

Management Letter

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**Department of Public Safety**  
**Fiscal Year Ended June 30, 2002**



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## 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.

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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](mailto:auditor@state.mn.us)

# Department of Public Safety

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
David Polisenno, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge, Motor Vehicle Registration and Excise Taxes
Connie Stein	Auditor-in-Charge, Single Audit
Patrick Ryan	Auditor
George Deden, CPA	Auditor
Kathryn Fisher	Auditor

### Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Public Safety at the exit conference held on March 4, 2003:

Sara Schlauderaff	Commissioner's Office
Frank Ahrens	Fiscal and Administrative Services Director
Jerry Rosendahl	Emergency Management Director
Debra Halfen	Single Audit Coordinator

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## Report Summary

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### Key Finding and Recommendation

- The Department of Public Safety did not obtain audit reports from some subrecipients receiving over \$300,000 of federal funds annually. The seven subrecipients for whom audit reports were missing received over \$10 million of federal funds. The department's follow up with the subrecipients to obtain a copy of the audit report consisted of one letter to remind them that an audit report was due. Federal regulations require that the state obtain and review subrecipient audit reports for entities receiving at least \$300,000 of federal funds, and ensure that subrecipients take appropriate corrective action when noncompliance with federal laws and regulations occurs. We recommended that the department establish procedures to ensure that it obtains audit reports for all subrecipients.

**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 our work in individual agencies is limited. During the fiscal year 2002 audit, our scope at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately \$617 million, and federal public assistance grants, which totaled approximately \$32 million.



Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Rich Stanek, Commissioner  
Department of Public Safety

We have performed certain audit procedures at the Department of Public Safety as part of our audit of the basic financial statements of the State of Minnesota as of and for the year ended June 30, 2002. The scope of our audit work at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately \$617 million. We performed certain audit procedures as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2002, were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Public Safety.

We have also reviewed certain department procedures related to the state's compliance with certain requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the department for the year ended June 30, 2002. We performed certain audit procedures on the public assistance grants 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 major federal programs. For fiscal year 2002, the department expended public assistance grants totaling approximately \$32 million.

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

## **Conclusions**

Our December 6, 2002, report included an unqualified opinion on the State of Minnesota's basic financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2002. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 6, 2002, 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. 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 the OMB *Circular A-133*.

## Department of Public Safety

Our work at the Department of Public Safety identified the following instance of noncompliance with finance-related legal provisions:

**1. The Department of Public Safety did not obtain audit reports from some subrecipients receiving over \$300,000 of federal funds annually.**

As of December 2002, the Department of Public Safety had not obtained calendar year 2001 audit reports from seven of the ten subrecipients for which it was the state's cognizant agency. (The cognizant agency is responsible for ensuring that the subrecipient has an annual audit and monitoring crosscutting subrecipient noncompliance or other weaknesses that affect federal programs.) The seven subrecipients for whom audit reports were missing received over \$10 million of federal funds. Federal regulations required the subrecipients to submit the reports to the department by September 30, 2002, nine months after their year end. The department's follow up with the subrecipient to obtain a copy of the audit report consisted of one letter to remind them that an audit report was due.

Federal regulations require that the state obtain and review subrecipient audit reports for entities receiving at least \$300,000 of federal funds, and ensure that subrecipients take appropriate, corrective action when noncompliance with federal laws and regulations occurs. To facilitate this, the Department of Finance designates a specific department as the cognizant agency for each subrecipient that receives over \$300,000 of federal funds through the state, usually basing the designation on which state agency provided the majority of federal funding.

Without monitoring the audit report and program findings, the Department of Public Safety cannot make timely management decisions on audit findings or ensure that the subrecipients take timely corrective action on deficiencies identified by the audit report. Internal controls are weak when findings are not monitored, and corrective action plans are not implemented. Weak internal controls risk misuse or loss of federal funds.

### *Recommendation*

- *The Department of Public Safety should ensure that it obtains audit reports for all subrecipients for which it is the designated cognizant agency.*

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 13, 2003.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 2, 2003

Report Signed On: March 10, 2003

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**Status of Prior Audit Issues  
As of January 2, 2003**

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**August 16, 2001, Legislative Audit Report 01-42** examined the Minnesota Center for Crime Victim Services activities for the period July 1998 through December 2000. The scope included payroll, claims, and grants. The audit also included compliance for the Victims of Crime Act Grants (CFDA #16.575) and Violence Against Women Formula Grants (CFDA #16.588) for fiscal year 2001. The report contained five findings. The center implemented or substantially implemented all of the recommendations. It crafted language that allowed the center to continue the essential practice of retroactive payments. It processed payments to grantees on an actual cash expenditure basis. It required grantees to timely submit financial reports or the center defunded the program. It conducted timely site visits and received the required audit reports from grantees. It assigned a percentage breakout for each staff assigned to the center.

**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



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## Office of the Commissioner

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Internet: <http://www.dps.state.mn.us>

March 5, 2003

James R. Nobles  
Legislative Auditor  
1<sup>st</sup> 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 written response to the finding and recommendations are in the order presented in the draft report. Dan Boytim will be responsible for the finding.

### **AUDIT FINDING:**

The Department of Public Safety did not obtain audit reports from some subrecipients receiving over \$300,000 of federal funds annually.

### **Recommendations:**

- *The Department of Public Safety should establish procedures to ensure that it obtains audit reports for all subrecipients for which it is the designated cognizant agency.*

### **Response:**

The Department of Public Safety will change the language in the grant shell to require audits within six months of the grantee's fiscal year. In July the single audit coordinator will issue reminder letters to subrecipients requesting audits. Letters will be issued in September from the Director of Fiscal & Administrative Services to any subrecipients who have not turned in an audit report. The Commissioner of Public Safety and the division program managers will be notified at this time of the noncompliance.

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

Sincerely,

*/s/ Richard W. Stanek*

Richard W. Stanek  
Commissioner, Department of Public Safety

Cc: Sara Schlauderaff  
Frank Ahrens  
Jerry Rosendahl