



FINANCIAL AUDIT DIVISION REPORT

Department of Public Safety
Federal Compliance Audit
Year Ended June 30, 2009

March 4, 2010

Report 10-04

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 4, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campian, Commissioner
Department of Public Safety

This report presents the results of our audit to determine the status of fiscal year 2008 findings related to the Department of Public Safety federal assistance programs. In addition, we verified the accuracy of the department's fiscal year 2009 Schedule of Expenditures of Federal Awards for the Disaster Grants – Public Assistance. We conducted this work as part of our 2009 audit of the state's compliance with federal program requirements. We emphasize this has not been a comprehensive audit of the department's federal programs.

This audit was conducted by David Polisen, CPA, CISA, CFE (Audit Manager) and Melanie Greufe (Auditor-in-Charge).

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 4, 2010.

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 resolved four out of five fiscal year 2008 findings. However, the department's lack of a comprehensive assessment of controls over compliance with federal program requirements continued to exist.

Audit Finding

- Prior Finding Partially Resolved: 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](#))

Audit Objective and Scope

The objective of our audit was to determine the status of fiscal year 2008 findings related to the Department of Public Safety's federal assistance programs.¹ As part of determining the status of prior findings, we reviewed the accuracy of the department's fiscal year 2009 Schedule of Federal Expenditures for the Disaster Grants – Public Assistance.

¹ Office of the Legislative Auditor's Financial Audit Division Report 09-11, *Department of Public Safety Federal Compliance Audit*, issued March 26, 2009.

Department of Public Safety

Federal Program Overview

The Department of Public Safety spent approximately \$17 million on the Disaster Grants – Public Assistance in fiscal year 2009. Because fiscal year 2009 expenditures did not exceed the state’s major federal program threshold, the program was not subject to federal compliance audit requirements.² However, the scope of our fiscal year 2008 federal compliance audit did include this program and identified several internal control and federal compliance weaknesses.

Objective, Scope, and Methodology

The objective of our audit was to determine the status of findings identified in our prior audit of the Department of Public Safety’s federal assistance programs for fiscal year 2008.³ As part of determining the status of prior findings, we reviewed the accuracy of the department’s Schedule of Federal Expenditures for the Disaster Grants – Public Assistance for fiscal year 2009. 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

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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 2009 exceeded \$30.1 million.

³ Office of the Legislative Auditor’s Financial Audit Division Report 09-11 *Department of Public Safety Federal Compliance Audit*, issued March 26, 2009.

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, 2009, on the State of Minnesota’s basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report on 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 10-01, *Report on Internal Control Over Financial Reporting*, issued February 11, 2010.)

Conclusion

The Department of Public Safety resolved four out of five fiscal year 2008 findings. However, the department's lack of a comprehensive assessment of controls over compliance with federal program requirements continued to exist. The following *Finding and Recommendation* section further explains this weakness.

We will report these findings to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs for the Year Ended June 30, 2009*. That report, prepared by the Department of Management and Budget, 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, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

Finding and Recommendation

Finding 1

Prior Finding Partially Resolved: The Department of Public Safety did not identify, analyze, and document its internal controls over compliance with federal program requirements.

The department did not document its risk assessment for internal controls over compliance with general and specific federal program compliance requirements and did not establish a monitoring process to assess the quality of internal control performance over time. Although the department was aware of certain risks, had control activities in place, and performed selected internal control monitoring functions, it did not comprehensively identify and analyze the risks, design controls to address significant risks, or develop monitoring procedures to ensure that controls were in place and effective to reduce the significant risks identified.

State policy requires that each agency head is responsible 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.⁵ This policy further requires follow-up procedures, which (at a minimum) should include ways to monitor results and report 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. The federal government expects that the department has controls to ensure compliance with federal program requirements.

It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it fully implements a comprehensive internal control structure over the administration of federal programs.

Recommendation

- *The Department of Public Safety should clearly document its risks, control activities, and internal control monitoring functions for federal program requirements.*

⁵ Department of Management and Budget Policy Number 0102-01 – Internal Control.



Office of the Commissioner

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February 25, 2010

Alcohol
and Gambling
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State Fire
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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 2009. This is our written response to the audit finding and recommendation 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 program requirements.

Recommendation

- *The Department of Public Safety should clearly document its risks, control activities, and internal control monitoring functions for federal program requirements.*

Response:

The department concurs with the recommendation. The department has created an Internal Audit Unit. We have been unable to fill the newly created Internal Audit Director position. We had a number of applicants for the position in January, but we found that none of the applicants met the minimum qualifications. We will try to fill the position again in April.

The agency Internal Controls policy is currently being reviewed and we hope to have it in place by June. The department will formally document its risks, control activities, and internal control monitoring functions for federal program requirements once the Internal Audit Unit is staffed.

Person Responsible:

Frank Ahrens, Director, Office of Fiscal & Administrative Services

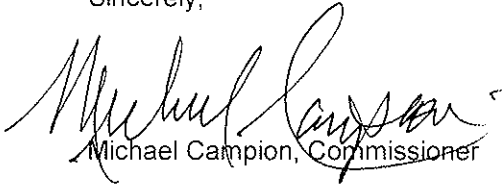
James R. Nobles
February 25, 2010
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Estimated Completion Date:

A Department Administrative Policy on Internal Controls will be in place by June 30, 2010. Documentation of risks, control activities, and internal control monitoring functions for federal program requirements will be completed by October 2010.

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

Sincerely,



Michael Campion, Commissioner

Cc: Mary Ellison
Frank Ahrens
David Poliseno
Daniel Boytim