

# **Peace Officer Standards and Training Board**

## **Financial and Compliance Audit For the Two Years Ended June 30, 1997**

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**April 1998**

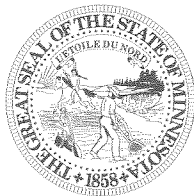
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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**98-29**





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Laux, Executive Director  
Peace Officer Standards and Training Board

Members of the Peace Officer Standards and Training Board

We have audited the Peace Officer Standards and Training Board for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: licensing and exam fees, payroll, and grants.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Peace Officer Standards and Training Board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Peace Officer Standards and Training Board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Peace Officer Standards and Training Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 30, 1998.

Handwritten signature of James R. Nobles in cursive.

James R. Nobles  
Legislative Auditor

Handwritten signature of Claudia J. Gudvangen in cursive.

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 13, 1998

Report Signed On: April 24, 1998



# SUMMARY

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## **Peace Officer Standards and Training Board**

### **Financial and Compliance Audit For the Two Years Ended June 30, 1997**

Public Release Date: April 30, 1998

No. 98-29

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#### **Background**

The Peace Officer Standards and Training Board was established in 1978. The board is composed of the superintendent of the Bureau of Criminal Apprehension and 14 members appointed by the Governor. John Laux was appointed executive director in January 1995. The board operates under Minn. Stat. Sections 626.84 to 626.863.

The board is responsible for:

- licensing peace officers in Minnesota,
- determining selection standards,
- determining standards of professional conduct,
- regulating training and educational requirements for peace officers, and
- investigating allegations of professional misconduct.

#### **Objectives and Conclusions**

The objectives of our audit were to gain an understanding of the internal control structure over the financial activities of the Peace Officer Standards and Training Board and to determine if the board complied with material finance-related legal provisions. The areas covered by our audit were license and exam receipts, grants, and payroll for the period July 1, 1995, through June 30, 1997.

We found that the board generally designed and implemented internal controls over license and examination fee receipts, grants, and payroll to provide reasonable assurance that transactions were accurate, properly recorded in the accounting system, and in compliance with applicable legal requirements and management's authorization.

However, we noted certain areas where the board needs to improve internal controls over receipts and its licensing system. Another finding addresses the separation of payroll duties.

The board agreed with the audit report's findings and recommendations. They immediately addressed the receipts and payroll concerns and have developed plans to improve controls over the board's licensing system.



# **Peace Officer Standards and Training Board**

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### **Audit Participation**

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Jason Stauffenecker	Auditor

### **Exit Conference**

The following staff from the Peace Officer Standards and Training Board participated in the exit conference held on April 14, 1998:

John Laux	Executive Director
Claudia Ahrens	Assistant Administrator
Dan Boydem	Accounting Officer, Department of Public Safety





# Peace Officer Standards and Training Board

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## Chapter 1. Introduction

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The Peace Officer Standards and Training Board was established in 1978. The board is composed of the superintendent of the Bureau of Criminal Apprehension and 14 members appointed by the Governor. John Laux was appointed executive director in January 1995. The board operates under the authority of Minn. Stat. Sections 626.84 to 626.863. The board is responsible for:

- licensing peace officers in Minnesota,
- determining selection standards,
- determining standards of professional conduct,
- regulating training and educational requirements for peace officers, and
- investigating allegations of professional misconduct.

The board is funded by an appropriation from the penalty assessment fund that consists of surcharges from all moving traffic fines. The board was appropriated \$4,375,000 and \$4,350,000 for fiscal years 1996 and 1997, respectively. Table 1-1 shows a breakdown of the board's expenditures for the two fiscal years.

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**Table 1-1**  
**Peace Officer Standards and Training Board**  
**Summary of Expenditures**  
**Fiscal Year 1996 and 1997**

	<u>1996</u>	<u>1997</u>	<u>Total</u>	<u>Percent</u>
Grants	\$3,321,722	\$3,356,667	\$6,678,389	80.8%
Payroll	434,914	558,053	992,967	12.0%
Rent	65,161	72,145	137,306	1.7%
Other	<u>245,981</u>	<u>209,461</u>	<u>455,442</u>	<u>5.5%</u>
Total	<u>\$4,067,778</u>	<u>\$4,196,326</u>	<u>\$8,264,104</u>	<u>100.0%</u>

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Source: Minnesota Accounting and Procurement System (MAPS), fiscal years 1996 and 1997, as of September 26, 1997.

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The board also collected license and exam fees totaling approximately \$204,000 for fiscal years 1996 and 1997. These receipts were deposited as nondedicated revenue in the state's General Fund and were not available for board operations.

The Department of Public Safety provides administrative support for the board. Services provided by the department include expenditure processing, budget development and assistance, and personnel services. Although the Department of Public Safety provides administrative support, the decision making authority and responsibility remain with the board.

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## Chapter 2. Licensing and Exam Revenues

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### *Chapter Conclusions*

*We noted weaknesses in the collection and deposit of licensing and exam revenues. The board could improve controls over its receipts by:*

- restrictively endorsing incoming checks upon receipt;*
- providing an independent verification of amounts deposited;*
- depositing receipts and entering deposits in MAPS in a more timely manner;*
- reconciling licenses issued to collections; and*
- restricting access to the board licensing system.*

*Except for a requirement for fee rates to recover costs of administering licenses and exams, the board was in compliance with material finance-related legal provisions, for the items tested.*

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The Peace Officer Standards and Training Board is responsible for administering peace officer examinations and issuing licenses to peace officers. The board receives exam applications and fees from candidates. The board issues licenses once all the requirements are met and the fee is received. Officers are required to renew their licenses every three years. Currently, there are approximately 7,800 licensed full and part-time peace officers in the state. During the two years covered by our audit, the board collected approximately \$122,000 in license fees and \$82,000 in exam fees.

We noted that during our audit period, the board license and fee rates were insufficient to recover the costs of administering the licenses and exams. Minn. Stat. Section 16A.1285 requires that fees be reasonably established to avoid significant over or under recovery of costs. As the result, the board properly increased its fees effective for fiscal year 1998. This adjustment was the first fee increase by the board since 1984. The new rates established by the board comply with Minn. Stat. Section 16A.1285.

### **Audit Objectives and Methodology**

Our review of board license and exam fees focused on the following objective:

- Did the board design and implement internal controls to provide reasonable assurance that license and examination receipts were safeguarded, accurately reported in the accounting records, and collected in compliance with applicable legal provisions and management's authorization?

To meet this objective, we interviewed board employees to gain an understanding of the internal control structure over receipt collections. We sampled receipt transactions to determine if the

## **Peace Officer Standards and Training Board**

board properly safeguarded, authorized, processed, and recorded its revenues. We also reviewed receipts to determine if the board complied with material finance-related legal provisions.

### **Conclusions**

We noted certain weaknesses in the internal control structure over license and exam revenues. As discussed in Finding 1, receipt collection and deposit controls need to be improved. Finding 2 concerns controls over the board's licensing system. Except for fee requirements to recover costs, as mentioned above, the board was in compliance with material finance-related legal provisions, for the items tested.

#### **1. The board needs to strengthen controls over license and exam receipts.**

Board procedures for processing license and exam receipts create an environment susceptible to lost or stolen funds and noncompliance with established requirements. We noted several areas of risk where the board lacked controls to detect or prevent errors and irregularities.

The board did not restrictively endorse incoming checks immediately upon receipt. The board does restrictively endorse checks when the deposit is prepared. However, it should be done promptly upon receipt. Without a restrictive endorsement, these checks are more vulnerable and could be easily cashed if lost or stolen.

The board needs to compare its receipts log to the bank deposit. Currently, the receptionist logs all incoming receipts prior to processing and depositing in the bank. However, there is no subsequent comparison of the amount deposited to the initial receipts log. Lack of a comparison would allow undeposited receipts to go unnoticed and undetected by the board.

Audit tests disclosed that the board did not regularly deposit receipts accumulating in excess of \$250 on a daily basis. We tested thirteen receipt transactions and found that eight were not deposited timely. Minn. Stat. Section 16A.275 requires that receipts be deposited daily when totaling \$250 or more. We noted deposit delays ranging from 1 to 14 days, with funds secured on premises until deposited. Holding undeposited receipts results in lost interest earnings and increases the risk of theft.

Finally, the board did not always record deposits in the Minnesota Accounting and Procurement System (MAPS) in a timely manner. The board deposits its receipts in a local bank account that is periodically swept by the State Treasurer. The State Treasurer initiates the sweeps based on deposit information entered on MAPS. Without timely update of MAPS, the State Treasurer is unaware of the deposit and unable to transfer the receipts into the state treasury. This results in lost interest earnings since the funds are not immediately invested.

# Peace Officer Standards and Training Board

## *Recommendation*

- *The board needs to improve internal controls over license and fee receipts by:*
  - *restrictively endorsing incoming receipts immediately;*
  - *reconciling the receipts log to deposits;*
  - *depositing receipts daily when accumulating in excess of \$250; and*
  - *entering receipt transactions in MAPS timely.*

## **2. PRIOR FINDING NOT RESOLVED: The board needs to restrict access to its licensing system and reconcile licenses issued to collections.**

The board has two weaknesses in its license processing. First, the board did not effectively limit access to the licensing system. Second, the board did not ensure that receipts were collected for all licenses issued. These weaknesses increase the risk that errors and irregularities could occur and go undetected.

The board did not adequately restrict access to the licensing system. The licensing system is relatively new, and employees were given broad access to the system. We noted that certain staff had access to the licensing system despite having no job responsibilities in this area. These staff could potentially issue a license or post receipt of funds without a corresponding collection. An essential control feature for any system is that employees only have clearance to perform the functions necessary for their particular job.

We also found that the board did not ensure that it received payment for all licenses issued. Peace officers must renew their licenses every three years. Receipt information is entered into the licensing system prior to licenses being issued. However, there is no reconciliation of licenses issued to receipts collected by the board. Effective controls over the licensing system would include a periodic comparison of renewals and new licenses issued to receipts to assure completeness of license collections.

## *Recommendations*

- *The board should limit the ability to update the licensing system to only those employees who need access to perform their job responsibilities.*
- *The board should periodically reconcile licenses issued to receipts collected.*

# Peace Officer Standards and Training Board

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## Chapter 3. Grants

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### *Chapter Conclusions*

*The board designed and implemented internal controls to provide reasonable assurance that grants were accurate, properly recorded in the state's accounting system, and processed in accordance with management's authorization. For the items tested, the board complied with material finance-related legal provisions.*

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The Peace Officer Standards and Training Board grants money to local law enforcement agencies for various purposes. Grants are the largest expenditure of the board. The most significant portion of grant funds are used to reimburse local law enforcement agencies for continuing education costs. The board also provides grants to cover the costs of students who have been given conditional offers of employment and are enrolled in a professional peace officer program. Local law enforcement agencies submit applications to the board for review, and board staff determine and approve the grant payment amounts. The board was appropriated \$2,300,000 for continuing education reimbursement grants and \$203,000 for employment opportunity grants in both fiscal year 1996 and 1997.

The board was also appropriated \$850,000 each year for law enforcement programs provided by Minnesota State Colleges and Universities (MnSCU). Although the board received the appropriation, the funds were designated for programs provided at state colleges and universities. The board established an interagency agreement and paid MnSCU based on expenditure reports submitted from the colleges and universities.

### **Audit Objectives and Methodology**

Our review of grants focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that grants were accurate, made in accordance with management's authorization, and properly recorded in the state's accounting system?
- Did the board grant expenditures comply with material finance-related legal provisions?

To answer these questions, we interviewed board personnel to gain an understanding of the internal control structure over grant expenditures. We reviewed a sample of grant payments for accuracy, management authorization, and proper reporting in the state's accounting records. We also reviewed board compliance with material finance-related legal provisions governing the grants.

## **Peace Officer Standards and Training Board**

### **Conclusions**

The Peace Officer Standards and Training Board designed and implemented internal controls to provide reasonable assurance that grants were authorized, accurate, and properly recorded in the state's accounting system. Based on grants tested, we found that the board complied, in all material respects, with finance-related legal provisions.

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## Chapter 4. Payroll

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### *Chapter Conclusions*

*The board designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and complied with legal provisions and management's authorization. However, the board did not perform an independent review of biweekly payroll transactions. The same individual who entered payroll into SEMA4 was responsible for verifying the accuracy of the transactions processed.*

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The Peace Officer Standards and Training Board has sixteen full and part-time employees. Staff are responsible for board functions relating to the licensing and training of peace officers. The board utilizes the State Employee Management (SEMA4) human resource and payroll system. It spent \$434,914 and \$558,053 for payroll costs in fiscal years 1996 and 1997, respectively.

### **Audit Objectives and Methodology**

We focused our review of payroll on the following objectives:

- Were the board's payroll expenditures processed in accordance with applicable bargaining unit agreements and management's authorization?
- Were payroll transactions properly recorded in the state's accounting system?

To meet these objectives, we interviewed board employees to gain an understanding of the payroll process. We reviewed a sample of SEMA4 payroll transactions to determine if the board properly authorized, processed, and recorded expenditures, and complied with applicable legal provisions of the respective bargaining unit agreements.

### **Conclusions**

We concluded that for the items tested, board employees were paid according to management's authorization and the applicable bargaining unit agreements. Payroll transactions were properly recorded in the state's accounting system. However, as discussed in Finding 3, the board needs to separate staff responsibilities for payroll verification.

## Peace Officer Standards and Training Board

### 3. The board needs to independently verify the accuracy of payroll transactions.

The Peace Officer Standards and Training Board did not perform an independent verification of the biweekly payroll transactions processed against its accounts. Board staff did review leave balance and payroll register reports, however, the same individual that entered the payroll was responsible for reviewing the output reports. In order to improve the effectiveness of the payroll verification process, staff independent of the payroll input function should review the accuracy of transactions processed.

#### *Recommendation*

- *The board should assign payroll verification responsibilities to staff independent of payroll input function.*



# Peace Officer Standards and Training Board

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## Status of Prior Audit Issues As of March 13, 1998

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### Most Recent Audit

June 1994, Legislative Audit Report 94-31 covered the three fiscal years ending June 30, 1993. The audit focused on the internal control structure over payroll, grants, contracts, license fees, and fixed assets, as well as testing for compliance with finance-related legal provisions.

The report cited five audit findings. The most critical finding resulted in a scope limitation due to missing records supporting the grant award calculations and payments for fiscal year 1991. The auditors were unable to determine whether the allocation process and calculations were made properly. In our current audit, we found that the board had significantly improved its organization and financial records. We were able to verify all transactions selected for testing and found that staff were knowledgeable of their duties and responsibilities. However, we noted that the board still does not reconcile the number of licenses issued to the fees received, nor does it appropriately limit access to its licensing data base (see current Finding 2).

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



## Minnesota Board of Peace Officer Standards and Training

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April 22, 1998

Mr. James R. Nobles  
Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street  
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

I am writing today in response to the findings presented to the POST Board as a result of an audit covering the period of July 1, 1995 through June 30, 1997.

The on-site audit staff was professional, pleasant, and kept us informed as they progressed through the project. The exit conference was instructive, and I always felt, through the entire process, that your staff's objective was to make the POST Board better at what we do.

I agree with all of the findings presented. I am happy to report that we have been good keepers of the public trust, and your direction will tighten some internal practices to assure future accountability.

As the POST Board Executive Director, I am the person responsible for implementation of the findings, and I assure you that all will be in place by May 1, 1998, noting that the majority are already completed.

The following points address our response to each finding:

Chapter 2. Licensing and Exam Revenues:

- **restrictively endorsing incoming checks upon receipt:** Upon verbal notification of this concern during the audit the Board changed its practice and immediately began endorsing incoming checks upon receipt.
- **providing an independent verification of amounts deposited:** The employee who opens the daily mail, endorses incoming checks and logs those checks into the computer, will give a copy of the log to both the employee who makes the deposit and the employee who enters the deposit into MAPS.

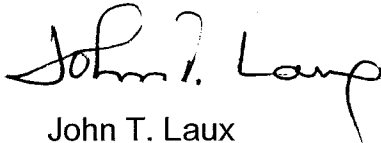
- **depositing receipts and entering deposits in MAPS in a more timely manner:** The Board had been making daily deposits since some time before this audit began. It had been brought to our attention that we had failed on occasion to make deposits in a timely manner and the problem was immediately corrected.
- **reconciling licenses issued to collections:** We will begin to do this on a monthly basis beginning May 1, 1998.
- **restricting access to the board licensing system:** The system will be programmed in the next month so that only employees who need access to update the system as a part of their job responsibilities will have access. All other employees will have "read only" access.

#### Chapter 4. Payroll:

- **the board should assign payroll verification responsibilities to staff independent of payroll function input:** The Assistant Administrator will verify on a bi-weekly basis the accuracy of payroll transactions entered by the support staff designee.

I trust this response will satisfy any issues raised by this audit.

Sincerely,



John T. Laux  
Executive Director