



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Public Safety
Fiscal Year Ended June 30, 2004



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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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, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Polisen, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Carl Otto, CPA, CISA	Team Leader
Gena Hoffman	Senior 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 February 11, 2005:

Mary Ellison	Deputy Commissioner
Timothy Leslie	Assistant Commissioner
Steve Mengelkoch	Chief State Patrol
Brian Erickson	Captain/Budget
Frank Ahrens	Director, Fiscal and Administrative Services
Daniel Boytim	Accounting Supervisor
Deb Halfen	Single Audit Coordinator

Report Summary

Audit Finding:

- The department did not properly allocate motor vehicle excise tax collections to recipient funds. As a result, the General Fund received about \$530,000 less than it should have in fiscal year 2004. (Finding 1, page 3)

The audit report contained one audit finding relating to legal compliance. The department resolved the one finding included in our prior audit report.

Audit Scope:

Programs material to the State of Minnesota's financial statements and to federal program compliance for fiscal year 2004.

Selected Audit Areas:

- Motor vehicle registration tax
- Motor vehicle excise tax
- Federal Motor Carrier Safety Administration Grants Program (CFDA #20.218)

Background:

The Department of Public Safety collected motor vehicle registration and excise tax revenues, which totaled over \$1 billion in fiscal year 2004. Expenditures for the Federal Motor Carrier Safety Administration Grants Program (CFDA #20.218) totaled approximately \$3 million for the year.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Campion, Commissioner
Department of Public Safety

We have performed certain audit procedures at the Department of Public Safety as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2004. The scope of our audit work at the Department of Public Safety included motor vehicle registration and excise tax revenues, which totaled approximately \$1,078,000,000. 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, 2004, 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, 2004. 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 2004, the department expended Federal Motor Carrier Safety Administration Grants (CFDA #20.218) totaling approximately \$3 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 November 19, 2004, 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, 2004. In accordance with *Government Auditing Standards*, we have also issued our report, dated November 19, 2004, 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 OMB *Circular A-133*.

Department of Public Safety

Our work at the Department of Public Safety identified the following internal control weakness:

1. The Department of Public Safety did not properly allocate motor vehicle excise tax collections.

The Department of Public Safety (DPS) did not include tax refunds when it calculated the amount of motor vehicle excise taxes to be distributed to recipient funds. During fiscal year 2004, DPS collected and distributed approximately \$590 million of motor vehicle excise taxes. The department deposited the revenue into the General Fund and then distributed about 54 percent of that revenue from the General Fund to various other funds as provided in Minn. Stat. Sec. 297B.09. However, the department did not include tax refunds when calculating the amount to distribute. The department transferred the revenue to the other funds on a monthly basis based on gross receipts. Since it made the monthly transfers based on gross receipts, the General Fund absorbed all of the refunds, which totaled \$990,249 in fiscal year 2004. As a result, the General Fund received \$532,259 less than it should have from motor vehicle excise tax collections. The table below shows each fund's share of the refund amount.

Department of Public Safety Motor Vehicle Excise Tax Analysis of Tax Refunds Fiscal Year 2004		
<u>Fund Name</u>	Distribution	
	<u>Percent</u>	<u>Amount</u>
General Fund	46.25	<u>\$457,990</u>
Other Funds		
Highway User Tax Distribution Fund	30.00	\$297,075
Metropolitan Area Transit Fund	21.50	212,903
Greater Minnesota Transit Fund	1.43	14,161
County State-Aid Highway Fund	0.65	6,437
Municipal State-Aid Street Fund	0.17	<u>1,683</u>
Total Other Funds		<u>\$532,259</u>
Grand Total		<u>\$990,249</u>

Source: Minnesota Accounting and Procurement System (MAPS) as of August 17, 2004.

Recommendations

- *The Department of Public Safety should include refunds in its monthly motor vehicle excise taxes distribution.*
- *The Department of Public Safety should adjust future distributions and reimburse the General Fund for the amounts owed from other funds.*

Department of Public Safety

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 February 24, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 22, 2004

Report Signed On: February 18, 2005

**Status of Prior Audit Issues
As of December 22, 2004**

Legislative Audit Report 04-10, issued in March 2004, examined the motor vehicle registration and excise tax revenues collected by the Department of Public Safety. The audit also included compliance for the Public Assistance Grants (CFDA #83.544) for fiscal year 2003. The audit report contained one finding that related to the department not properly determining year-end liabilities for inclusion in the state's financial statements. The department implemented the recommendation associated with the finding.

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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February 16, 2005

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 finding and recommendations is as follows:

AUDIT FINDING:

The Department of Public Safety did not properly allocate motor vehicle excise tax collections.

Recommendations:

- *The Department of Public Safety should include refunds in its monthly motor vehicle excise taxes distribution.*
- *The Department of Public Safety should adjust future distributions and reimburse the General Fund for the amounts owed from other funds.*

Response:

Starting in September 2004 the Department of Public Safety began including refunds in its monthly motor vehicle excise tax distribution. The department adjusted prior FY05 distributions at that time. The Department of Public Safety will adjust FY04 refunds in March 2005 distributions.

Dan Boytim will be responsible for this finding. All adjustments will be completed by March 31, 2005.

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

Sincerely,

/s/ Michael Campion

Michael Campion
Commissioner, Department of Public Safety

Cc: Mary Ellison
Frank Ahrens