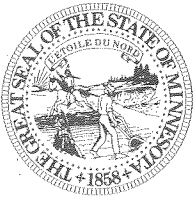


**STATEWIDE AUDIT
DEPARTMENT OF PUBLIC SAFETY
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

FEBRUARY 1986



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Paul Tschida, Commissioner
Department of Public Safety
211 Transportation Building
St. Paul, Minnesota 55155

Dear Commissioner Tschida:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and material federal programs. The scope of our work has been limited to:

- those aspects of your department which have a material impact on any of the state's various funds and account groups shown on the financial statements;
- federal programs included in the Single Audit scope, specifically:
 - CFDA #83.508 Radiological Systems Maintenance; and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985.

This management letter contains our recommendations developed during this audit and a reiteration of our prior recommendations which have not been implemented. Your internal audit unit was responsible for specific Single Audit compliance requirements reviewed during our audit. We have evaluated and accepted their work as required by AICPA Professional Standards. The results of their work is included with our report as Attachment I.

Attachment II to this management letter is a summary of the progress on all recommendations developed during our financial audit of Minnesota's fiscal year 1984 statements. The federal government is ultimately responsible for determining appropriate resolution of any single audit recommendations. The appropriate federal agency staff will contact your agency to review your efforts toward corrective actions. They will also notify you of their final resolution.

The recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Restrictions on access to prorate section computer files have not been properly established.

The prorate section of the DPS is responsible for the administration of all accounts pertaining to proratable vehicles operating in Minnesota. A proratable vehicle is one which is operated in more than one state and used for the transportation of persons for hire, or property. According to Minn. Stat. Section 168.187, all proratable vehicles must be registered with the Department of Public Safety. As a result of this registration requirement for Minnesota based vehicles and the exchange of information between the DPS prorate section and other jurisdictions throughout the United States and Canada, an automated processing system has been utilized by the department to expedite registration processing time and accommodate the rapid exchange of information with other jurisdictions.

Last year we determined that restriction on access to prorate computer files was not sufficient to prevent unauthorized entry to this vehicle registration information. We specifically identified the absence of operator entry codes and passwords and the lack of an audit trail over the entry of the "paid" status to prorate accounts. We recommended that the department restrict access to this system to only authorized personnel. In addition, we recommended that the prorate section perform a periodic reconciliation of registration fees to the Statewide Accounting System (SWA). DPS has developed policies to restrict the entry of the paid status code to one specific supervisor within the prorate area. However, prorate section receipts were not reconciled to SWA.

Due to the lack of a periodic reconciliation of receipts, it is possible for prorate fees, even though entered onto the system by an authorized person, to be lost, stolen, or inappropriately classified. It is also possible for accounts to be entered as paid on the system when no fees have been collected. A reconciliation of receipt totals to SWA is necessary to ensure that all registration fees collected have been properly deposited. Without this procedure, the restrictions placed on access to the system cannot be effective in establishing proper controls over the receipt and deposit of funds.

RECOMMENDATION:

- 1. DPS should establish procedures for the periodic reconciliation of prorate section receipt totals to the Statewide Accounting System.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: The partial payment section accounting and collection procedures are inadequate.

Minn. Stat. Section 168.31, Subd. 4, states that whenever the annual tax on a vehicle exceeds \$400.00, the owner may elect to pay the tax in three installments. The owner must register the vehicle for the calendar year with the partial payment section and pay the installments by March 1, July 1, and November 1. About 1700 vehicles registered under this partial payment option in registration year 1985.

The present accounting and billing system is a manual system. No control account is maintained and no reconciliation is performed to detail accounts of those owing taxes to the state. We recommended that a control account be established for accounts receivable and that the balance be periodically reconciled to a subsidiary ledger trial balance. It was further suggested that the DPS consider the development of a computer operation for the partial payment area to help account for receivable amounts in a proper manner.

The department has formulated plans to convert the present manual system to a computer operation. These plans, according to DPS personnel, will be evaluated by July 1, 1986. The department has contended, however, that the maintenance of a control account would not be cost effective if it were done on a manual basis.

It is our belief that subsidiary records, whether manual or computer, should be reconciled to a control account regularly to verify the clerical accuracy of these records. Automation of this system may facilitate this process to a large degree.

RECOMMENDATIONS:

2. *The DPS should establish a control account in the partial payment section for accounts receivable. A periodic reconciliation should be completed to a subsidiary ledger trial balance. DPS should continue to pursue the implementation of a computer system for the partial payment area if this is felt necessary to facilitate the process.*

Audit results compiled by prorated section auditors are not properly maintained and reviewed.

Minn. Stat. Section 168.187 provides guidelines for the registration of proratable vehicles and the methods to be used by the DPS to ensure compliance with these registration requirements. Subd. 19 of that statute states that:

"Any owner whose application for proportional registration has been accepted shall preserve the records on which it is based for a period of four years following the date of its filing. Each acceptance shall be conditioned upon agreement of the owner to make such records available to the commissioner of public safety, at his request, for audit as to accuracy of computations and payments and assessments of deficiencies or allowances for credit."

An audit division within the prorated section of DPS performs periodic audits of Minnesota based prorated carriers. During calendar year 1985, nearly 800 audits were completed by this division, involving carriers throughout the state.

The audits performed by this division are primarily structured to accommodate a review of the mathematical accuracy of the registration information provided by the carrier. In the event that additional tax is owed, the carrier is sent a "re-bill" by the prorate section, which states the additional amount of tax owed and the time frame required for the remittal of additional funds to the state.

To account for the number of assessments imposed on prorate carriers and to summarize the amount of additional tax owed to the state, a manual log of all re-bills is maintained by the prorate section. This log shows the name of the carrier, the amount owed, the date billed, and the date of the receipt of funds, if applicable. There is no established review of this log to determine the disposition of these accounts at periodic intervals. This makes it difficult for department personnel to determine whether additional tax assessments are being paid in an appropriate and prompt manner.

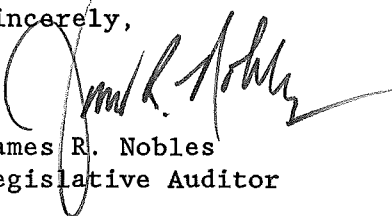
A more comprehensive accounting of all re-bills, together with a periodic review of the disposition of these accounts by prorate section personnel, will ensure the proper collection of taxes due to DPS. The inclusion of dated information will help to enforce the prompt receipt of funds and provide the mechanism for DPS personnel to monitor the status of these accounts.

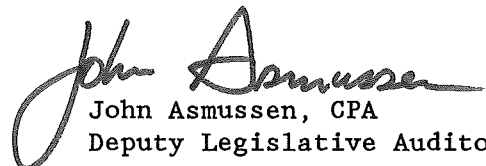
RECOMMENDATIONS:

3. *All information pertaining to the audit of prorate carriers should be included in the manual log of assessed accounts. This should include the date of audit, the time frame specified for payment, and the status of each account as of the due date.*
4. *A periodic review of all assessed accounts should be performed by prorate section personnel. Appropriate action should be taken in cases of past due accounts.*

Thank you for the cooperation extended our staff during this audit.

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

Attachments

February 20, 1986

Minnesota Department of Public Safety
Audit Unit
Radiological Systems Maintenance
C.F.D.A. No. 83.508

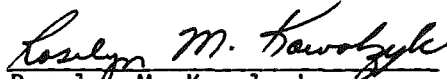
Report on Compliance Requirements

We have examined the financial and accounting data for the Radiological Systems Maintenance Program (C.F.D.A. No. 83.508) administered by Minnesota Department of Public Safety for the year ended June 30, 1985. Our examination was made in accordance with generally accepted auditing standards (Ref. Audit Report, Part II, Audit Description, Audit Standards) and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, a representative number of charges to the federal grant were selected to determine if federal funds were being expended in accordance with the terms of applicable agreements and those provisions of federal laws or regulations that could have a material effect on the financial statements or on the program tested.

It is our opinion, subject to any adjustments resulting from:

- 1) audit performed by State Auditor(s), Legislative Auditor(s) or CPA Firms; or
- 2) the Schedule of Findings and Questionable Costs of this report; that the grantee (MN/DPS) has complied with the material terms and conditions of the federal grant.


Roselyn M. Kowalzyk
Audit Supervisor
Department of Public Safety
Date 11/21/85

Minnesota Department of Public Safety
Audit Unit
Radiological Systems Maintenance
C.F.D.A. No. 83.508

Report on Internal Controls

We have made a study and evaluation of the system of internal accounting control of the Radiological Systems Maintenance Program (C.F.D.A. No. 83.508) administered by Minnesota Department of Public Safety, for the year ended June 30, 1985. Our study was conducted in accordance with generally accepted auditing standards (Ref. Audit Report, Part II Audit Description, Audit Standards).

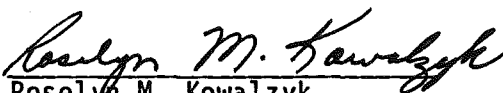
The purpose of our study and evaluation was to determine the nature, timing and extent of performing the audit procedures necessary for expressing an opinion. Our study included the following internal control categories: Receipts, Disbursements, Processing Invoices, Property Management, Payroll including time reports and authorization for leave slips, Cash Management, and Financial Reporting.

The Office of Emergency Services in conjunction with the Fiscal and Administrative Services Section are responsible for establishing and maintaining a system of internal control. In order to fulfill this obligation, the Minnesota Radiological Systems Maintenance Program has been integrated into the Statewide Accounting System. The objectives are to provide management with reasonable but not absolute, assurance that:

- 1) assets are safeguarded against loss from unauthorized use or disposition;
- 2) receipts and disbursements are identifiable and properly executed; and
- 3) accounting transactions are properly recorded to permit the preparation of financial reports in accordance with generally accepted accounting principles.

Although commingling of federal funds is nonexistent, as specific AID'S and Revenue Source Codes are exclusively assigned to federal projects, errors or irregularities may nevertheless occur and not be detected. Also, our limited study and evaluation as described in paragraph 1 and 2 above would not necessarily disclose all material weakness of MN/DPS system of internal controls.

Taken as a whole, it is our opinion that the grantee's (MN/DPS) system of internal controls met the objectives as stated in paragraph 3.


Roselyn M. Kowalzyk
Audit Supervisor
Department of Public Safety
Date 11/21/85

Schedule of Findings and Questioned Costs

PROGRAM	FINDING	QUESTIONED COSTS
<p>C.F.D.A. 83.508 Radiological Systems</p>	<p>Questioned Costs Costs charged to a program were not approved as required by the grant award or cost principles.</p> <p>Explanation:</p> <ol style="list-style-type: none">1. Employee was laid off 6/29/83. The six months eligibility for state paid insurance expired. Expenditures of \$279.16 (employee insurance premium) incurred during state fiscal year 1985 are ineligible.2. Worker's compensation (2,033.01) paid to an employee was not eligible for federal participation during federal fiscal year 1985. <p>Recommendation: Adjust the final claim for the questioned cost.</p> <p>The errors noted resulted from misinterpretation not from a system deficiency.</p>	<p>\$2,312.17</p>

DEPARTMENT OF PUBLIC SAFETY

Attachment II

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

Some deputy registrars are not depositing registration taxes and fees within 24 hours of receipt.

1. DPS should enforce the daily deposit requirement for deputy registrars through:
 - establishing criteria for determining when a deposit is late;
 - developing procedures for testing compliance;
 - developing a method for calculating the interest due;
 - testing deputy registrar compliance with the daily deposit requirement; and
 - assessing an interest penalty.

Recommendation Substantially Implemented. DPS has made significant progress in enforcing the daily deposit requirement. DPS should continue to pursue the establishment of an interest penalty on late depositors.

Restrictions on access to prorate section computer files have not been properly established.

2. Entry operator codes and system passwords should be developed for the prorate registrations computer files.

Recommendation Implemented.

3. The DPS prorate section should establish procedures to periodically reconcile prorate section receipt totals to the statewide accounting system.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #1.

Motor vehicle license plate renewals are not being processed efficiently.

4. The new electronic cash register system should be implemented for the motor vehicle mail issue section as soon as staff are properly trained. The manual log sheets should be eliminated once the new system is in use.

Recommendation Implemented.

DEPARTMENT OF PUBLIC SAFETY

Attachment II

Page 2

The partial payment section accounting and collection procedures are inadequate.

5. A control account should be established in the partial payment section for accounts receivable and the balance reconciled to a subsidiary ledger trial balance.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #2.

6. DPS should consider developing a computer operation for the partial payment section.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #2.

Bicycle registrations could be handled more efficiently.

7. Bicycle mail receipts should be sent directly to the section responsible for deposit preparation.

Recommendation Implemented.

Highway Patrol civil weight penalties collected need to be reconciled to SWA.

8. The Commercial Division staff should prepare a listing of incoming checks to document civil penalty payments.
9. The listing of receipts should be compared to the deposit slips and statewide reports to ensure accuracy.

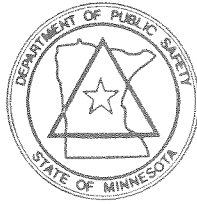
Recommendations Implemented.

The Department of Administration policies need to be followed.

10. DPS should follow Department of Administration policy of requesting state vehicles on a mmmonthly basis for employees who average over 1050 miles per month.

Recommendation Implemented.

OFFICE OF THE COMMISSIONER
211 Transportation Building
Telephone: 296-6642



STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SAFETY
SAINT PAUL 55155

February 20, 1986

James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles,

The February 5, 1986 letter from Margaret Jenniges requested a response to the 5 Recommendations pertaining to the Department of Public Safety. Our response to these Recommendations resulting from your financial and compliance audit is listed below.

Marlene Swanson, Director of the Driver and Vehicle Services Division, will be responsible for Recommendations 1 through 4 and Thomas Motherway, Director of the Office of Emergency Services, will be responsible for Recommendation 5.

The following comments are listed in the order presented in your draft report and include progress toward implementing Recommendations, as well as the department's position on the practicality or feasibility of complying with certain Recommendations.

Driver and Vehicle Services Division

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Restrictions on access to prorated section computer files have not been properly established.

The prorated section of the DPS is responsible for the administration of all accounts pertaining to proratable vehicles operating in Minnesota. A proratable vehicle is one which is operated in more than one state and used for the transportation of persons for hire, or property. According to Minn. Stat. Section 168.187, all proratable vehicles must be registered with the Department of Public Safety. As a result of this registration requirement for Minnesota based vehicles and the exchange of information between the DPS prorated section and other jurisdictions throughout the United States and Canada, an automated processing system has been utilized by the department to expedite registration processing time and accommodate the rapid exchange of information with other jurisdictions.

Last year we determined that restriction on access to prorated computer files was not sufficient to prevent unauthorized entry of this vehicle registration information. We specifically identified the absence of operator entry codes and passwords and the lack of an audit trail over the entry of the "paid" status to prorated accounts. We recommended that the department restrict access to this system to only authorized personnel. In addition, we recommended that the prorated section perform a periodic reconciliation of registration fees to the Statewide Accounting System (SWA). DPS has developed policies to restrict the entry of the paid status code to one specific supervisor within the prorated area. However, prorated section receipts were not reconciled to SWA.

Due to the lack of a periodic reconciliation of receipts, it is possible for prorated fees, even though entered onto the system by an authorized person, to be lost, stolen, or inappropriately classified. It is also possible for accounts to be entered as paid on the system when no fees have been collected. A reconciliation of receipt totals to SWA is necessary to ensure that all registration fees collected have been properly deposited. Without this procedure, the restrictions placed on access to the system cannot be effective in establishing proper controls over the receipt and deposit funds.

RECOMMENDATION:

1. DPS should establish procedures for the periodic reconciliation of prorated section receipt totals to the Statewide Accounting System.

RESPONSE:

1. The purpose of our present pro-rate computer is to compute the multitude of fees for the various IRP states. A complete reprogramming of the system would be required in order to reconcile individual accounts to the SWA deposits. In the next 12 months, we will use internal staff or possibly an outside consultant to study the possibility of accomplishing these changes. Meanwhile, only the supervisory staff is making entries until we establish a password system for all personnel. Marilyn Gaiovnik will implement this by September 1, 1986.

Driver and Vehicle Services Division

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: The partial payment section accounting and collection procedures are inadequate.

Minn. Stat. Section 168.31, Subd. 4, states that whenever the annual tax on a vehicle exceeds \$400.00, the owner may elect to pay the tax in three installments. The owner must register the vehicle for the calendar year with the partial payment section and pay the installments by March 1, July 1, and November 1. About 1700 vehicles registered under this partial payment option in registration year 1985.

The present accounting and billing system is a manual system. No control account is maintained and no reconciliation is performed to detail accounts of those owing taxes to the state. We recommended that a control account be established for accounts receivable and that the balance be periodically

reconciled to a subsidiary ledger trial balance. It was further suggested that the DPS consider the development of a computer operation for the partial payment area to help account for receivable amounts in a proper manner.

The department has formulated plans to convert the present manual system to a computer operation. These plans, according to DPS personnel, will be evaluated by July 1, 1986. The department has contended, however, that the maintenance of a control account would not be cost effective if it were done on a manual basis.

It is our belief that subsidiary records, whether manual or computer, should be reconciled to a control account regularly to verify the clerical accuracy of these records. Automation of this system may facilitate this process to a large degree.

RECOMMENDATIONS:

2. The DPS should establish a control account in the partial payment section for accounts receivable. A periodic reconciliation should be completed to a subsidiary ledger trial balance. DPS should continue to pursue the implementation of a computer system for the partial payment area if this is felt necessary to facilitate the process.

RESPONSE:

2. We are continuing to pursue eventual computerization of partial pay accounts. However, due to increased priorities in other areas, this cannot be done in the near future. The more stringent licensing procedures we recently implemented have greatly reduced the number of accounts, and therefore the possibility of clerical errors is diminished. The smaller number of accounts might make it possible to place the system on a personal computer. We will investigate this possibility.

Driver and Vehicle Services Division

Audit results compiled by prorated section auditors are not properly maintained and reviewed.

Minn. Stat. Section 168.187 provides guidelines for the registration of proratable vehicles and the methods to be used by the DPS to ensure compliance with these registration requirements. Subd. 19 of that statute states that:

"Any owner whose application for proportional registration has been accepted shall preserve the records on which it is based for a period of four years following the date of its filing. Each acceptance shall be conditioned upon agreement of the owner to make such records available to the commissioner of public safety, at his request, for audit as to accuracy of computations and payments and assessments of deficiencies or allowances for credit."

An audit division within the prorated section of DPS performs periodic audits of Minnesota based prorated carriers. During calendar year 1985, nearly 800 audits were completed by this division, involving carriers throughout the state.

The audits performed by this division are primarily structured to accommodate a review of the mathematical accuracy of the registration information provided by the carrier. In the event that additional tax is owed, the carrier is sent a "re-bill" by the prorated section, which states the additional amount of tax owed and the time frame required for the remittance of additional funds to the state.

To account for the number of assessments imposed on prorated carriers and to summarize the amount of additional tax owed to the state, a manual log of all re-bills is maintained by the prorated section. This log shows the name of the carrier, the amount owed, the date billed, and the date of the receipt of funds, if applicable. There is no established review of this log to determine the disposition of these accounts at periodic intervals. This makes it difficult for department personnel to determine whether additional tax assessments are being paid in an appropriate and prompt manner.

A more comprehensive accounting of all re-bills, together with a periodic review of the disposition of these accounts by prorated section personnel, will ensure the proper collection of taxes due to DPS. The inclusion of dated information will help to enforce the prompt receipt of funds and provide the mechanism for DPS personnel to monitor the status of these accounts.

RECOMMENDATIONS:

3. All information pertaining to the audit of prorated carriers should be included in the manual log of assessed accounts. This should include the date of audit, the time frame specified for payment, and the status of each account as of the due date.
4. A periodic review of all assessed accounts should be performed by prorated section personnel. Appropriate action should be taken in cases of past due accounts.

RESPONSE:

3. We will include the audit date on the annual log of rebills. Ten days are allowed for payment on old accounts; since the billing date is shown, this can easily be computed. We will record the current status of each account on the log. These changes will be implemented by Marge Noll on March 1, 1986.
4. Our auditors do periodically review all rebilled accounts; and these accounts are also randomly checked by a supervisor. We have increased our collection efforts in recent years and will continue to emphasize the collection of all delinquent accounts or returned checks.

Emergency Services Division

Questioned costs of \$2,312.17 charged to C.F.D.A 83.508 (Radiological Systems Maintenance) were not approved as required by the grant award or cost principles. Explanation:

Employee was laid off 6/29/83. The six months eligibility for state paid insurance expired. Expenditures of \$279.16 (employee insurance premium) incurred during state fiscal year 1985 are ineligible.

Worker's compensation (\$2,033.01) paid to an employee was not eligible for federal participation during federal fiscal year 1985

RECOMMENDATION:

5. Adjust the final claim for the questioned cost.

RESPONSE:

5. Recommendation Implemented. Documentation on file.

I trust that this response answers the recommendations in your letter. Should you have any further questions please feel free to call me.

Sincerely,



Paul J. Tschida
Commissioner

A FRMKNA29A

STATE OF MINNESOTA

DEPARTMENT

PUBLIC SAFETY
EMERGENCY SERVICES*Office Memorandum*TO: Frank Ahrens, Director
Fiscal and Administrative Services

DATE: February 19, 1986

FROM:

Thomas Motherway, Director *Thomas for Ahrens*
Division of Emergency Services

PHONE: 296-0450

SUBJECT: Response to Audit Funding---Radiological System Maintenance

One finding is cited in this audit. It was regarding "...costs charged to this program which were not approved as required by the grant award or cost principles."

Worker's compensation was paid in federal fiscal year 1985, despite the fact it was not specifically mentioned in the grant award on the basis of the actions of the Federal Emergency Management Agency (FEMA) during federal fiscal year 1984. Although the worker's compensation claim costs were not addressed in the FFY 1984 grant award, FEMA supplemented the Radiological System Maintenance funding by \$7,500, on June 25, 1984, to cover these costs.

On the basis of FEMA FFY 1984 actions, the division continued billing the Radiological Systems Maintenance AID for these costs in FFY 1985.

On September 20, 1985 we were notified by FEMA's Counsel General that, "...FEMA has no obligation or liability to pay the Minnesota State Worker's Compensation claim..." At that time, we discontinued the billing of those costs to Radiological Systems Maintenance, and reimbursed that AID for the \$2,312.17 previously billed. (See attached memo.)

TM:jb

Attachment

cc: Roselyn M. Kowalzyk