's fixed asset inventory system.

¹⁴ Public Safety Administrative Policy 3541, Property Management and Reporting.

¹⁵ Office of the Legislative Auditor's Financial Audit Division Report 08-08, *Report on Federal Compliance*, issued February 20, 2008, Finding 2.



Office of the Commissioner

445 Minnesota Street • Suite 1000 • Saint Paul, Minnesota 55101-5100
Phone: 651.201.7160 • Fax: 651.297.5728 • TTY: 651.282.6555
www.dps.state.mn.us

March 19, 2009

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

We were provided a copy of the draft audit report of certain federal financial assistance programs administered by the Department of Public Safety during fiscal year 2008. This our written response to findings and recommendations presented in the draft report.

AUDIT FINDINGS

The Department of Public Safety did not identify, analyze, and document their internal controls over compliance with federal single audit requirements for the Disaster Recovery Public Assistance Program (CFDA 97.036).

Recommendation

- *The Department of Public Safety should frequently review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes.*

Response:

The department concurs with the recommendation. The department is aware of certain risks, has some control activities in place, and performs internal control monitoring functions. The department will improve internal controls over its monitoring functions by identifying, developing and monitoring procedures to ensure controls are in place and are effective to reduce the significant risks identified.

The department will call upon Minnesota Management & Budget for further clarification of its Internal Policy 0102-01 and request they provide training for department personnel with internal control responsibilities.

Person Responsible:

Frank Ahrens

Estimated Completion Date:

A Department Administrative Policy on Internal Controls will be in place by June 30, 2009. Monitoring of activities with the department will be on-going.

Alcohol
and Gambling
Enforcement

Bureau of Criminal
Apprehension

Driver
and Vehicle
Services

Emergency
Communication
Networks

Homeland
Security and
Emergency
Management

Minnesota
State Patrol

Office of
Communications

Office of
Justice Programs

Office of
Traffic Safety

State Fire Marshal

Prior Finding Not Resolved: The Department of Public Safety erroneously included expenditures in the schedule of federal expenditures for the Disaster recovery Public Assistance Program (CFDA 97.036).

In preparing the financial data for the Schedule of expenditures of Federal Awards for the Disaster Recovery Public Assistance Program, the department erroneously included \$466,590 of Hazard Mitigation Program (CFDA 97.039) expenditures, a non-major federal program. Although corrected by an audit adjustment, the error would have resulted in an overstatement in the federal expenditures reported in the Minnesota Financial and compliance report on Federally Assisted Programs for fiscal year 2008.

Recommendation

- *The Department of Public Safety should ensure it accurately prepares the Schedule of expenditures of Federal Awards.*

Response:

The department concurs with the finding. A federal appropriation account in the amount of \$466,590 was correctly recorded under CFDA number 97.039 in the Minnesota Accounting and Procurement System prior to the November 24th 2008 run date of the Summary of Federal Fund Expenditure Report submitted to the Department of Public Safety by Minnesota Management & Budget. The change in the header from CFDA 97.039 to CFDA 97.036 was not noted or manually changed by the Office of Fiscal & Administrative Services prior to our final submission of the Summary of Federal Fund Expenditures report back to Minnesota Management & Budget. The department will continue to perform its own research and analysis through running management and ad-hoc comparison reports to insure expenditures are recorded under the proper CFDA program and expenditures are correctly recorded.

Persons Responsible:

Daniel Boytim and Ruth Mills

Estimated Completion Date:

An audit adjustment was made for fiscal year 2008 to correct the overstatement in federal expenditures. Monitoring of federal expenditures and corresponding CFDA numbers will be on-going.

The Homeland Security and Emergency Management Division did not have an independent person review the payroll register report to verify payroll charges, including charges to the Disaster Recovery Public Assistance Program (CFDA 97.036).

Recommendation:

- *The department's Homeland Security and Emergency Management Division should have an independent person review the payroll register each pay period.*

Response:

The Division concurs with this recommendation and has already implemented it.

The Homeland Security and Emergency Management Division inappropriately allocated a severance payment for the Disaster Recovery Public Assistance Program (CFDA 97.036).

Recommendations:

- *The department should reimburse the federal government for the \$6,591 of unallowable charges to the federal government.*
- *The department should consult with the applicable federal agency when it is unsure how to account for unusual program operating costs and ensure it correctly allocates its operating costs between the administrative and program management costs.*

Response:

The Division is currently working with the Federal Emergency Management Agency (FEMA) to adjust HSEM's Program Management Cost budget for the Public Assistance Program, so as to include the severance payment.

Persons Responsible:

John Kerr and Jon Huspek

Estimated Completion Date:

The adjustment will be made once the Division obtains FEMA's approval.

Prior Finding Partially Resolved: The Department of Public Safety did not properly record certain fixed assets on its fixed asset inventory system purchased for the Homeland Security Grant Program (CFDA 97.067).

Recommendation:

The department should maintain an up-to-date inventory of all fixed assets.

Response:

The Division concurs with the recommendation; and in order to better ensure all of its fixed assets are entered in its fixed asset inventory system the HSEM Property Management Reporting and Accountability Policy will be update to ensure compliance with the agency's policy as well as the Department of Administrations guidelines. The Division's asset coordinator will facilitate a mandatory division wide training session to review both the agency and division policies.

Persons Responsible:

John Kerr and Terri Smith

Estimated Completion Date:

June 30, 2009.

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

Sincerely,

/s/ Michael Campion

Michael Campion
Commissioner, Department of Public Safety

Cc: Mary Ellison
Frank Ahrens
John Kerr
David Poliseno
Daniel Boytim
Charles Hansen