



FINANCIAL AUDIT DIVISION REPORT

**Department of
Public Safety**

Federal Compliance Audit

Year Ended June 30, 2015

March 24, 2016

Report 16-07

FINANCIAL AUDIT DIVISION
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Financial Audit Division

The 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 has a staff of about 30 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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Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2016

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ramona Dohman, Commissioner
Department of Public Safety

This report presents the results of our audit of the Disaster Grants – Public Assistance Program administered by the Department of Public Safety during fiscal year 2015. We conducted this audit as part of our audit of the state’s compliance with federal program requirements. This was not a comprehensive audit of the Department of Public Safety.

We discussed the results of the audit with the department’s staff on March 10, 2016. This audit was conducted by Tracy Gebhard, CPA (Audit Director); Daphne Fabiano, CPA (Auditor-in-Charge); and Todd Pisarski (Staff Auditor).

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

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 program for fiscal year 2015. However, the department did not follow up on concerns it had about payments to one grant recipient.

Finding

The Department of Public Safety did not resolve a \$130,325 duplicate payment it made to a grant recipient. (Finding 1, page 5)

Audit Scope

Our scope included the Disaster Grants – Public Assistance Program, which was a major federal program for the State of Minnesota for fiscal year 2015. The department had approximately \$39 million in program expenditures.

Department of Public Safety

Federal Program Overview

The Department of Public Safety administered one federal program (Disaster Grants – Public Assistance Program, CFDA 97.036¹) that we considered a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.² The fiscal year 2015 federal expenditures for this program totaled about \$39 million.³

The state received money through this federal program following a presidential declaration of a major disaster or an emergency. For example, in July 2014 the President of the United States of America declared a major disaster in Minnesota due to damage caused by severe storms, straight-line winds, flooding, landslides, and mudslides in Chippewa, Freeborn, Jackson, Murray, Nobles, Pipestone, Renville, and Rock counties.

The state used federal disaster assistance money primarily to provide grants to local governments (including Indian tribes and authorized tribal organizations), and selected private, nonprofit entities.

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 2015 and to determine whether the department had resolved issues from past audits. 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

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

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 2015 exceeded \$30 million.

³ Federal grant award numbers for the Disaster Grants Public Assistance Program: 1717DRMNP00000001, 1830DRMNP00000001, 1900DRMNP00000001, 1921DRMNP00000001, 1941DRMNP00000001, 1982DRMNP00000001, 1990DRMNP00000001, 4009DRMNP00000001, 4069DRMNP00000001, 4113DRMNP00000001, 4131DRMNP00000001, 4182DRMNP00000001.

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 11, 2015, on the State of Minnesota's basic financial statements for the year ended June 30, 2015. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal controls 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 16-05, *Internal Controls Over Statewide Financial Reporting*, issued February 11, 2016.)

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*.

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 program for fiscal year 2015. However, the department did not follow up on concerns it had about payments to one grant recipient, as noted in the following *Finding and Recommendations* section.

We will report this weakness to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. 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 internal control and compliance weaknesses.

Finding and Recommendations

The Department of Public Safety did not resolve a \$130,325 duplicate payment it made to a grant recipient.⁵

Finding 1

During fiscal year 2015, the Department of Public Safety awarded approximately \$1.6 million from the Disaster Grants – Public Assistance Program (CFDA 97.036) to the Buffalo Ridge Regional Rail Authority.

On January 21, 2015, the department paid \$87,969 of federal money to this grant recipient for the federal share of a \$130,325 cost reimbursement request. On February 9, 2015, the department again paid \$87,969 of federal money to this grant recipient for the federal share of another \$130,325 cost reimbursement request. On February 19, 2015, the department took a closer look at the grant recipient's reimbursement requests and identified that the grant recipient had submitted invoices for the same costs to support both the January and February reimbursements.

Despite being aware that it had reimbursed the grant recipient twice from federal money for the same costs, the department subsequently paid the grant recipient \$29,323 twice for the state share of those same costs, and \$13,032 twice for the related amount withheld pending the department's final review, split between federal (\$9,775) and state (\$3,258) funding. In total, the department inappropriately used \$97,744 in federal money and \$32,581 in state money due to the duplicate payments. In addition, before resolving the duplicate payment, the department made two other payments, using both federal and state money, to the grant recipient in July and December 2015 totaling \$470,403.

The department did not take prompt action to resolve the duplicate payment. Department staff told us the grant recipient was aware that it had been reimbursed for the same costs twice. In December 2015, the grant recipient submitted additional costs that it believed were allowable under the grant to offset the duplicate payment. However, as of the end of February 2016, the department had not determined whether those costs were allowable under the terms of the grant and had not resolved the duplicate payment.

Federal requirements state that, "Any [money] paid to a [grant recipient] in excess of the amount in which the [recipient] is finally determined to be entitled under the terms of the Federal award constitutes a debt to the Federal Government."⁶

By not promptly resolving the duplicate payment with the grant recipient while continuing to reimburse the grant recipient for other costs, the department

⁵ The department paid \$97,744 of the \$130,325 duplicate payment using federal money.

⁶ 2 CFR, sec. 200.345.

increased the risk that the grant recipient would receive money in excess of the costs incurred related to the grant.

Recommendations

- *The Department of Public Safety should recover from the grant recipient \$130,325 for the duplicate payment and return \$97,744 to the federal government and \$32,581 to the state, or determine and document that the grant recipient had other costs allowable under the grant to offset the duplicate payment.*
 - *The department should promptly follow up with grant recipients to resolve questions about whether costs submitted for reimbursement are accurate or allowable under the terms of the grant.*
-



Office of the Commissioner

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March 16, 2016

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

Dear Mr. Nobles:

This letter is our response to the findings of the Single Audit of Disaster Grants – Public Assistance Program (CFDA 97.036) of the Department of Public Safety for the period from July 1, 2014 through June 30, 2015.

The specific finding is the department did not resolve a duplicate payment made to the Buffalo Ridge Regional Railway Authority. As described in the audit report, the error was discovered within 30 days, but the department did not take prompt action and the issue was unresolved a year later.

The specific actions taken to correct this finding and prevent it from happening again are:

1. The department initiated action to recover the duplicate payment from the grant recipient on March 15, 2016.
2. The department changed Homeland Security and Emergency Management (HSEM) Public Assistance Policy 13-4d to add the requirement to initiate action to resolve duplicate payments and overpayments within 30 days of discovery, and ensure costs submitted are accurate and allowable under the terms of the grant.

Sincerely,

A handwritten signature in blue ink that reads "Ramona L. Dohman".

Ramona L. Dohman, Commissioner

Cc: Mark Dunaski, Deputy Commissioner
Larry Freund, Chief Financial Officer
Paul Mathe, Internal Controls Manager
Joe Kelly, Director of Homeland Security & Emergency Management
Jeanine Kuwik, Director, Internal Control Unit, Minnesota Management & Budget

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