



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Public Safety
Fiscal Year Ended June 30, 1999



MARCH 10, 2000

00-07

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 fifty 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 and one best practices review.

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.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Summary

Management Letter

Department of Public Safety Fiscal Year Ended June 30, 1999

Key Findings and Recommendations:

- The Department of Public Safety did not ensure that deposits of motor vehicle taxes were entered accurately and timely into the state's accounting system. We calculated that the state lost the opportunity to earn at least \$2 million in interest for fiscal years 1996 through 1999 as a result of delayed posting of receipts collected for motor vehicle taxes. We have included this issue in several prior audit reports and the department has made some improvements over the years. However, we recommended that the department analyze the deposit delays and work with the largest deputies to reduce the delay in recording receipts. The department should develop a cost/benefit analysis to determine the most cost-effective approach for processing and recording transactions. In addition, the department should ensure that receipts are recorded accurately. (Finding 1, page 2)
- The department did not deposit interstate registration tax receipts daily, as required by Minnesota Statutes. The department received a large volume of payments in the month of February for taxes due in March. The department did not process and deposit these receipts promptly. We recommended that the department deposit funds within the statutory time frames or request an exemption from the requirements. (Finding 2, page 4)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally-funded programs. The scope of work in individual agencies is limited. During the fiscal year 1999 audit, our work at the Department of Public Safety focused on motor vehicle registration and excise taxes and three federal programs administered by the department. The department's response to our recommendations is included in the report.

Department of Public Safety

Table of Contents

	Page
• Management Letter	1
• Status of Prior Audit Issues	5
• Department of Public Safety Response	6

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Pat Ryan	Senior Auditor
Mike Willis	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Public Safety at an exit conference held on February 28, 2000:

Sara Schlauderaff	Assistant Commissioner
Brian Lamb	Director, Driver and Vehicle Services
Frank Ahrens	Director, Fiscal and Administrative Services
Marge Noll	Program Supervisor, Prorate
Mike Ryan	Program Supervisor, Title and Registration
Dan Boytim	Accounting and Budget Supervisor
Debbie Halfen	Accounting Officer



Representative Dan McElroy, Chair
 Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Charlie Weaver, Commissioner
 Department of Public Safety

We have performed certain audit procedures at the Department of Public Safety as part of our audit of the State of Minnesota’s financial statements for the year ended June 30, 1999. We also have audited selected federal programs administered by the department as part of our audit of the state’s compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

Table 1 identifies the financial activities within the Department of Public Safety that were material to the state’s financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota’s financial statements were free of material misstatement.

Table 1
Programs Material to the State’s Financial Statements
Fiscal Year 1999

	Amount
Revenue Programs	
Motor Vehicle Registration Tax	\$555,602,000
Motor Vehicle Excise Tax	\$483,909,000
Expenditure Programs	
Federal Public Assistance Grants	\$ 58,375,000

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

Table 2 identifies the three federal programs administered by the Department of Public Safety that were included in our audit scope. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State on Minnesota complied with the types of requirements that are applicable to each of its major programs.

Department of Public Safety

**Table 2
Federal Programs
Fiscal Year 1999**

<u>CFDA No.</u>	<u>Program Name</u>	<u>Amount</u>
20.600	State and Community Highway Safety	\$ 3,224,000
20.601	Alcohol Traffic Safety and Drunk Driving Prevention	\$ 1,006,000
83.544	Public Assistance Grants	\$59,090,000

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our December 1, 1999, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 1999. In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 1999, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our audit procedures, we identified the following weaknesses in internal control and instances of noncompliance with program requirements at the Department of Public Safety.

1. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The Department of Public Safety did not ensure that deposits of motor vehicle taxes were entered timely and accurately into the state's accounting system.

The Department of Public Safety did not ensure that all motor vehicle revenues were promptly and properly recorded on the State of Minnesota's Accounting and Procurement System (MAPS). The department did not ensure timely postings of deposits made by its deputy registrars. We also found various instances where the dates of deposits and fiscal periods were not accurately posted.

The department has not adequately reduced the number of days that deputy registrar receipts remained in local depositories before being recorded by the State Treasurer. The State Treasurer transfers funds from the various local depositories once the deposits are identified on the state's accounting system. The department has made improvements

Department of Public Safety

since our initial analysis in 1996; however, the department should continue to analyze and modify its process to maximize interest earnings for the state. For fiscal years 1996 through 1999, we calculated that the state lost the opportunity to earn interest of at least \$2 million because of untimely postings of receipts. Because inaccurate record dates were often used when posting deposits to the accounting system, we were unable to determine the actual amount of interest lost to the state.

The department has not properly monitored the timeliness of deposits made by the deputies with on-line access to the state's accounting system. Five of the largest deputy registrars have on-line access to enter receipts directly on the state's system. However, four of the five deputies with on-line access had significant delays in recording receipts in fiscal year 1999. The deputies with notable delays included: Hennepin County, South St. Paul, White Bear Lake, and Circle Pines. The Hennepin County deputy registrar entered as many as 12 days of activity at one time. South St. Paul entered up to 10 days of activity at one time, and White Bear Lake and Circle Pines entered up to 8 days at one time. In addition, Circle Pines delayed posting to the accounting system for periods of two to six weeks. The department should monitor deputy registrars' financial activities to ensure they are promptly and accurately entering deposits in the state's accounting system.

The department and the deputies did not accurately record the date of deposit in the accounting system. Rather than entering the actual date that receipts were deposited in local depositories as the system record date, input operators often allowed the date to default to the current date. State agencies should enter receipts in the accounting system the same day the funds are deposited. However, Public Safety often encountered delays in obtaining necessary information from deputy registrars located across the state. Also, several deputies with on-line access posted incorrect dates on the system. We observed that two deputy registrars with on-line access posted year-end accrual transactions to the wrong fiscal year. Erroneous deposit dates and fiscal years resulted in nearly \$500,000 of motor vehicle registration and excise taxes being posted to incorrect accounting periods.

The department should complete a cost/benefit analysis to determine the most effective process of recording receipts in the state treasury. Electronic data transfer would greatly reduce the delays in posting the deposits. In fiscal year 1999, the five deputies with on-line access accounted for approximately 21 percent of all excise and registration tax collected by the state's 173 deputies. In January 2000, the department began a pilot project with one deputy whereby the daily deposit information is sent to the department over the internet and posted to the state's accounting system using an interface program. The department intends to add more deputies if the process is successful.

Department of Public Safety

Recommendations

- *The department should establish procedures to ensure that receipts are accurately entered into the accounting system.*
- *The department should conduct a cost/benefit analysis and develop electronic methods to promptly record receipts.*

2. PRIOR AUDIT FINDING NOT RESOLVED: The Department of Public Safety did not deposit all receipts daily, as required by Minnesota Statute.

The Department of Public Safety receives a large volume of interstate registration tax payments during the month of February, as these taxes are due on March 1 each year. The department did not process and deposit receipts daily in February 1999. During the period of mid-February through the first week in March, some receipts were held four to five days before deposit in the state treasury. Generally, however, the department was about one day behind in processing receipts. Interstate registration tax averaged approximately \$1.4 million during this busy period.

Minn. Stat. Section 16A.275 requires state agencies to make daily deposits when receipts are greater than \$250. The statute does allow for exemptions, approved by the Department of Finance, if an agency can justify that the cost of making the deposits exceeds the lost investment opportunities or risks of theft. The department has not requested an exemption.

Recommendation

- *The department should deposit funds in accordance with statutory time frames or request an exemption from the requirements.*

This report is intended for the information 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 10, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 10, 1999

Report Signed On: March 7, 2000

Department of Public Safety

Status of Prior Audit Issues As of December 10, 1999

March 5, 1999, Legislative Audit Report 98-15 examined the department's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1998. The scope included the collected revenues from motor vehicle registration taxes and motor vehicle excise taxes. In addition, for Single Audit objectives, we audited the public assistance grants. We identified seven written findings in that report. Two were related to the collection and reporting of motor vehicle tax revenues, while five were related to non-compliance with federal requirements of the public assistance grants.

The department implemented our recommendations for all the findings related to the public assistance grants. However, the department has not yet resolved the two issues relating to the timely and accurate deposit of motor vehicle registration and excise taxes. These issues are repeated as current Findings 1 and 2 of this report.

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 of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

MINNESOTA DEPARTMENT OF PUBLIC SAFETY



Office of the Commissioner

445 Minnesota Street, Suite 1000, North Central Life Tower, St. Paul, Minnesota 55101-5000
Phone: 651/296-6642 FAX: 651.297.5728 TTY: 651/282-6555
Internet: <http://www.dps.state.mn.us>

March 3, 2000

James R. Nobles
Legislative Auditor
1st Floor South
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

At the audit exit conference on February 28, 2000, we were provided a copy of the draft audit report for the Department of Public Safety. Our written response to the findings and recommendations are in the order presented in the draft report.

Brian Lamb, Director, Driver and Vehicle Services, will be responsible for both findings.

PRIOR AUDIT FINDING PARTIALLY RESOLVED :

The Department of Public Safety did not ensure that deposits of motor vehicle taxes were entered timely and accurately into the state's accounting system.

Recommendations:

- *The department should establish procedures to ensure that receipts are accurately entered into the accounting system.*
- *The department should conduct a cost/benefit analysis and develop electronic methods to promptly record receipts.*

Response:

Deputy registrars that enter their own cash receipts in MAPS will require more training. A copy of the audit report along with instructions regarding the record date will be sent to the deputy registrars on the pilot project. Driver & Vehicle Services will review cash receipts on a monthly basis to make sure deputy registrars are entering receipts timely and accurately into the accounting system. If not, the deputy registrar rules may need to be strengthened in the section that deals with the cash receipts.

Alcohol &
Gambling
Enforcement

Bureau of
Criminal
Apprehension

Capitol Security

Driver & Vehicle
Services

Emergency
Management/
Emergency
Response
Commission

State Fire
Marshal/
Pipeline Safety

State Patrol

Traffic Safety

In the previous year's report the legislative auditor has recommended that Driver and Vehicle Services move to an electronic data exchange with deputy registrars. January of this year a pilot was implemented with the Anoka county deputies. This pilot is the electronic transfer with deputy registrars. The pilot has been successful and will be expanded.

This program performs the following steps:

1. The deputy registrars report is electronically downloaded
 - a. A log records the download and processing of the report
 - b. A cash receipt is constructed and sent to MAPS through CITA
 - i. The cash receipt number reflects the deputy number and report.
 - ii. Errors in fiscal years and fund numbering will greatly decrease.
 - iii. If a report is not timely it will be easily discovered.
 - c. Report is electronically audited
 - i. Audit procedure accuracy will increase.
 - d. Money collected on a particular vehicle will be collected.
 - i. There will be an audit trail for each vehicle.
 - e. Record will be electronically updated
2. The Report and Cash receipt will be electronically captured
 - a. Inventory accuracy will increase.
 - b. Deposit History will increase

PRIOR AUDIT FINDING NOT RESOLVED:

The Department of Public Safety did not deposit all receipts daily, as required by Minnesota Statute.

Recommendations:

- *The department should deposit funds in accordance with statutory time frames or requests an exemption from the requirements.*

Response:

In August 1999, the interstate registration unit acquired additional equipment to process receipts. Since the acquisition of this equipment, the office has deposited receipts daily in accordance with Minnesota Statute. In addition, a 9-week emergency employee was hired during the high volume months of January and February to ensure compliance to the 24-hour check deposit requirement.

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

Sincerely,

/s/ Charlie Weaver

Charles R. Weaver, Jr.
Commissioner, Department of Public Safety

Cc: Mancel Mitchell
Sara Schlauderaff
Frank Ahrens
Brian Lamb