



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Public Safety

Federal Compliance Audit

Fiscal Year 2010

April 15, 2011

Report 11-07

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

April 15, 2011

Representative Michael Beard, 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 one federal financial assistance program administered by the Department of Public Safety during fiscal year 2010. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

We discussed the results of the audit with department staff at an exit conference on April 1, 2011. The audit was conducted by David Polisen, CPA, CISA, CFE (Audit Manager) and Tracy Gebhard, CPA, (Auditor-in-Charge), assisted by auditor Kelsey Nistler.

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 April 15, 2011.

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 the major federal program for fiscal year 2010. However, the department had not fully resolved a prior audit finding, which is repeated in this report.

Finding

- Prior Finding Partially Resolved: The Department of Public Safety did not identify, analyze, and document its internal controls over compliance with federal single audit requirements for the Disaster Recovery Public Assistance Program (CFDA 97.036). ([Finding 1, page 5](#))

Audit Scope

Programs material to the State of Minnesota's federal program compliance for fiscal year 2010:

- Disaster Grants – Public Assistance, CFDA¹ 97.036, with total fiscal year 2010 federal expenditures of \$31,960,863.

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

Department of Public Safety

Federal Program Overview

The Department of Public Safety administered one federal program (Disaster Grants – Public Assistance Program, CFDA 97.036) that we considered a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.² The total fiscal year 2010 federal expenditures for this program were \$31,960,863.

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 2010 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.³ In addition to specific program 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*.

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 2010 exceeded \$30 million.

³ 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 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of 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 11-02, [Report on Internal Control Over Financial Reporting](#), issued February 18, 2011.)

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 programs for fiscal year 2010. However, the department had not fully resolved a prior audit finding, as explained in the following *Finding and Recommendation* 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 control and compliance weaknesses.

Finding and Recommendation

Finding 1

Prior Finding Partially Resolved:⁴ The Department of Public Safety did not identify, analyze, and document its internal controls over compliance with federal single audit requirements for the Disaster Recovery Public Assistance Program (CFDA 97.036).

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. The department was aware of certain risks, had many control activities in place, and performed selected internal control monitoring functions. In fiscal year 2010, the department worked with the Department of Management and Budget's internal control and accountability unit to determine some best practices for developing a comprehensive risk assessment.⁵

State policy requires that the agency head is responsible to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.⁶ This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. The policy further requires follow-up procedures that, 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. Audit standards reinforced management's responsibility to have effective internal controls over its financial operations.⁷ The federal government expects that those controls also ensure compliance with federal program requirements.

The department has an increased risk of noncompliance and weaknesses in internal controls over compliance until it fully implements a comprehensive internal control structure over the administration of federal programs.

⁴ Office of Legislative Auditor's Financial Audit Division Report 10-04, *Department of Public Safety Federal Compliance Audit*, issued March 4, 2010.

⁵ A comprehensive risk assessment includes identifying and analyzing the risks, designing controls to address significant risks, and developing monitoring procedures to ensure that controls were in place and effective to reduce the significant risks identified.

⁶ Department of Management and Budget Policy Number 0102-01.

⁷ American Institute of Certified Public Accountants, *Statement on Auditing Standards #109: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*.

Recommendation

- *The Department of Public Safety should frequently review and clearly document its risks, control activities, and internal control monitoring functions for federal program requirements.*
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April 5, 2011

James R. Nobles, Legislative Auditor
Office of Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the finding included in the Report on the Single Audit work on selected federal programs awarded to the Department of Public Safety for the year ended June 30, 2010.

Prior Finding Partially Resolved

The Department of Public Safety did not identify, analyze, and document its internal controls over compliance with federal single audit requirements for Disaster Recovery Public Assistance Program (CFDA 97.036).

Audit Response

The department has worked on identifying risks, implementing controls, and monitoring control activities. Moving forward, documentation of these efforts is essential. We are aware of the significance and importance of these activities. To resolve this finding, we have been reviewing agency Internal Control policy, performed an Internal Control Assessment, created an Internal Audit Committee, and continued work to fill our Internal Auditor position. Filling this position has been problematic, but a renewed effort is now underway. This position is critical to help us with this internal control process, thereby resolving this finding.

Person Responsible

Larry Freund, CFO, Office of Fiscal & Administrative Services

April 5, 2011
James R. Nobles
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Estimated Completion Date

With the anticipation of a new agency Internal Auditor, this finding will be resolved by September 30, 2011.

If you have any questions or concerns, please contact me.

Sincerely,



Ramona L. Dohman
Commissioner

cc: Mary Ellison
Larry Freund
David Poliseno
Dan Boytim