



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Public Safety
Federal Program Compliance
Year Ended June 30, 2007



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.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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Financial Audit Division Report

**Department of Public Safety
Federal Program Compliance**

Year Ended June 30, 2007

March 20, 2008

08-08

FINANCIAL AUDIT DIVISION

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Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
David Polisenno, CPA, CISA, CFE	Audit Manager
Tim Rekow, CPA	Auditor-in-Charge
Jerry Foty	Auditor
Chau Nguyen	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Department of Public Safety at an exit conference on March 4, 2008:

Michael Campion	Commissioner
Mary Ellison	Deputy Commissioner
<u>Fiscal and Administrative Services:</u>	
Frank Ahrens	Director
Rita Wurm	Deputy Director
Daniel Boytim	Accounting Supervisor
Charles Hansen	Accounting Supervisor
Marlys Gardner	Accounts Payable Supervisor
<u>Homeland Security and Emergency Management:</u>	
Kris Eide	Director
John Kerr	Deputy Director
Jon Huspek	Business Manager
<u>Office of Traffic Safety:</u>	
Cheri Marti	Director
Katherine Burke Moore	Deputy Director
Susan Palmer	Business Manager

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Report Summary

Conclusion:

The Department of Public Safety generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the federal programs we audited for fiscal year 2007. However, the department had the following weaknesses:

Audit Findings:

- The Department of Public Safety erroneously included expenditures in the Homeland Security Grant Program. ([Finding 1, page 3](#))
- The department did not adequately safeguard fixed assets purchased with federal funds. ([Finding 2, page 4](#))
- The department did not always have sufficient evidence to support some purchases. ([Finding 3, page 5](#))
- The department did not properly obligate funds to its subgrantees for the Homeland Security Grant Program. ([Finding 4, page 5](#))

Audit Scope:

Programs material to the State of Minnesota's federal program compliance for fiscal year 2007:

- Homeland Security Cluster¹ (CFDA 97.004 and 97.067).
- Highway Safety Cluster (CFDA 20.600 through 20.613)

¹A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

Background:

The Department of Public Safety receives federal assistance to administer various programs for the State of Minnesota. The homeland security programs are intended to improve the ability of the nation to prevent, deter, respond to, and recover from threats and incidents of terrorism and to enhance regional preparedness. Expenditures totaled approximately \$20.6 million for fiscal year 2007.

The objective of the highway safety programs is to provide a coordinated national highway safety program to reduce traffic accidents, deaths, injuries, and property damage. Expenditures for these programs totaled approximately \$10.6 million in fiscal year 2007.



Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campion, Commissioner
Department of Public Safety

We have audited certain federal financial assistance programs administered by the Department of Public Safety during fiscal year 2007 as part of our audit of the state's compliance with federal program requirements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and with the U.S. Office of Management and Budget's (OMB) *Circular A-133* for audits of federal programs.

The Department of Finance is responsible for preparing the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. 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.

Table 1 identifies the selected federal programs we audited at the Department of Public Safety. We performed certain audit procedures on these programs as part of our 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. We also audited the department's cash management practices and other general compliance requirements related to federal assistance. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

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**Table 1
Selected Federal Programs
Administered by the Department of Public Safety
Fiscal Year 2007**

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Expenditures</u>
	<i>Homeland Security Cluster:</i> ²	
97.004	State Domestic Preparedness	\$ 2,898,890
97.067	Homeland Security Grants	<u>17,721,825</u>
	Total Homeland Security Cluster	<u>\$20,620,715</u>
	<i>Highway Safety Cluster:</i>	
20.600	State and Community Highway Safety	\$ 7,874,324
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Grants	1,446,648
20.603	Federal Highway Safety Data Improvements Incentive Grants	4,200
20.604	Safety Incentive Grants for Use of Seatbelts	57,525
20.608	Minimum Penalties for Repeat Offenders for DWI	1,014,562
20.610	State Traffic Safety Information System Improvement Grants	91,970
20.612	Incentive Motorcyclist Safety Grants	<u>106,916</u>
	Total Highway Safety Cluster	<u>\$10,596,145</u>

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

²A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

Source: Minnesota Accounting and Procurement System.

Conclusion

The Department of Public Safety generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the federal programs we audited for fiscal year 2007. However, the department had the following weaknesses:

Findings and Recommendations

- 1. The Department of Public Safety erroneously included expenditures in the Homeland Security Grant Program (CFDA 97.067).¹**

In preparing its draft schedule of federal expenditures, the department erroneously included \$3,069,751 of expenditures in the schedule for the Homeland Security Grant Program that should have been reported in a different federal program. Although corrected by an audit adjustment, the error would have resulted in an overstatement in the federal expenditures

¹ The Homeland Security Grant Program is part of the federal government's Homeland Security Cluster.

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reported in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*² for fiscal year 2007. Last year, in preparing the federal expenditure schedule for fiscal year 2006, the department made the same error, initially overstating the program's expenditure by \$1,002,543. The department's fiscal and administrative unit, which reviews the expenditure schedules for accuracy, did not identify that expenditures were incorrectly recorded.

Recommendation

- *The department's financial and administrative services unit should work with the program personnel to ensure accurate reporting of federal expenditures.*

2. The department did not adequately safeguard fixed assets purchased with federal program funds.

The department did not safeguard its fixed assets, including those purchased with federal program funds. The department's fixed asset inventory system did not contain certain information required by the state's Department of Administration.³ This information is essential because it allows the department to accurately identify the asset and its location. The department's inventory records lacked key information for 8 of 14 sample items. Fixed asset purchases totaled about \$228,000 for the Homeland Security Cluster and \$271,000 for the Highway Safety Cluster in fiscal year 2007.

For example, the missing inventory information made it difficult for the department to locate radio communication equipment purchased for \$35,734 with State Domestic Preparedness (CFDA 97.004) funds and sensitive computer equipment purchased for \$4,082 with the State and Community Highway Safety (CFDA 20.600) funds.

Our recent audit report⁴ identified several weaknesses in this area, including a lack of periodic physical inventories. Without complete and accurate inventory records, the department is unable to adequately manage, track, and report its fixed assets.

Recommendation

- *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.*

² 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.

³ Department of Administration's User Guide to State Property Management requires state agencies to use a capital asset tracking system for capital assets costing \$5,000 or more and sensitive assets.

⁴ Office of the Legislative Audit [Report 07-29](#).

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3. The department did not always have sufficient evidence to support some purchases.

The department did not always retain supporting documentation, such as packing slips or invoices for its purchases. In 4 of 15 Homeland Security (CFDA 97.004 and 97.067) sample items and 3 of 18 Highway Safety (CFDA 20.600 – 20.612) sample items, the department did not have the proper supporting documentation on file, as required by state and department policies.⁵ For example, the department paid one vendor from the “sales order” rather than the invoice. Without retaining the required documentation, the department could not ensure that it only paid for goods it received. A good control involves a three-way match between the purchase order, packing slip, and invoice, ensuring that the purchase was authorized and the goods were received before making payment.

Recommendation

- *The department should retain appropriate documentation to support the receipt of goods and to ensure that it only pays for authorized goods that it has received.*

4. The department did not properly obligate funds to subgrantees for the Homeland Security Grant Program (CFDA 97.067).

The department did not comply with federal regulations⁶ to obligate funds for subgrants within 60 days after the date of the program’s grant award. The department received federal funds to provide grants to local entities for the administration of various program provisions. The federal government required the department to obligate the funds within 60 days after the state received the grant award. The federal government defined obligate as “an action by the state to establish a firm commitment, the commitment must be unconditional on the part of the state, there must be documentary evidence of the commitment, the award terms must be communicated to the subgrantee and, if applicable, accepted by the subgrantee.” Although the department obligated the funds in total, it did not obligate them to specific subgrantees. There were no unconditional, firm commitments established or communicated to many subgrantees.

Recommendation

- *The department should properly obligate funds to its subgrantees within the 60-day requirement.*

⁵ Department 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.”

⁶ OMB A-133 Compliance Supplement, Homeland Security Cluster, Part 4, Compliance Requirement N – Special Tests and Provisions.

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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 20, 2008.

/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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**Status of Prior Audit Issues
As of January 9, 2008**

Legislative Audit Report 07-29, issued on November 1, 2007, covered the period of July 1, 2004, through December 31, 2006, for selected areas of the Department of Public Safety. The scope of this audit included expenditures for payroll and fixed assets and selected financial activities within the Bureau of Criminal Apprehension and the crime victim's services grants. The audit report contained eight audit findings relating to internal control and legal compliance. Finding 3 pertained to fixed asset controls and is repeated in Finding 2 of this management letter. Finding 6 pertained to purchasing requirement controls and is repeated in Finding 3 of this management letter. An overall review of the Legislative Audit Report 07-29 findings was not a specific objective of this audit. These findings will be reviewed in a future control and compliance audit.



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March 10, 2008

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 of Public Safety erroneously included expenditures in its Homeland Security Cluster Program (CFDA 97.067).

Recommendations:

The department’s financial and administrative services unit should work with the program personnel to ensure accurate reporting of federal expenditures.

Response:

Homeland Security Emergency Management division will provide the correct CFDA number from the grant guidance when preparing Policy Notes, budget and supporting documentation (award) to the Office of Fiscal & Administrative Services (FAS) to be established in MAPS.

Jon Huspek, Business Manager HSEM, will be responsible for resolving this finding.

2. The department did not adequately safeguard its fixed assets purchased with federal program funds.

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.

Response:

Three of the seven items identified are HSEM's and were not recorded properly in the Fixed Asset Inventory System. The other four were not retained by HSEM and were purchased for and became the ownership of local Hazardous Material Teams and Bomb Squads.



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The Office of Fiscal and Administrative Services (FAS) developed a comprehensive training program, which was presented to managers and supervisors in August '07 and all agency asset coordinators and their immediate supervisors in February '08. FAS is 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
- All divisions are required to complete a new physical inventory by June 30, 2008.
- Physical inventory documentation & tracking requirements
- Physical inventory certification process now is in place
- Full and spot audits
- Ongoing status and training meetings with the division asset coordinators
- Develop tracking procedures when purchases are made for direct ownership to locals and other entities who receive products through the grant or federal programs. This will include requiring the purchasers to include more information on the purchase order at the time of purchase.

Rita Wurm, Assistant Director FAS, will be responsible for revolving this finding.

3. The department did not always have sufficient evidence to support some of its purchases.

Recommendations:

The department should retain appropriate documentation to support the receipt of goods and to ensure that it only pays for authorized goods that it has received.

Response:

The agency found that only 2 out of 18 Highway Safety Cluster Program samples did not have proper supporting documentation on file. After reviewing the samples pulled, we found the 3-way match documentation for one order. We agree the 4 of 15 in HSEM was missing a packing slip in the purchasing file. We concur that one payment was paid from a sales order form, not the invoice. Public Safety has a policy 3505 directing purchasers to retain supporting receiving documentation. Policy 3202 directs payables to use an invoice for payment.



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FAS will develop a procedure under policy 3505 that will require the purchasing division to contact the vendor for a copy of the missing packing slip, or for the division to complete a memo in lieu of a packing slip, and to retain a copy in the purchasing file. FAS will communicate these procedural changes to the purchasers, supervisors, and managers accordingly.

Marlys Gardner, Accounts Payable Supervisor FAS, will be responsible for resolving this finding.

4. The department did not properly obligate funds to its sub-grantees for the Homeland Security Grant Program (CFDA 97.067).

Recommendations:

The department should properly obligate funds to its sub-grantees within the 60-day requirement.

Response:

Homeland Security Emergency Management will obligate/award within 45 days of the grant award by sending a letter notifying each sub-grantee of their award. HSEM will keep copies of all award letters on file for documentation meeting the new requirement of 45 days for the Homeland Security Grant Program.

Kris Eide, Director HSEM, will be responsible for resolving this finding.

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

Sincerely,

Michael Campion, Commissioner