

**DEPARTMENT OF PUBLIC SAFETY  
CRIMINAL APPREHENSION AND  
FIRE MARSHAL DIVISIONS  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE YEAR ENDED JUNE 30, 1985**

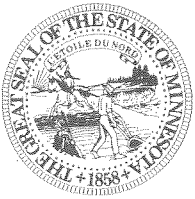
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**MAY 1986**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Paul Tschida, Commissioner  
Department of Public Safety

Audit Scope

We have completed a financial and compliance audit of the Department of Public Safety Criminal Apprehension and Fire Marshal Divisions for the year ended June 30, 1985. Section I provides a brief description of the Department of Public Safety, Criminal Apprehension and Fire Marshal Divisions' activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on February 28, 1985.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Criminal Apprehension and Fire Marshal Divisions, including a review of receipts and administrative disbursements;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies including Minnesota Statutes Chapters 299C, 299F, 299H, 299I, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the Statewide Accounting (SWA) System.

The management of the Department of Public Safety is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
and  
Mr. Paul Tschida, Commissioner  
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Public Safety is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Department of Public Safety. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Public Safety had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Conclusions

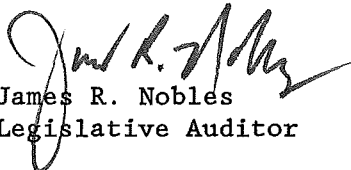
In our opinion, except for the issues raised in Section II, Recommendations 1, 3, and 4, the Department of Public Safety, Criminal Apprehension and Fire Marshal Divisions' system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

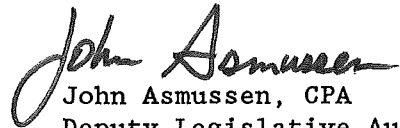
In our opinion, for the year ended June 30, 1985, the Department of Public Safety, Criminal Apprehension and Fire Marshal Divisions, administered their programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, except for Section II, Recommendation 2, for the year ended June 30, 1985, the Department of Public Safety, Criminal Apprehension and Fire Marshal Divisions, properly recorded, in all material respects, their financial transactions on the statewide accounting system.

The recommendations included in this report are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing the Department of Public Safety, Criminal Apprehension and Fire Marshal Divisions' progress on implementing these recommendations.

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

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

May 6, 1986

DEPARTMENT OF PUBLIC SAFETY  
CRIMINAL APPREHENSION AND FIRE MARSHAL DIVISIONS

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Mike Hassing	Staff Auditor
Kathy Quandt	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on April 21, 1986:

Paul Tschida, Commissioner  
Frank Ahrens, Fiscal and Administrative Services Director  
Dan Boytim, Fiscal and Administrative Services Assistant Director  
Roz Kowalzyk, Internal Audit  
Renee Marcantelli, Accounting  
John Erskine, Superintendent, BCA  
Floyd Roman, BCA  
Wes Werner, Fire Marshal



DEPARTMENT OF PUBLIC SAFETY  
CRIMINAL APPREHENSION AND FIRE MARSHAL DIVISIONS

I. INTRODUCTION

The Bureau of Criminal Apprehension (BCA) was created to coordinate the efforts and work of peace officers throughout the state, to aid them in solving local crimes and to assist them in apprehending criminals. The Bureau is a storage house of information on crimes and criminals from which local law enforcement officers may apply for fingerprints, photographs, and records of criminals, fugitives, and suspects.

The BCA investigates major crimes and assists in the apprehension of criminals as requested by local law enforcement agencies; provides skilled investigative aid, upon request, for crimes concerning the illegal sale or possession of narcotics and prohibited drugs; collects, collates, analyzes, and disseminates data relevant to the status of organized criminal cartels and major criminal activities in the state; conducts basic police science courses for local law enforcement officers; examines materials of biological origin for identification or analysis; and maintains a data communications network that links all sheriff offices and a number of police departments with the Bureau, Driver and Vehicle Services Division, and State Patrol.

Operations of the BCA are financed mainly by state appropriations from the General Fund. The BCA collected about \$100,000 in license fees and service charges, \$20,500 in federal receipts, and \$79,500 from the sale of equipment and other receipts for fiscal year 1985. In addition, the BCA received about \$300,000 in expenditure refunds for the county sheriff offices and local police departments use of the Criminal Justice Data Network for a total of \$500,000. The BCA spent about \$9,810,000 for general operations in fiscal year 1985. This includes \$5,644,000 in payroll and other personal service costs, \$350,000 in equipment purchases, and \$227,000 in grants. The remainder was for general supplies and expenses.

The Fire Marshal Division was created to enforce laws and regulations pertaining to the elimination of fire hazards and to establish minimum requirements intended to provide a reasonable degree of safety from fire and similar emergencies. The Division's responsibilities include the prevention of fires, suppression of arson, investigation of fires, enforcement of regulations prescribing minimum safety standards for pipeline facilities and the transportation of natural and other gas by pipeline.

The BCA and Fire Marshal Divisions share the services of an accounting officer. The accounting officer is responsible for depositing receipts, purchasing, and making disbursements.

Operations of the Fire Marshal Division are financed mainly by state appropriations from the General Fund. The division collected about \$8,000 in fees and licenses and \$100,000 in federal receipts for fiscal year 1985. The division spent about \$1,603,000 for general operations. This includes \$1,304,000 in payroll and other personal service costs.

DEPARTMENT OF PUBLIC SAFETY  
CRIMINAL APPREHENSION AND FIRE MARSHAL DIVISIONS

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal control over Criminal Apprehension Division receipts needs strengthening.

The Criminal Apprehension Division (BCA), collects a variety of receipts including Criminal Justice Data Network (CJDN) charges, license fees for collector weapons, restitution and refund payments resulting from court sentencing of convicted criminals, and other miscellaneous items. Fiscal year 1985 collections were approximately \$500,000.

These receipts are not deposited as frequently as required. On February 27, 1986, \$984.32 in checks had not been deposited. One check for \$304.32 was dated January 6, 1986. The other checks were dated February 1 to 25, 1986. Minn. Stat. Section 16A.275 states, "Except as otherwise provided by law, an agency shall deposit receipts totaling \$250 or more in the state treasury daily." Deposit delays weaken internal controls since the opportunity for loss or theft exists while the receipts are undeposited. Delays also result in a loss of interest and investment income to the state and have an adverse effect on its cash flow management.

The division also does not date-stamp all incoming checks and documentation. Date-stamping is a protective control for the division to monitor collection of receivables and timely deposits.

The BCA, in conjunction with the Department of Administration's Information Management Bureau (IMB), has established the Criminal Justice Data Network (CJDN) which provides on-line access to record history information to local police departments and county sheriff offices. IMB bills BCA for services and equipment used by BCA and the locals. There is also a private vendor that supplies software and system maintenance to local users through BCA. BCA in turn, bills back a portion of the local user charges to the corresponding local governmental units.

BCA processes the CJDN collections as expenditure refunds on the Statewide Accounting (SWA) System. Over \$300,000 was collected during fiscal year 1985. This procedure does not provide an accurate accounting of BCA's total receipts or expenditures on SWA. The \$300,000 is not reported as a receipt on SWA. Also, total expenditures for the year are reduced by the amount of the refunds. Since the current appropriation type is not authorized to accept dedicated receipts, the expenditure refund transaction provided the mechanism to record CJDN collections in the account of BCA's original expenditure.

CJDN collections actually represent receipts to BCA and should be recorded as such. BCA should properly account for CJDN receipts through one of the following:

- requesting a legislative change to their appropriation so that CJDN collections can be accounted for as dedicated receipts; or



DEPARTMENT OF PUBLIC SAFETY

CRIMINAL APPREHENSION AND FIRE MARSHAL DIVISIONS

- requesting IMB to bill the local users directly.

*RECOMMENDATIONS:*

1. *BCA should:*
  - *ensure that all receipts are deposited on a daily basis or when they total \$250 or more; and*
  - *date-stamp all incoming receipt documentation to aid in prompt deposit analysis.*
2. *BCA should determine the appropriate method of accounting for CJDN receipts.*

Confidential fund duties are not adequately segregated.

The BCA operates an imprest cash account known as the Confidential Fund. The funds are used for undercover purchases of illegal drugs, contraband, and payments to cooperative, evidence producing individuals. The total authorized amount of the fund is \$57,500.

The accountability of these funds is the responsibility of one person at BCA. That person performs cashiering functions of issuing cash advances and receipting the actual expenditures of those funds. The custodian also prepares reimbursement requests when the balance needs to be replenished, and performs a weekly reconciliation to the authorized amount.

The segregation of incompatible functions is an essential element of internal accounting control. By allowing one person total control of the fund, it is possible that intentional or unintentional errors could be made and not be detected.

To reduce such a risk, the BCA should have the reconciliation of imprest funds completed by a person independent of the daily cash activity. Our audit showed no evidence of any errors or irregularities. Due to the sensitive nature of the funds, it is important that BCA maintain controls, such as the separation of duties, to prevent or detect such occurrences.

*RECOMMENDATION:*

3. *BCA should have an independent person verify the accuracy of the recording and use of confidential funds by performing the reconciliation to the authorized amounts.*

Internal control over receipts in the Fire Marshal Division needs strengthening.

The Fire Marshal collects a majority of its state receipts from licensing movie theatre and dry cleaning facilities. They also receive federal funds relating to the pipeline safety act. The state collections for the licensing function were \$6,800 during fiscal year 1985.

DEPARTMENT OF PUBLIC SAFETY

CRIMINAL APPREHENSION AND FIRE MARSHAL DIVISIONS

The Fire Marshal was not in compliance with Minn. Stat. Section 16A.275 which requires deposits daily or when receipts aggregate \$250. As of February 20, 1986, the Fire Marshal was holding 145 checks and money orders totaling \$1,866, which had been received between December 13, 1985 and January 9, 1986. The receipts are sent to the accounting officer at the BCA before being deposited. This practice further delays the deposit of receipts and could result in lost or misplaced license fees. Also, these checks had not been restrictively endorsed. A restrictive endorsement upon receipt helps to limit the negotiability of checks or money orders if they are lost or stolen and reduces the possibility of misappropriation.

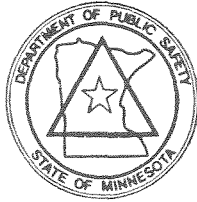
An adequate system of internal control includes the safeguarding of assets against loss. This includes the physical security of money and the protection against losses arising from intentional or unintentional errors in processing transactions. The checks at the fire marshal were not secured by means of a locked box, file, or desk drawer while waiting for deposit. Assets not properly safeguarded may be stolen, lost, destroyed, or temporarily diverted. Also, the lack of such a system could lead to records being misused or altered by unauthorized personnel.

The segregation of incompatible functions is an essential element of accounting control. Incompatible functions are ones that if performed by one person would allow that person to make and conceal an irregularity or an error, that would not be detected. Currently, the Fire Marshal has one person responsible for opening mail, processing receipts, recording and issuing licenses, and preparing the deposit for such receipts.

While we recognize that a small staff at the Fire Marshal prohibits an optimal separation of duties, the risks of undetected errors can be reduced by having an independent verification of licenses issued and receipts deposited. This can be accomplished by having one person opening the mail and preparing a listing of receipts. The daily lists should be maintained and periodically compared with the actual deposit slip to ensure that all receipts are deposited and properly recorded. The checks and license application forms can be forwarded to the processing clerk for deposit preparation and issuing and maintaining the license documentation.

*RECOMMENDATION:*

4. *The Fire Marshal Division should provide an adequate separation of duties within the licensing function to ensure that receipts are deposited and properly recorded in the accounting system.*



May 6, 1986

STATE OF MINNESOTA  
DEPARTMENT OF PUBLIC SAFETY  
SAINT PAUL 55155

James R. Nobles  
Legislative Auditor  
Veterans Services Building  
St. Paul, MN 55155

Dear Mr. Nobles;

The April 21, 1986 letter from Margaret Jenniges requested a response to the four recommendations pertaining to the Department of Public Safety. Our response to these recommendations resulting from your financial and compliance audit is listed below.

Frank Ahrens, Director of the Office of Fiscal & Administrative Services will be responsible for recommendation numbers one, two and three, and Wes Werner, State Fire Marshall, will be responsible for recommendation number four.

The following comments are listed in the order presented in your draft report and include progress toward implementing recommendations.

Office of Fiscal & Admin. Services

Internal control over Criminal Apprehension Division Receipts need strengthening

Recommendation

1. BCA should
  - \* ensure that all receipts are deposited on a daily basis or when they total \$250 or more; and
  - \* date - stamp all incoming receipt documentation to aid in prompt deposit analysis.

Response:

1. All BCA employees and Office of Fiscal & Admin. Service Employees that handle either the collection of receipts or depositing of receipts will be given a copy of Minn. Stat. 16A.275 "Daily Receipts Deposited with State Treasure", as a reminder of this requirement. This office will be monitoring the deposit of receipts on a monthly basis as to the timeliness of the deposits.

All incoming receipts will be date - stamped and endorsed for deposit immediately upon receipt of the incoming mail.

Recommendation:

2. BCA should determine the appropriate method of accounting for Criminal Justice Data Network (CJDN) receipts.

Response:

2. The Department will seek an amendment to Minn. Stat. 299C.48, that will provide authorization for a special revenue account for purposes of depositing CJDN receipt collections and for paying CJDN expenses on behalf of local law enforcement clientele. This amendment will be included in the Department's 1988/89 Biennial Budget Request.

Confidential Fund duties are not adequately segregated.

Recommendation:

3. The BCA should have an independent person verify the accuracy of the recording and use of confidential funds by performing the reconciliation to the authorized amounts.

Response:

3. In order to strengthen internal accounting controls, a transference of Confidential Fund duties will be implemented.

The Accounting Officer will perform the following tasks rather than the Account Clerk, Supervisor who is the daily custodian of the Fund:

- A) Weekly reconcilment of the Confidential Fund.
- B) Monthly reconcilment of the Bank Statement.
- C) Quarterly physical count of the flash roll.

## Fire State Divisions

### Recommendation:

4. The Fire Marshall Division should provide an adequate separation of duties within the licensing function to ensure that receipts are deposited and properly recorded in the accounting system.

### Response:

4. A procedure has been established to require a daily listing of receipts, a locked storage file for receipts and periodic comparison of daily listings and deposit slips by the Clerical Supervisor.

The Fire Safety Division will prepare their receipts for deposit rather than sending the receipts to 1246 University for deposit. The Office of Fiscal & Admin. Services will make arrangements with the Dept. of Finance to establish an account with the First National Bank of St. Paul for a direct deposit of receipts by the Fire Safety Division.

I trust that our responses to your recommendations are acceptable. Please call should you have any further questions.

Sincerely,

  
Paul J. Tschida

cc: John D. Erskine  
Wes Werner  
Frank A. Ahrens